BANK OF CHINA SRBIJA A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021
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 2021, 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 2021;
- the statement of other comprehensive income for the year then ended;
- the balance sheet as at 31 December 2021;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies 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) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing 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, considering the knowledge and understanding of the Bank and its environment obtained during 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

Refer to original signed Serbian version

Saša Todorović
Licenced auditor

PricewaterhouseCoopers d.o.o. Beograd

Belgrade, 19 April 2022

ANNUAL FINANCIAL STATEMENTS FOR 2021

BANK OF CHINA SRBIJA AD BEOGRAD

INCOME STATEMENT
for the period from 01 January to 31 December 2021

(in RSD thousand)	Note	2021	2020 adjusted
Interest income	4	23,966	30,100
Interest expense	4	(12,766)	(6,794)
Net interest income		**11,200**	**23,306**
Fee and commission income	5	541,834	289,194
Fee and commission expense	5	(6,344)	(3,920)
Net fee and commission income		**535,490**	**285,274**
Net gains on hedging	6	2,447	(1,123)
Net profit on foreign exchange differences and foreign currency clause	7	1,453	(3,210)
Impairment losses from financial assets and credit risk off-balance sheet items	28.4	(815)	(74)
NET OPERATING INCOME		**549,775**	**304,173**
Salaries, wages and other personal expenses	8	(307,547)	(309,832)
Depreciation costs	9	(75,980)	(76,187)
Other income		-	-
Other expenses	10	(85,091)	(102,309)
PROFIT BEFORE INCOME TAX		**81,157**	**(184,155)**
Income tax	11	-	-
Deferred tax gain	11.1	1,088	9,805
Deferred tax loss	11.1	-	-
PROFIT (LOSS) AFTER TAXES		**82,245**	**(174,350)**
EARNINGS PER SHARE			
Basic earnings per share (in RSD)	12	**822**	**(1,744)**

Belgrade, 29 March 2022

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the period from 01 January to 31 December 2021

(in RSD thousand)	Note	2021	2020
Profit/(Loss) for the period		**82,245**	**(174,350)**
Other comprehensive income		-	-
		82,245	**(174,350)**
TOTAL COMPREHENSIVE INCOME		**82,245**	**(174,350)**

Belgrade, 29 March 2022

BALANCE SHEET
as of 31 December 2021

(in RSD thousand)	Note	2021	2020
ASSETS			
Cash and assets held with the central bank	13	8,901,998	4,672,568
Receivables under derivatives	14	891	234
Loans and receivables from banks and other financial organizations	15	14,225,305	7,910,411
Loans and receivables from customers	16	588,324	-
Intangible investments	17	19,420	18,950
Property, plant and equipment	18	241,548	302,625
Current tax assets	19	21,208	16,131
Deferred tax assets	11.2	7,368	6,280
Other assets	20	13,501	14,042
TOTAL ASSETS		**24,019,563**	**12,941,241**
LIABILITIES			
Liabilities under derivatives	14	9	1,798
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	21	2,469,624	-
Deposits and other liabilities due to customers	22	19,409,430	10,865,916
Provisions	23	975	191
Current tax liabilities	19	-	-
Deferred tax liabilities	11.2	-	-
Other liabilities	24	294,445	310,501
TOTAL LIABILITIES		**22,174,483**	**11,178,406**
EQUITY			
Share capital	26	1,843,887	1,843,887
Gain (Loss)	26	82,245	93,298
Loss from previous year	26	(81,052)	(174,350)
TOTAL EQUITY		**1,845,080**	**1,762,835**
TOTAL LIABILITIES AND EQUITY		**24,019,563**	**12,941,241**

Belgrade, 29 March 2022

STATEMENT OF CHANGES IN EQUITY
for the period from 01 January to 31 December 2021

(in RSD thousand)	Share capital and other capital	Profit	Loss	Total
Balance as at 01 January of the previous year	**1,843,887**	**93,298**	**-**	**1,937,185**
Current year profit	-	-		-
Coverage of losses from previous periods	-	-	(174,350)	**(174,350)**
Balance as at 31 December of the previous year	**1,843,887**	**93,298**	**(174,350)**	**1,762,835**
Balance as at 01 January of the current year	**1,843,887**	**93,298**	**(174,350)**	**1,762,835**
Current year profit	-	82,245		82,245
Covering loss from prior years	-	(93,298)	93,298	-
Balance as of 31 December of the current year	**1,843,887**	**82,245**	**(81,052)**	**1,845,080**

Belgrade, 29 March 2022.

CASH FLOW STATEMENT

for the period from 01 January to 31 December 2021

(in RSD thousand)	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows	**442,034**	**197,437**
Interest receipts	24,365	30,100
Fee receipts	417,669	167,337
Outflows	**(428,065)**	**(485,475)**
Interest payments	(13,200)	(5,280)
Fee payments	(14,472)	(4,023)
Payments to and on behalf of employees	(216,150)	(226,179)
Cash for other taxes and contributions	(86,438)	(82,761)
Outflow to other operating expenses	(97,805)	(167,232)
Net operating cash inflows before changes in placements and deposits	13,969	(288,038)
Decrease in placements and increase in deposits and other liabilities	**11,616,781**	**6,316,436**
Decrease in loans and receivables due from banks, other financial institutions, central bank and customers	440,877	2,927,169
Increase in deposits to banks, other financial institutions, central bank and customers	11,174,846	3,389,155
Increase in other financial liabilities	1,058	112
Increase in loans and decrease in deposits and other liabilities	**(7,344,358)**	**(4,742,643)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(7,342,096)	(4,718,248)
Decrease in deposits to banks, other financial institutions, central bank and customers	(1,245)	(24,279)
Decrease in other financial liabilities	(1,017)	(116)
Net cash inflows from operating activities before income tax	4,286,392	1,285,755
Income tax paid	-	-
Net cash generated from operating activities	**4,286,392**	**1,285,755**
CASH FLOWS FROM INVESTING ACTIVITIES		
Outflows	**(59,089)**	**(28,164)**
Purchase of intangible and property, plant and equipment	(59,089)	(28,164)
Net cash outflow from investing activities	**(59,089)**	**(28,164)**
Total net received cash	12,058,815	6,513,873
Total net cash payments	(7,831,512)	(5,256,282)
NET INCREASE IN CASH	**4,227,303**	**1,257,591**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	4,672,568	3,440,539
GAINS ON EXCHANGE	2,138	4
LOSS ON EXCHANGE	(11)	(25,566)
CASH AND CASH EQUIVALENTS, END OF YEAR	**8,901,998**	**4,672,568**

Belgrade, 29 March 2022

NOTES TO THE FINANCIAL STATEMENTS

FOR 2021

BANK OF CHINA SRBIJA AD BEOGRAD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION ON THE BANK

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

In accordance with the decision of the National Bank of Serbia dated as of 20 December 2016 and the Memorandum of Association, the Bank was registered to perform the following activities:

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

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

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

As at 31 December 2021, the Bank had no subsidiaries or branch offices within its composition.

As of 31 December 2021, the Bank had 29 employees (2020: 30 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 2021 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, except for securities traded and securities available for sale, which are valued at market value.

In compiling these financial statements, the Bank has applied the Accounting Policies outlined in Note 3.

The Bank's financial statements are reported in thousands of dinars. The Dinar represents the official reporting currency in the Republic of Serbia.

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

2.2 Changes in IFRS whose application is mandatory in current period

The following amended standards entered into force on 1 January 2021, but did not have a material impact on the Bank:

- **Interest rate benchmark (IBOR) reform (phase 2) – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** issued in August 2020 and effective for annual periods beginning on or after January 01, 2021. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

- **IFRS 16 Leasing - COVID-19 Tenant Benefits (Amendment)** issued in March 2021 and effective for annual periods beginning on or after April 01, 2021. The bank did not have an annuity reduction for leasing contracts as a direct consequence of Covid-19.

- **IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).** 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 fulfilment cash flows) that incorporates all of the available information about the fulfilment 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.

