STOPANSKA BANKA AD – Skopje

Financial Statements
Year Ended December 31, 2016 and
Independent Auditors' Report

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of STOPANSKA BANKA AD – Skopje (the "Bank") is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS"), which give a true and fair view of the financial position and the results of the Bank for the year.

After making enquiries, the Management of the Bank has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management of the Bank continues to adopt the going concern basis in preparing the financial statements.

In preparing these financial statements, the responsibilities of the Management of the Bank, include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management of the Bank is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must ensure that the financial statements comply with IFRS. Management of the Bank is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos

Chief Executive Officer,
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska

Chief Retail Officer,
Member of the Board of Directors

Mr. Toni Stojanovski

Chief Risk Officer,
Member of the Board of Directors

Mr. Theodoulos Skordis

Chief Corporate Officer,
Member of the Board of Directors

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERSAND MANAGEMENT
OF STOPANSKA BANKA AD – Skopje

We have audited the accompanying financial statements (page 3 to 74) of STOPANSKA BANKA AD – Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of STOPANSKA BANKA AD – Skopje as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO Skopje

April 24, 2017

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2016
(In thousands of Denars)

	Notes	2016	2015
Interest income		4,351,441	4,341,929
Interest expense		(889,519)	(1,130,620)
Net interest