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

2.3 Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.** Amendments to IFRS 10 and IAS 28 issued in 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 December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. This amendments have not yet been adopted by EU. Management has assessed that effects of this changes will not have a material impact on the Bank's financial statements.
- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 01, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the effective date of these amendments until January 01, 2023. The amendments aim to promote consistency in the application of requirements by helping companies determine whether a statement of financial position, debts and other liabilities with an uncertain maturity date should be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that companies disclose about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. These changes have not yet been adopted by the EU. 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. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. 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. On the other side, 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 paying 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 material impact on the Bank's financial statements.

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

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

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Potential Liabilities and Potential Assets and Annual Improvements 2018-2020 (Amendments).** The amendments are effective for annual reporting periods beginning on or after January 01, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to the narrow-scope IFRS as follows:
  - **IFRS 3 Business Combinations (Amendments)** was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.
  - **IAS 37 Provisions, Potential Liabilities and Potential Assets (Amendments)** specifies what costs an entity includes in determining the cost of performing a contract to assess whether the contract is harmful. IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
  - **Annual improvements 2018-2020** lead to minor changes to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples of IFRS 16 Leasing.

  The effects of these changes are not expected to have a material impact on the Bank's financial statements.

- **Amendments to IFRS 17 and an amendment to IFRS 4** (issued on June 25, 2020 and effective for annual periods beginning on or after January 01, 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 January 01, 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 January 01, 2023.

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

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

- 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.

- **Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).** The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

The Management of the Bank has chosen not to adopt these new standards, amendments to existing standards and new interpretations before they take effect. Management anticipates that the adoption of these new standards, amendments to existing standards and new interpretations will not have a material impact on the Bank's financial statements in the period of initial application.

2.4. Operating environment of the Bank

Republic of Serbia. The Republic of Serbia shows certain characteristics of the emerging market economy. On March 12, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. In response to the pandemic, Serbian authorities took a number of measures in an effort to curb the spread and impact of COVID-19, such as travel bans and restrictions, quarantine, business restrictions, including closure. The above measures were gradually relaxed during 2020 and 2021. The easing of measures has mitigated the negative impact of COVID-19 on the economy, market participants, as well as the Serbian and global economy.

According to the published data of the NBS in January 2022, and according to the preliminary estimate of economic trends in 2021, the real GDP growth amounted to 7.5%, which represents a significant growth of economic activity compared to 2020. Such developments are the result of growing activity in industry, construction and the service sectors. The ratio of average prices in December 2021 compared to December 2020 is 7.9%, while the average annual inflation rate in 2021 was 4.0%.

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

2.4. Operating environment of the Bank (continued)

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

- work from home for employees working in 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.

The Bank's analysis established that there are no exposures with an increased risk of non-collection due to the situation caused by the COVID-19 virus. The Bank's credit exposure 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 COVID-19.

The future effects of the current economic situation and the above measures are difficult to predict, and current expectations and estimates of management may differ from actual results.

2.5. Changes in the presentation of comparative data

Pursuant to the Letter of the National Bank of Serbia dated 04.06.2021. the Bank reclassified income from fees and commissions from foreign exchange transactions from the income statement position - Net income from exchange rate differences and the effects of the agreed currency clause to the income statement position - Fee income and expenses. This was done in accordance with the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates, which stipulates that only income from exchange rate differences calculated in accordance with this standard may be reported in the position Net income from exchange rate differences and the effects of the agreed currency clause.

In this regard, for 2021 in Note 5 Income and expenses from fees and commissions and Note 7 Net income / expense from exchange rate differences and the effects of the currency clause The Bank has quantified and disclosed these positions separately.

In order to establish comparability of data for 2020 on behalf of earnings from the sale of foreign means of payment, the Bank reclassified from the position of Income Statement Net income / expense from exchange rate differences and the effects of the currency clause the amount of RSD 144,325 thousand or RSD 22,356 thousand to position Income statement - Income / expenses from fees and commissions.

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

2.5. Changes in the presentation of comparative data (continued)

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

(in RSD thousand)	Note	2020	adjustment	2020 adjusted
Interest income	4	30,100		30,100
Interest expense	4	(6,794)		(6,794)
Net interest income		**23,306**		**23,306**
Fee and commission income	5;7	167,225	121,969	289,194
Fee and commission expense	5	(3,920)		(3,920)
Net fee and commission income		**163,305**		**285,274**
Net gains on hedging	6	(1,123)		(1,123)
Net profit/(loss) on foreign exchange differences and foreign currency clause	7	118,759	(121,969)	(3,210)
Impairment losses from financial assets and credit risk off-balance sheet items	28.3	(74)		(74)
NET OPERATING INCOME		**304,173**		**304,173**
Salaries, wages and other personal expenses	8	(309,832)		(309,832)
Depreciation costs	9	(76,187)		(76,187)
Other income		-		-
Other expenses	10	(102,309)		(102,309)
PROFIT BEFORE INCOME TAX		**(184,155)**		**(184,155)**
Income tax	11	-		-
Deferred tax gain	11.1	9,805		9,805
Deferred tax loss	11.1	-		-
PROFIT (LOSS) AFTER TAXES		**(174,350)**		**(174,350)**
EARNINGS PER SHARE				
Basic earnings per share (in RSD)	12	**(1,744)**		**(1,744)**

2.6. Using estimation

The preparation of financial statements in compliance with IFRS requires management to use the best possible estimates and reasonable assumptions, which have an effect on the application of accounting policies and on the reported amounts of assets and liabilities, as well as income and expenses. The actual value of assets and liabilities may deviate from the value estimated in this way. Areas that involve a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.18.

3. ACCOUNTING POLICIES

The basic accounting policies applied during the compilation of the financial statements for 2021 are presented below.

3.1 Interest Income and Expenses

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

Interest income or expense is recognized in the income from interest and interest expense in the income statement using the effective interest rate method.

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

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

3.2 Income and Expenses from Fees and Commissions

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

3.3 Conversion of foreign means of payment

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

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

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

3. ACCOUNTING POLICIES (continued)

3.3 Conversion of foreign means of payment (continued)

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

3.4 Current Income Tax

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

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

3.5 Deferred Income Tax

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

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

3.6. 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.

3.7. Employee Compensation

a) Employee Benefits

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

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

3. ACCOUNTING POLICIES (continued)

3.7 Employee Compensation (continued)

b) Other Employee Benefits

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

(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.

3.8 Cash and Cash Equivalents

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

3.9 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

3. ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

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

Methods of valuation of financial instruments

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.

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, transaction costs and all other premiums and discounts.

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 as long as the asset is reduced for credit losses (Stage 3),
- Applying a credit-adjusted effective interest rate on purchased or created financial assets reduced for credit losses (POCI).

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

Principles of valuation of financial instruments

Fair value

The fair value is defined as the price that would be received for a sale of the asset or would be paid for transfer of the obligation in a normal transaction between market participants on the measurement date. This definition of fair value also applies to the measurement of the fair value of non-financial assets and liabilities. More detailed disclosure on valuation models and hierarchy of instruments that are valued at fair value are given in Note 37.10. Fair value of financial assets and liabilities.

3. ACCOUNTING POLICIES (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 statement of the financial position 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 (except for financial assets and financial liabilities at fair value through profit and loss), increased by transaction costs that are directly attributable to acquisition or issue of financial assets or financial liabilities. After initial recognition, fair value is in many cases equal to transaction costs, i.e. the price paid for acquiring or taking over financial assets or received for the takeover of financial liabilities.

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 of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

(i*) Classification and measurement*

IFRS requires that all financial assets, except derivatives and equity instruments, be analyzed 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 cash flows arises from the collection of contracted cash flows, the sale of a financial asset or both. A business model for the classification of financial assets is determined at the appropriate level of aggregation. Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist exclusively of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets valued at amortized cost (AC)
- financial assets valued at fair value through profit and loss account (FVTPL)

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

Subsequent measurement of financial assets depends on their classification.

3. ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments *(continued)*

(i*) Classification and measurement (continued)*

Financial assets at amortized cost

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

a) The financial entity is maintained within the business model with the aim of holding the financial asset for the purpose of collecting contracted cash flows,
b) The contractual terms of a financial asset give cash flows that are exclusively principal and interest payments (SPPI) on specified dates to the amount of outstanding principal.

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 line 'Loans and receivables' and 'Cash and cash balances'. Cash balances include only claims (deposits) against central banks and credit institutions 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.

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.

Interest income on these assets is calculated by effective interest method and is included under the position 'Net interest-income based on interest rate' in the statement of income. Impairment gains or losses are included in the position 'Net loss from impairment of financial assets that are not valued at fair value through profit and loss account'. Gains and losses from derecognition (such as sales) of the assets are reported under the line item 'Gains/losses from derecognition of financial assets measured at amortised cost'.

Financial assets at fair value through profit or loss

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

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

For debt instruments measured at fair value through profit or loss, gains and losses from adjustment to market value, i.e. the effects of changes in fair value in subsequent measurement, are recognized in the income statement within the item "Net gain / loss on changes in fair value values of financial instruments "and are not subject to impairment. Interest income from coupons on financial assets held for trading is recognized using the effective interest method and is included in the item "Interest income" in the income statement.

The Bank has no debt or equity instruments held for trading in its portfolio.

3. ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments *(continued)*

(i*) Classification and measurement (continued)*

Financial assets at fair value through other comprehensive income FVOCI

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

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

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

Equity instruments at fair value through other comprehensive income FVOCI

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

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

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

The Bank has no debt and equity instruments in its portfolio that are measured at fair value through other comprehensive income.

Reclassification of financial assets

The Bank reclassifies financial assets only when it changes its business model. If the Bank changes its business model for financial assets management, it will apply reclassification prospectively from the reclassification date. The Bank will not make amendments to previously recognized gains, losses or interest.

There were no reclassifications made by the Bank during 2021.

(ii) 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 credit obligations and financial guarantee agreements.

3. ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments (continued)

(ii) Expected credit loss (continued)

The allowance is based on the expected credit losses associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk since initial recognition, in which case, the allowance is based on the probability of default over the life of the financial asset (LECL – lifetime expected credit loss). When determining whether the risk of default increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available, This includes both quantitative and qualitative information and analysis, based on the historical data and experience.

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

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

The 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,

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

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

(iii) De-recognition

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

3. ACCOUNTING POLICIES (continued)

3.9 Financial Instruments (continued)

Principles of subsequent measurement of financial instruments (continued)

(ii) Derecognition of financial assets and liabilities (continued)

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

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

Financial liabilities cease to be recognized when the obligation stipulated in the contract is fulfilled, cancelled or expired. In the case where the existing financial liability has been replaced by another obligation towards the same creditor, but under significantly changed conditions or if the terms of the existing obligation have been significantly changed, such replacement or change of terms is treated as a cessation of recognition of the original obligation with the simultaneous recognition of the new obligation, whereby the difference between the original and the new value of liability is recognized in the income statement.

(iv) Offsetting

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

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

(v) Accounting policy for modified financial assets

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

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

3. ACCOUNTING POLICIES (continued)

3.10 Intangible Assets

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

a) Licences

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

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

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

Depreciation costs are calculated according to the following rates:

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

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

3.11 Fixed Assets

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

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

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

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

Fixed assets	
Building structures	2%
Electronic network, air conditioners, pipes and heating	4%
Computer equipment	33%
Other equipment	14.50%
Vehicles	20%

3. ACCOUNTING POLICIES (continued)

3.11 Fixed Assets (continued)

The residual value of the asset is the estimated amount that the Bank could earn by selling the asset at the present time, reduced by the estimated cost of sales, if the asset is already old and in the condition in which it is expected to be at the end of its useful life. The residual value of the asset is zero if the Bank expects to use the said asset until the end of its physical life. The residual value and useful life of the asset are reviewed and, if necessary, adjusted at the balance sheet date.
Gains and losses arising from the disposal of an asset are determined by the difference between the cash inflow and the carrying amount and are recognized in the income statement within the item of "other income/expenditures".

3.12 Leases

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

Bank, as a lessee, on the day of lease establishing (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.

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.

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.

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.

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.

The bank, as a lessor, separates its leases as operating or financial leasing and calculates those two types of leases differently. Leases in which the Bank does not transfer substantially all the risks and rewards in relation to ownership are classified as operating leases. Lease income is recognized in operating income in the income statement on a straight-line basis over the term of the lease.

3. ACCOUNTING POLICIES (continued)

3.13 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.

3.14 Deposits of banks and clients and loans

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

3.15. Borrowings

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

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

3.16 Provisions, contingent liabilities and assets

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

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

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.

3. ACCOUNTING POLICIES (continued)

3.16 Provisions, contingent liabilities and assets (continued)

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.

3.17 Equity

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

3.18 Significant accounting estimates and judgements

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

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

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

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

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

(b) Income tax

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

(c) Off-balance sheet records

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

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

3. ACCOUNTING POLICIES (continued)

3.18 Significant accounting estimates and judgements (continued)

(c) SPPI assessment

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 (SDR), 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).

Business model assessment

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

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.

(d) *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. In terms of a significant increase in credit risk, the Bank has set out specific valuation rules that include quantitative and qualitative criteria. 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.

Detailed disclosure of the identification of a significant increase in credit risk, including collective, individual credit, foresight techniques used to measure the expected loss and default definition and other aspects of credit risk assessment are given in Note 28.4.

3. ACCOUNTING POLICIES (continued)

3.18 Significant accounting estimates and judgements (continued)

(e) 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.

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

IFRS 16 introduces a lease recognition model in the balance sheet for leasing users. The lessee recognizes the right of use asset and the corresponding lease liability in the balance sheet. There are exceptions to this principle, which can be applied to short-term and low-value leases. 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.

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	2021	2020
Interest income		
Interest income from deposits – domestic banks	5,220	10,473
Interest income from deposits – foreign banks	5,083	19,627
Interest income from deposits – customers	13,663	-
Total interest income	**23,966**	**30,100**
Interest expense		
Interest expense from deposits – domestic banks		-
Interest expense from deposits – foreign banks	(2,828)	(246)
Interest expense from deposits in foreign currency – foreign banks	(7,925)	(4,329)
Lease interest expense	(2,013)	(2,219)
Total interest expense	**(12,766)**	**(6,794)**
Total net income	**11,200**	**23,306**

Interest income on loans to the National Bank of Serbia in the amount of RSD 5,220 thousand (2020: RSD 10,473 thousand) refer to an increase in activities in placing excess liquidity with the National Bank of Serbia. Interest income from foreign banks in the amount of RSD 5,083 thousand relates to interest income earned from placements within a group (2020: RSD 19,627 thousand).
Interest expense in the amount of RSD 12,766 thousand (2020: RSD 27,399 thousand) incurred as a result of increased activity of raising funds from the economic sector as well as the foreign bank sector that are members of the group to which the bank belongs.

5. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2021	2020 adjusted
Income from bank charges		
Fee and commission income from payment transactions	51,447	27,787
Fee and commission income from guarantees	18,577	9,530
Fee and commission income intra group charges	309,156	115,798
Fee and commission income from foreign exchange business	162,654	121,969
Other fee income	-	14,110
Total income	**541,834**	**289,194**
Expense from bank charges		
Payment operations in foreign currency	(6,344)	(2,764)
Payment operations in RSD	-	(1,156)
Total expense:	**(6,344)**	**(3,920)**
Net fee and commission income	**535,490**	**285,274**

Major income was generated from arrangement fees from loans to the clients approved by members of BOC group, where Bank of China Srbija a.d. acted as an arranger of a deal. This income, together with intra group charges amounted to RSD 309,156 thousand (2020: RSD 129,908 thousand).
The second most important income is from fees and commissions arising from foreign exchange transactions, which increased due to reclassification from the position of Net income from the effects of exchange rate differences and the currency clause to the position of income from fees and commissions (note Notes 2.5 and link 7). This year, the total amount of these revenues is RSD 162,654 thousand (2020: RSD 121,969 thousand links Notes 7) and increased because the bank's activity in providing exchange services to its clients has increased.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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

The Bank increased its activities in the field of purchase and forward purchase of foreign currency for its own account and the account of clients. Valuation of foreign currency spot purchases is reflected in income and expenses from changes in the fair value of financial instruments, which at the end of the year was reflected in net profit in the amount of RSD 2,447 thousand (2020: RSD (1,123) thousand).

7. NET FOREIGN EXCHANGE GAINS

In RSD thousand	2021	2020
Other foreign exchange result from exchange operations	(1,209)	(584)
Net result from exchange of balance sheet items	(244)	(2,626)
Net income from foreign exchange	**1,453**	**(3,210)**

The effect of positive and negative exchange rate differences has been reclassified to the item Income from commissions and fees from foreign exchange transactions. The total amount of income from fees from foreign exchange transactions is RSD 162,654 thousand (Note 5), while last year the amount of income was RSD 121,969 thousand (Note 5). Other income and expenses from exchange rate differences are small because the Bank strives to have a uniform foreign exchange position during the year, i.e. a minimum exposure based on foreign exchange risk.

8. SALARIES, FRINGE BENEFITS AND OTHER PERSONAL EXPENSES

In RSD thousand	2021	2020
Cost of net salaries	183,812	187,295
Allowance costs	5,320	2,012
Taxes	30,979	41,124
Contributions	47,154	42,529
Other personal expenses	40,282	36,872
Total	**307,547**	**309,832**

The average number of employees decreased to 29 (2020: average no. of employees was 30).
Other personal expenses in the amount of RSD 40,282 thousand (2020: RSD 36,872 thousand) mainly relate to the provision for transportation costs and the expenses for business trips for 2021 in gross amount.

9. DEPRECIATION/AMORTISATION EXPENSE

In RSD thousand	2021	2020
Amortization of intangible assets (note 17)	11,209	17,586
Depreciation of fixed assets (note 18)	20,357	23,489
Depreciation expense – lease (note 18)	44,414	35,112
Total	**75,980**	**76,187**

Depreciation and amortization costs remained at relatively the same level as last year and amounted to 75,980 thousand (2020: RSD 76,187).

10. OTHER EXPENSES

In RSD thousand	2021	2020
Office materials, small inventory costs	484	2,744
Rental costs	3,086	3,050
Fuel expenses	689	550
Advertising and marketing costs	565	1,165
Other labour services fee	1,691	2,332
Security device expense	8,832	7,319
Mobile and fixed phone bills	2,513	2,540
Rent for office building – legal entity landlord	6,274	6,299
Other real estate rent – individual landlord	29,266	31,320
Property management fee	3,511	3,488
Vehicle rent	1,272	3,605
Network special line fee	3,347	2,964
Transfer expenditure to overseas branches – BOC core software	6,991	12,908
Business travel expenses	298	1,189
Hospitality and marketing meeting expense	2,493	2,427
Other information consulting	5,155	7,028
Other operating expenses	1,663	1,341
Membership fees	1,345	1,681
Deposit insurance premiums at the Deposit Insurance Agency	833	460
Un-operating expenses	2,791	3,018
Taxes, fees and charges to the regulatory authorities	1,992	1,881
Other operating expenses	-	3,000
Total	**85,091**	**102,309**

Costs of renting business premises with individuals in the amount of RSD 29,266 thousand (2020: RSD 31,320 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 6,991 thousand (2020: 12,908 thousand) and relate to investments in the bank's information system and improvement of the payment system.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

11. INCOME TAX

In RSD thousand	2021	2020
Current tax	-	-
Deferred tax income	(1,088)	(9,805)
Deferred tax expense	-	-
Total	**(1,088)**	**(9,805)**

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	2021	2020
Gain / (Loss) before tax	81,158	(184,155)
Tax rate	15%	15%
Calculated income tax	12,174	0
Tax effect of non-deductible expenses	(7,064)	3,076
Tax effect of final tax billing	(5,109)	-
Tax expense for the period	-	-

11.1 Calculation of deferred tax income / expense

In RSD thousand	2021	2020
Tax effect of temporary differences		
Tax effect of temporary differences concerning PPE and intangible assets	1,088	9,805
Net deferred tax income / (expense)	**1,088**	**9,805**

11.2 Deferred tax assets /liabilities

At year-end, deferred tax liabilities amount to RSD 7,368 thousand (2020: RSD 0 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 2021

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	2021	2020
Gain attributable to equity holders of the Company	82,245	(174,350)
Weighted average number of ordinary shares in issue	100	100
Basic earnings per share (expressed in RSD per share)	**822**	**(1,744)**

13. CASH AND DEPOSITS HELD WITH THE CENTRAL BANK

In RSD thousand	2021	2020
Current account at National Bank of Serbia	7,367,551	4,098,777
Regulatory reserve in RSD at NBS	1,534,447	573,791
Total cash and deposits held with NBS:	**8,901,998**	**4,672,568**

The regulatory reserve increased compared to the previous year, RSD 1,534,447 thousand (2020: 573,791 thousand), as a result of the increase in transaction deposits of the bank's clients.

14. RECEIVABLES AND LIABILTIES UNDER DERIVATES

As of 31 December 2021 Bank had contracts for the buy and sale of foreign exchange which produced receivables and liabilities based on the valuation of these financial derivatives. Balance of receivables as of 31st December 2021 is RSD 891 thousand, while the balance of liabilities is RSD 9 thousand These receivables were charged and liabilities were paid at the completion of the buy and sale transaction at the beginning of 2022.

15. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS

Structure by product

In RSD thousand	Moody's	2021	2020
Foreign currency			
FX current accounts with foreign banks			
Bank of China Limited, Hungary Branch	A1	5,649,008	3,621,994
Bank of China Frankfurt Branch	A1	2,442,891	1,418,154
Loans and deposits to other banks			
Royal bank of Canada, Montreal, H.O.	Aa2	446	20
Bank of China Frankfurt Branch	A1	935,336	-
Bank of China Macau Branch	A1	5,196,310	2,869,911
Special purpose deposits – Komercijalna Bank	unrated		-
Receivables for interest income on loans and deposits		1,250	1
Accrued receivables from guarantees fee		64	321
Total		**14,225,305**	**7,910,411**

15. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANISATIONS (continued)

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

At present, all loans and receivables are classified as impairment Level 1 and there has been no movement to other levels during the year. Since the funds have been placed for a term of up to 90 days so no material impairment has been determined (Expected Credit Loss) and all funds have been placed within the group. As of 31st December 2021 in addition to funds on nostro accounts, there are also deposits placed in the amount of USD 59 million (RSD 6,131,646 thousand, 2020: RSD 2,869,911 thousand) placed with members of the Bank of China Group.

16. LOANS AND RECEIVABLES FROM CUSTOMERS

The balance of receivables from loans to customers amounts to RSD 588,324 thousand (2020: RSD 0 thousand). During the year the bank placed USD 5 million to domestic clients. These placements are covered by the first-class payment guarantees of the Bank of China Guandong branch bank.

17. INTANGIBLE ASSETS

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

In RSD thousand	License and software	Total
Cost		
As at 01.01.2020.	**43,104**	**43,104**
Additions	20,197	20,197
As at 31.12.2020.	**63,301**	**63,301**
Additions	11,679	11,679
As at 31.12.2021.	**74,980**	**74,980**
Impairment provisions		
As at 01.01.2020.		
Depreciation		
As at 31.12.2020.	**(26,764)**	**(26,764)**
Depreciation	(17,586)	(17,586)
As at 31.12.2021.	**(44,351)**	**(44,351)**
Net book value as at		
31. December 2021.	**19,420**	**19,420**
31. December 2020.	**18,950**	**18,950**

18. PROPERTY, PLANT AND EQUIPMENT

In RSD thousand	Property – rights-of-use	Vehicles – rights-of-use	Equipment and other assets	Investments in other fixed assets	Total
Cost					
As at 01.01.2020.	263,989	9,181	68,193	58,623	399,986
Additions	29,765	33,149	6,587	-	69,501
Other	-	-	-	-	-
As at 31.12.2020.	**293,754**	**42,330**	**74,780**	**58,623**	**469,487**
Additions	-	-	3,567	127	3,694
Lease agreement expiration	-	(6,375)	-	-	(6,375)
Other	-	-	-	(37)	(37)
As at 31.12.2021.	**293,754**	**35,955**	**78,347**	**58,713**	**466,769**
Impairment provisions					-
As at 01.01.2020.	(27,076)	(5,724)	(41,266)	(34,197)	(108,263)
Depreciation	(30,364)	(4,748)	(11,762)	(11,725)	(58,599)
As at 31.12.2020.	**(57,440)**	**(10,472)**	**(53,028)**	**(45,922)**	**(166,862)**
Depreciation	(31,588)	(12,826)	(8,595)	(11,762)	(64,771)
Lease agreement expiration	-	6,375	-	-	6,375
Other	-	-	-	37	37
As at 31.12.2021.	**(89,028)**	**(16,923)**	**(61,623)**	**(57,647)**	**(225,221)**
Net book value as at					
31. December 2021.	**204,726**	**19,032**	**16,724**	**1,066**	**241,548**
31. December 2020.	**236,314**	**31,858**	**21,752**	**12,701**	**302,625**

During the year, there was an increase in fixed assets by RSD 3,694 thousand (2020: RSD 69,501 thousand). It is about renewing the lease of vehicles as well as the lease of additional electronic equipment. The lease agreement (RSD 6,375 thousand) was completed for certain fixed assets (business vehicles).

Most of the fixed assets are not older than a year and therefore there were no events that would indicate the impairment triggers for this part of assets. The assessment of the management is therefore that:

- The residual value of the plant and equipment as well as of equipment and other assets, is equal to the carrying net book value recorded as at 31 December 2021,
- The residual value of intangible assets, software and licenses, is equal to the carrying net book value recorded as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

19. CURRENT TAX ASSETS AND LIABILITIES

In RSD thousand	2021	2020
Current tax assets	21,208	16,131
Total	**21,208**	**16,131**

In RSD thousand	2021	2020
Current tax liabilities	0	0
Total	**0**	**0**

Current tax assets represent advance payments for corporate income tax during 2021. At the beginning of 2022 closing of total tax receivables and liabilities made during 2020, takes place.

20. OTHER ASSETS

In RSD thousand	2021	2020
Other receivables for deposits to lessors	11,541	11,412
Other receivables from suppliers	-	770
Accruals - rental fee	1,960	1,860
Total	**13,501**	**14,042**

Receivables from lessors relate to receivables from corporate clients and individuals in the amount of RSD 11,541thousand (2020: RSD 11,412 thousand).

21. DEPOSITS AND OTHER LIABILITIES TO BANKS

Liabilities to banks as at 31 December 2021 amounted to RSD 2,469,624 thousand (2020: RSD 0 thousand). These liabilities relate entirely to short-term deposits of other banks in the Bank of China Group.

22. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

As of 31 December 2021 the Bank had liabilities for deposit in the total amount of RSD 19,409,430 thousand (2020: RSD 10,865,916 thousand). The sectorial structure of these deposits relates in most to the corporate sector.

Structure by product

In RSD thousand	**2021**	**2020**
RSD		
Demand deposits	5,832,190	2,673,815
Total in RSD	**5,832,190**	**2,673,815**
Foreign currency		
Demand deposits	12,578,870	8,192,101
Time deposits	998,370	-
Other interest payables on loans, deposits and other financial liabilities	**13,577,240**	**8,192,101**
Total in foreign currency	**19,409,430**	**10,865,916**
Total	5,832,190	2,673,815

Structure by sector

In RSD thousand	**2021**	**2020**
Corporate	19,345,431	10,865,612
Public enterprises	63,999	304
Total	**19,409,430**	**10,865,916**

23. PROVISIONS

At the end of the year provisions amounted to RSD 971 thousand (2020: RSD 191 thousand). This rise in provisions is due to issued guarantees to clients which are secured with contra guarantees issued by members of the BOC Group. This rise in provisions directly influenced impairment losses from financial assets and credit risk off-balance sheet items.

24. OTHER LIABILITIES

In RSD thousand	**2021**	**2020**
RSD		
Liabilities towards employees	22	-
Payables for other tax and contributions	388	-
Accrued other expenditures in dinars	17,927	22,478
Total in RSD	**18,337**	**22,478**
Foreign currency		
Lease liabilities in foreign currency	228,448	271,075
Liabilities accrued in foreign currency	-	-
Liabilities for calculated fee and commission on the basis of other assets in foreign currency	41,481	11,764
Liabilities on transitory and temporary accounts - Unallocated inflow of funds	128	1,245
Accrued other expenditures in foreign currency	6,051	3,939
Total in foreign currency	**276,108**	**288,023**
Total	**294,445**	**310,501**

25. LEASE

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

Contracts contain options for extension and termination in exceptional cases and do not include variable payment obligations. Extension options have been taken into account for calculating lease 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 2020	**236,913**	**3,457**	**-**	**240,370**
Additions	29,765	16,126	17,023	62,914
Depreciation expense	(30,364)	(3,329)	(1,419)	(35,112)
As at 1st Jan 2020	**236,314**	**16,254**	**15,604**	**268,172**
Additions	-	-	-	-
Depreciation expense	(31,588)	(6,679)	(6,147)	(44,414)
As at 31st Dec 2021	**204,726**	**9,575**	**9,457**	**223,758**

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

In RSD thousand	2021.	2020.
As at 1st Jan 2021	271,075	242,228
Additions	3,952	57,260
Accretion of interest	2,013	40,510
Foreign exchange	2	(15)
Payments	(48,594)	(68,908)
As at 31st Dec 2021	**228,448**	**271,075**

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

The following are the amounts recognized in profit or loss

In RSD thousand	2021.	2020.
Depreciation expense of right-of-use assets	44,414	35,112
Lease interest expense	2,013	2,219
Expense relating to short-term leases	35,743	31,320
Total expenses designated in P&L	**82,170**	**68,651**

26. EQUITY

The bank's share capital consists of 100 ordinary shares with nominal value of RSD 18,438,870 per share (2020: RSD 18,438,870). The capital was registered on the basis of the incorporation act and registered with the Central Securities Depository and clearing house as of 22 December 2016.

The first payment of the capital was made on 8 December 2016 in the amount of RSD 1,843,887 thousand (EUR 15,000,000). The owner of 100% of the Bank's shares as of 31 December 2021 is the Bank of China (Hungary), Close Ltd. (with now has new name Bank of China (CEE) Ltd.)

Loss from previous years amounted to RSD 81,052 thousand while the amount of RSD 82,245 thousand represents result (gain) from the current period.

27. OFF-BALANCE SHEET ITEMS AND POTENTIAL LIABILITIES

27.1 Off-balance sheet items

As of 31 December 2021, 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	**2021**	**2020**
Issued guarantees and other sureties	2,406,861	722,991
Other derivatives	242,851	597,372
Other off-balance sheet assets	2,250	2,250
Total	**2,651,962**	**1,322,613**

Off balance sheet items in the amount of RSD 2,406,861 thousand (2020: RSD 722,991 thousand) increased compared to the previous year as a result of increase in the Bank's activity in issuing foreign currency and RSD guarantees, as well as an increase in activities of currency exchange.

Other derivatives relate to forward contracts of purchase and sale of foreign currency with a pre-defined exchange rate. These sales were realized in the first days of 2022.

27.2 Potential liabilities - litigations

As of 31 December 2021, no court proceedings have been held against the Bank.

28. RISK MANAGEMENT POLICIES

28.1 Competences

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

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

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

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

28.2. Internal Regulations

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

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

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

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

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

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

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

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

28. RISK MANAGEMENT POLICIES (continued)

28.2 Internal Regulations (continued)

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

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

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

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

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

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

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

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

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

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

1) Compliance: The Bank aims to be fully compliant with all applicable local laws and regulations, as well as BoC Group guidelines.
2) Appropriate balance between risk and return: The Bank aims to achieve appropriate balance of risk and return through active control。Each kind of business shall at least gain benefits that match the risk it bears, and optimize capital allocation.
3) Segregation of duties, avoiding conflict of interest: Risk management units and personnel is independent from business units, and should provide independent views and professional opinions for related risks arising from business development.

28. RISK MANAGEMENT POLICIES (continued)

28.2 Internal Regulations (continued)

4) Clarify rights and responsibilities. Accountability shall be carried out through a strict internal control mechanism, specific division of responsibilities and clearly defined rights and responsibilities.
5) Forward-looking and proactive approach: All employees shall cooperate with each other, study and manage risks in a forward-looking manner, actively identify, improve management and control measures, and ensure risks are under control.
6) Fully know your customers and businesses: "know your customers", "know your businesses", especially new products and new businesses to ensure risk margin is measurable and risks are acceptable.
7) Consistence and coherence: BOCS shall implement a coherent risk appetite and risk management strategy and carry out consolidated risk management of all members of the Group in order to ensure consistency between the objectives of risk management and business development.
8) Differentiated and controllable: Under the risk appetite and risk management strategy, the Bank shall implement differentiated and controllable risk management in line with the external market environment and its own risk management capability in order to make risk management more flexible and pragmatic.
9) Substance over the form should prevail. In all cases where risk strategy and/or any other relevant risk internal rules are not fully clear, substance over the form should prevail, meaning all available information should be considered in final interpretation of a certain internal guideline.

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

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

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

Risk	Key risk 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.

28. RISK MANAGEMENT POLICIES (continued)

28.3 Liquidity risk

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

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

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

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

The Bank's daily liquidity ratio during 2021, was always within prescribed regulatory limit (min 1) and at the 31.12.2021 amounts to 4.71 (2020: amounts to 5.66).
Monthly liquidity ratio – LCR –liquidity coverage ratio, during 2021, was always above prescribed regulatory limit of 100%. At the 31.12.2021 amounts to 295.21 (2020: amounts to 342.82).

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 31st December 2021 and 31st December 2020.

28. RISK MANAGEMENT POLICIES (continued)

28.3 Liquidity risk (continued)

Liquidity risk as of 31 December 2021 – **Maturity gap analysis of financial assets and liabilities**

In thousand of RSD	until 1 month	from 1 to months	from 3 to 6 months	from 6 months to 1 year	from 1 to 5 years	over 5 years	Total
Cash and assets held with the central bank	8,901,998	-	-	-	-	-	8,901,998
Receivables under derivatives	891	-	-	-	-	-	891
Loans and receivables from banks and other financial organizations	14,225,305	-	-	-	-	-	14,225,305
Loans and receivables from customers	-	-	-	-	588,359	-	588,359
Other asset	11,541	-	-	-	-	-	11,541
TOTAL FINANCIAL ASSETS	**23,139,735**	**-**	**-**	**-**	**588,359**	**-**	**23,728,094**
Liabilities under derivatives	9	-	-	-	-	-	9
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	2,469,624	-	-	-	-	2,469,624
Deposits and other liabilities due to customers	18,411,060	582,665	415,705	-	-	-	19,409,430
Other liabilities	65,997				228,448		294,445
TOTAL FINANCIAL LIABILITIES	**18,477,066**	**3,052,289**	**415,705**	**-**	**228,448**	**-**	**22,173,508**
FX derivatives - on the assets side	242,853	-	-	-	-	-	242,853
Irrevocable commitments – on the assets side	218,164	70,549	60,205	2,060,193	-	-	2,409,111
FX derivatives – on the liabilities side	242,853	-	-	-	-	-	242,853
Contingent liabilities from guaranties – liability side	218,164	70,549	60,205	2,060,193	-	-	2,409,111
OFF-BALANCE SHEET FINANCIAL ITEMS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Liquidity maturity gap as of 31 December 2021	**4,662,669**	**(3,052,289)**	**(415,705)**	**-**	**359,911**	**-**	**1,554,586**

28.3 Liquidity risk (continued)

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

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

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk

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

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

1) consistent approach and uniform standards in the process of decision making on the Bank's placements that are defined by internal documents;
2) The bank determines the total exposure to one debtor, where under one client it is also considered a group of related parties in accordance with the provisions of the Banking Law;
3) The Bank monitors and manages the level of total exposure of the borrower in accordance with the adopted credit policy of the Bank;
4) All individual decisions on placement, as well as all material changes to the concluded contracts, are authorized by the competent authority;
5) The competence of the individual in the process of deciding on the Bank's placements is determined in accordance with their qualification, expertise and experience, subject to periodic review.

When deciding on the exposures, the Bank is required to comply with limits on counterparty and to 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.

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.

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

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

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 2021 and 2020, 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.

Concentration risk

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

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

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

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

Maximum credit exposure

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

31st Dec 2021							
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	8,901,998	-	8,901,998	-	-	-	8,901,998
Receivables under derivatives	891	-	891	-	-	-	891
Loans and receivables from banks and other financial institutions	14,225,305	14,225,305	-	-	-	-	14,225,305
Loans and advances to customers	588,359	588,359	-	(35)	(35)	-	588,324
Other receivables	11,541	-	11,541	-	-	-	11,541
Balance as of 31st December	**23,728,094**	**14,813,664**	**8,914,430**	**(35)**	**(35)**	**-**	**23,728,059**
Payment and performance guarantees	2,406,861	2,406,861	-	(975)	(975)	-	2,405,886
Letters of credit	-	-	-	-	-	-	-
Other off-balance sheet asset-spot purchase and sale	242,853	-	242,853	-	-	-	242,853
Other contingent liabilities	2,250	-	2,250	-	-	-	2,250
Balance as of 31st December	**2,651,964**	**2,406,861**	**245,103**	**(975)**	**(975)**	**-**	**2,650,989**
TOTAL	**26,380,058**	**17,220,525**	**9,159,533**	**(1,010)**	**(1,010)**	**-**	**26,379,048**

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

Maximum credit risk exposure (continued)

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

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.

28. RISK MANAGEMENT POLICIES (continued)

28.4 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									
							Guarantees ** issued by			
Klase finansijskih sredstava	**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	-	-	-	-	-	-	-	588,324	-	-
-of which: Retail	-	-	-	-	-	-	-	-	-	-
-from that: Other clients	-	-	-	-	-	-	-	-	-	-
Other funds	-	-	-	-	-	-	-	-	-	-
Balance sheet assets	-	-	-	-	-	-	-	588,324	-	-
Payable and performance guarantees	50,103	-	-	-	-	-	-	2,356,758	-	-
Uncovered letters of credit	-	-	-	-	-	-	-	-	-	-
Unused commitments	-	-	-	-	-	-	-	-	-	-
Contingent liabilities and commitments	**50,103**	**-**	**-**	**-**	**-**	**-**	**-**	**2,356,758**	**-**	**-**
Balance as of December 31, 2021	**50,103**	**-**	**-**	**-**	**-**	**-**	**-**	**2,945,082**	**-**	**-**

28. RISK MANAGEMENT POLICIES (continued)

28.4 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 2020:

Collateral value										
							Guarantees ** issued by			
Klase finansijskih sredstava	**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	-	-	-	-	-	-	-	-	-	-
-of which: Retail	-	-	-	-	-	-	-	-	-	-
-from that: Other clients	-	-	-	-	-	-	-	-	-	-
Other funds	-	-	-	-	-	-	-	-	-	-
Balance sheet assets	-	-	-	-	-	-	-	-	-	-
Payable and performance guarantees	-	-	-	-	-	-	-	459,070	-	-
Uncovered letters of credit	-	-	-	-	-	-	-	-	-	-
Unused commitments	-	-	-	-	-	-	-	-	-	-
Contingent liabilities and commitments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**459,070**	**-**	**-**
Balance as of December 31, 2021	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**459,070**	**-**	**-**

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

Collateral and other credit risk mitigation techniques (continued)

The following table shows credit risk exposure analysis by individually and collectivly impaired exposures as of 31 December, 2021:

31.12.2021							
		Collective				Individual	Without Stage
Classes of exposures	**Total**	**Level 1**	**Level 2**	**Level 3**	**Subtotal collective**	**Stage 3**	**Balance without Stage**
Cash and balances with Central Bank	8,901,998	-	-	-	-	-	8,901,998
Receivables under derivatives	891	-	-	-	-	-	891
Loans and receivables from banks and other financial institutions	14,225,305	14,225,305	-	-	14,225,305	-	-
Loans and receivables from customers	588,324	588,324	-	-	588,324	-	-
- Public sector	-	-	-	-	-	-	
- Corporate	588,324	588,324	-	-	588,324	-	-
- Retail	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-
Other assets	11,541	-	-	-	-	-	11,541
TOTAL FINANCIAL ASSETS	**23,728,059**	**14,813,629**	**-**	**-**	**14,813,629**	**-**	**8,914,430**
Payment and performance guarantees	2,405,886	2,405,886	-	-	2,405,886	-	-
Other off-balance sheet asset-spot purchase and sale	242,853	-	-	-	-	-	242,853
Other	2,250	-	-	-	-	-	2,250
TOTAL OFF-BALANCE SHEET FINANCIAL ITEMS	**2,650,989**	**2,405,886**	**-**	**-**	**2,405,886**	**-**	**245,103**
Total exposure as of 31st December	**26,379,048**	**17,219,515**	**-**	**-**	**17,219,515**	**-**	**9,159,533**

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

Collateral and other credit risk mitigation techniques (continued)

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

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

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

Impairment assessment

Management Measure for Impairment of financial assets follows below principles:

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

According to the new standards, the purpose of the impairment provision is to measure the expected credit loss (hereinafter referred to as "ECL"), for each stage of financial assets based on subsequent changes in lifetime. All financial instruments should be categorized into different stages according to the change of its credit risk.

A complete and multi-perspective set of stage categorization criteria are formulated based on "quantitative as the main, qualitative supplements" principle. The main criteria is:

1) The internal credit rating of the borrower and the change of it;
2) Overdue days of the facility;
3) the risk classification of the financial assets and the change of it;
4) the financial conditions and managerial status of the debtor, etc. (i.e., debtors in black list or white list).

In accordance with above, during 2021, 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 2021:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
Gross balance as of 1st January 2021	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased	588,359		-		588,359
Payments and assets derecognized (excluding write offs)	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
Gross balance as of 31st December 2021	**588,359**		**-**	**-**	**588,359**

As of 31st December 2020 the Bank did not have a balance sheet exposure to customers.

28. RISK MANAGEMENT POLICIES (continued)

28.4 Credit risk (continued)

The following table shows the changes in gross exposure during 2021 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 2021	**722,991**	**-**	**-**	**-**	**722,991**
New assets originated or purchased	2,078,533		-		2,078,533
Payments and assets derecognized (excluding write offs)	(394,663)		-		(394,663)
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 2021	**2,406,861**		**-**	**-**	**2,406,861**

The following table shows the changes in gross exposure during 2020 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 2020	**459,070**	**-**	**-**	**-**	**459,070**
New assets originated or purchased	423,845	-	-	-	423,845
Payments and assets derecognized (excluding write offs)	(159,924)	-	-	-	(159,924)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
Gross balance as of 31st December 2020	**722,991**	**-**	**-**	**-**	**722,991**

The following table shows the changes in value adjustments of loans and receivables from customers by levels of impairment during 2021:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2021	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased	(35)	-	-	-	(35)
Payments and assets derecognized (excluding write offs)	-	-	-	-	-
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
ECL allowance as of 31st December 2021	**(35)**	**-**	**-**	**-**	**(35)**

As of 31st December 2020 The Bank did not have a balance sheet exposure to customers.

28. RISK MANAGEMENT POLICIES (continued)

28.4 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 2021:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2021	**(191)**	**-**	**-**	**-**	**-**
New assets originated or purchased	(922)	-	-	-	(922)
Payments and assets derecognized (excluding write offs)	138	-	-	-	138
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 2021	**(975)**	**-**	**-**	**-**	**(975)**

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 2020:

	Stage 1	Stage 2	Stage 3	POCI	TOTAL
ECL allowance as of 1st January 2020	**(121)**	**-**	**-**	**-**	**(121)**
New assets originated or purchased	(1,416)	-	-	-	(1,416)
Payments and assets derecognized (excluding write offs)	1,346	-	-	-	1,346
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Amounts written off	-	-	-	-	-
Other changes (Change of exposure, fx differences etc,)	-	-	-	-	-
ECL allowance as of 31st December 2020	**(191)**	**-**	**-**	**-**	**(191)**

During 2021, 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.

28. RISK MANAGEMENT POLICIES (continued)

28.5 Exposure to financial risks

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

As of December 31, 2021, 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	1,534,447	-	-	7,367,551	8,901,998
Receivables under derivatives				891	891
Loans and receivables from banks and other financial institutions	2,443,678	11,492,950	288,677	-	14,225,305
Loans and receivables from customers	588324	-	-	-	588,324
Other assets	9,116	-	-	2,425	11,541
TOTAL FINANCIAL ASSETS	**4,575,565**	**11,492,950**	**288,677**	**7,370,867**	**23,728,059**
Liabilities under derivatives	-	-	-	9	9
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2,469,624	-	-	-	2,469,624
Deposits and other liabilities due to customers	1,918,314	11,370,127	288,792	5832197	19,409,430
Other liabilities	266,589	9,517	-	18339	294,445
TOTAL FINANCIAL LIABILITIES	**4,654,527**	**11,379,644**	**288,792**	**5,850,545**	**22,173,508**
Off-balance financial instrument – long position	118,334	1,175	3,170	-	122,679
Off-balance financial instrument – short position	1,175	121,347	1	-	122,523
Net open foreign position as of 31st Dec 2020	**38,197**	**(6,866)**	**3,054**	**1,520,322**	**41,251**

28. RISK MANAGEMENT POLICIES (continued)

28.5 Exposure to financial risks (continued)

As of December 31, 2020, the Bank's net foreign exchange position is as follows:

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

As of December 31, 2021, foreign exchange risk amounts to 2.37% (regulatory prescribed maximum limit is 20% of regulatory capital, 2020: 1.01%). 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 4,125.

28. RISK MANAGEMENT POLICIES (continued)

28.5 Exposure to other financial risks (continued)

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	6,210,523	-	-	-	-	-	2,691,475	8,901,998
Receivables under derivatives	-	-	-	-	-	-	891	891
Loans and receivables from banks and other financial institutions	11,406,848	520,042	416,360	-	-	-	1,882,055	14,225,305
Loans and receivables from customers	-	-	-	-	588,359	-	-	588,359
Other assets	-	-	-	-	-	-	11,541	11,541
TOTAL FINANCIAL ASSETS	17,617,371	520,042	416,360	-	588,359	-	4,585,962	23,728,094
Liabilities under derivatives							9	9
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	1,057,536	1,410,162	-	-	-	-	1,926	2,469,624
Deposits and other liabilities due to customers	18,411,058	-	-	-	-	-	998,372	19,409,430
Other liabilities				-	-	-	294,445	294,445
TOTAL FINANCIAL LIABILITIES	19,468,594	1,410,162	-	-	-	-	1,000,307	22,173,508
Net exposure to interest risk as of								
- **31 December 2021**	(1,851,223)	(890,120)	416,360	-	588,359	-	3,585,655	1,554,586

28. RISK MANAGEMENT POLICIES (continued)

28.5 Exposure to other financial risks (continued)

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	3,645,319	-	-	-	-	-	1,027,249	4,672,568
Receivables under derivatives	-	-	-	-	-	-	234	234
Loans and receivables from banks and other financial institutions	7,910,170	-	-	-	-	-	241	7,910,411
Loans and receivables from customers	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	12,180	12,180
TOTAL FINANCIAL ASSETS	**11,555,489**	**-**	**-**	**-**	**-**	**-**	**1,039,904**	**12,595,393**
Liabilities under derivatives	-	-	-	-	-	-	1,798	1,798
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	-	-	-	-	-	-	-	-
Deposits and other liabilities due to customers	10,865,916	-	-	-	-	-	-	10,865,916
Other liabilities	-	-	-	-		-	334,343	334,343
TOTAL FINANCIAL LIABILITIES	**10,865,916**	**-**	**-**	**-**	**-**	**-**	**336,141**	**11,202,057**
Net exposure to interest risk as of - 31 December 2020	**689,573**	**-**	**-**	**-**	**-**	**-**	**703,763**	**1,393,336**

28. RISK MANAGEMENT POLICIES (continued)

28.5 Exposure to other financial risks (continued)

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 2021 and 31 December 2020.

Currency	Change in percentage point	Sensitivity on the income statement for the period ended 31 December 2021.	Change in percentage point	Sensitivity on the income statement for the period ended 31 December 2020.
Increase of percentage points:				
RSD	1%	151.33	1%	388.60
EUR	1%	-1,598.57	1%	-118.28
USD	1%	49.66	1%	4.02
Other	1%	-0.22	1%	1.15
Decrease of percentage points:				
RSD	1%	-151.33	1%	-388.60
EUR	1%	1,598.57	1%	118.28
USD	1%	-49.66	1%	-4.02
Other	1%	0.22	1%	-1.15

28. RISK MANAGEMENT POLICIES (continued)

28.6 Equity Management

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

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

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

The Law on Banks and the relevant decisions of the National Bank of Serbia stipulate that banks must maintain a minimum amount of equity of RSD 10 million in dinar equivalent according to the official middle exchange rate, an indicator of capital adequacy of at least 8%, the Tier 1 capital ratio at least 6%, the Common Equity Tier 1 capital ratio at least 4.5% and to adjust the volume and structure of their operations with the indicators of business prescribed by the Decision on risk management Official Gazette of 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, 27/2020 and 67/2020 - other decision) and the Decision on Capital Adequacy Official Gazette of RS, no. 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 and 59/2021).

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:

In thousands RSD	2021	2020
Share equity	1,843,887	1,843,887
Share premium	-	-
Profit from previous years eligible for inclusion in share capital	-	93,298
Retained loss from the previous period	(81,051)	(174,350)
Other intangible assets before related deduction of deferred tax liabilities	-	(18,950)
Tier 1 Capital	(19,420)	**1,743,885**
Tier 2 Capital	**1,743,416**	**-**
Regulatory capital (1)	**-**	**1,743,885**
	1,743,416	
Total risk weighted assets (2):	**4,652,001**	**2,225,826**
Capital adequacy (1/2 x 100)	**37.48%**	**78.35%**

28. RISK MANAGEMENT POLICIES (continued)

28.6 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 2021 and 31st December 2020 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 2021, 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 2021, 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 2021 were as follows:

Business indicators	Prescribed	Realized
1. Capital	EUR 10 million	RSD 1,743,416 thousand
2.1 Capital adequacy ratio	8%	37.48%
2.2 The Tier 1 capital ratio	6%	37.48%
2.3 The Common Equity Tier 1 capital ratio	4.5%	37.48%
3. Bank investments	Max 60%	14.97%
4. Exposure to one person or a group of related parties	25%	2.70%
5 Exposure to persons affiliated with the Bank	25%	2.70%
6. Sum of big exposures of the Bank	400%	2.70%
7. Foreign exchange risk indicator	20%	2.37%

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 2021 and 2020 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	2021	2020
Income and expenses		
Interest income	5,082	19,285
Interest expenses	(8,686)	(4,680)
Income from fees from issued guarantees	18,576	9,530
Income from fees and commissions	308,342	129,777
Fees related to related parties - IT centre	(6,990)	(12,908)
Assets and Liabilities		
Nostro accounts	8,091,899	5,040,147
Deposits at other banks	6,131,646	2,869,911
Deposits received from other banks	(2,469,224)	-
Accrued interest receivables from group members	2,132	-

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 2021 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 2021 and 2020 are shown in the following table:

In thousand RSD	**2021**	**2020**
Gross salaries of key management	70,813	62,591
Fees to members of the Board of Directors and the Auditing Committee	10,771	12,725
Total	**81,584**	**75,316**

31. EVENTS AFTER THE BALANCE SHEET DATE

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. While this is still an ongoing situation at the date of issuing these financial statements, and there is an expectation of consequences on the economy in general, there has been no discernible impact on the Bank's operations neither Bank has any significant exposure to underlying countries or individuals that are under sanctions, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take further action as necessary to mitigate any effects.

There were no other events after the balance sheet date that would require adjustments or disclosures in the individual financial statements for 31st December 2021.

Belgrade, 29 March 2022

ANNUAL BUSINESS REPORT
BANK OF CHINA SRBIJA AD FOR 2021

March 2022

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any suggestion arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

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.)

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 2021 (from the moment of establishment until the end of the calendar year), the target values are not specially determined, except the acquisition of fixed assets and the establishment of the reporting process.

During the year, the Bank realized significant incomes based on providing agent services in the amount of RSD 535,490 thousand, interest income in the amount of RSD 11,200 thousand.

Financial position and business results (continued)

The total balance sheet amount as at 31 December 2021 is RSD 24,019,563 thousand (2020: RSD 12,941,241 thousand). During the year, the Bank increased fixed assets in the amount of RSD 3,567 thousand (2020: RSD 69,501 thousand). During the year, the Bank started issuing loans to clients and currently the amount of funds placed through loans amounts to RSD 588,324 thousand.

Total capital of the Bank as at 31.12.2021 is RSD 1,845,080 thousand (2020: RSD 1,762,835 thousand) and consists of the share capital in the amount paid by the shareholders on 28.12.2016, as well as the undistributed loss from previous years in the amount of RSD 81,052 thousand and profit at the end of the current business year in the amount of RSD 82,245 thousand.

During the year 2021, the Bank issued performance guarantees in the amount of RSD 2,406,861 thousand (2020: RSD 722,990 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 2021 was 37.48% (2020: 78.35%). The decrease in the indicator is conditioned by the expansion of lending activity, as well as by larger funds that were in the bank's nostro accounts due to the increase in the deposit base of clients.

in RSD thousand

Income statement	**2021**	**2020 adjusted**
Net interest income	**11,200**	**23,306**
Net fee and commission income	**535,490**	**285,274**
Net operating income	549,775	304,173
Operating expenses	(468,618)	(488,328)
PROFIT/(LOSS) BEFORE INCOME TAX	**81,157**	**(184,155)**
PROFIT/(LOSS) AFTER TAXES	**82,245**	**(174,350)**
Balance sheet		
Cash and balances with Central Bank	8,901,998	4,672,568
Receivables under derivatives	891	234
Loans and receivables from banks and other financial institutions	14,225,305	7,910,411
Loans and receivables from clients	588,324	-
Intangible assets	19,420	18,950
Property, plant and equipment	241,548	302,625
Current tax assets	21,208	16,131
Deferred tax assets	7,368	6,280
Other assets	13,501	14,042
TOTAL ASSETS	**24,019,563**	**12,941,241**
Liabilities under derivatives	9	1,798
Deposits and other liabilities due to banks, other financial institutions and the Central Bank	2,469,624	-
Deposits and other liabilities due to customers	19,409,430	10,865,916
Provisions	975	191
Current tax liabilities	-	-
Deferred tax liabilities	-	-
Other liabilities	294,445	310,501
TOTAL LIABILITIES	**22,174,483**	**11,178,406**
TOTAL EQUITY	**1,845,080**	**1,762,835**
TOTAL LIABILITIES AND EQUITY	**24,019,563**	**12,941,241**
Capital adequacy ratio	**37,48**	**78,35**
Average number of employees	**29**	**30**
Number of organizational units	**1**	**1**

Environmental protection investment

In the period from January 1, 2021 until December 31, 2021, the Bank did not have any investments in the field of environmental protection.

Significant event after the end of the business year

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. While this is still an ongoing situation at the date of issuing these financial statements, and there is an expectation of consequences on the economy in general, there has been no discernible impact on the Bank's operations neither Bank has any significant exposure to underlying countries or individuals that are under sanctions, however the future effects cannot be predicted. Management will continue to monitor the potential impact and will take further action as necessary to mitigate any effects.

There were no other events after the balance sheet date that would require adjustments or disclosures in the individual financial statements for 31.12.2021. years.

Planned future development

From the introduction of "One belt, one road" initiative in 2013, China's economic cooperation with Serbia and other European countries has increased.

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

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

The main business goals for 2021 will be:

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

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

Research and development activities

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

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

Purchase of own shares information

In the period from January 1, 2021 to December 31, 2021, the Bank did not buy out its own shares.

Branches

As of December 31, 2021, the Bank did not have branches.

Financial instruments applied during the period

In the period from January 1, 2021 until December 31, 2021, 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, 2021, the foreign exchange risk level was 2.37 (2020: 1.02).

Interest rate risk is not significant, as the Bank received funds from clients in the form of transaction deposits, placed within the Bank of China Group, with short maturities. The shift of the IRRBB from 200bpp to equity was - 0.16% at the end of the year, which represents a low exposure to this risk

Due to the aforementioned, the bank is exposed to financial risks as of December 31, 2021, 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.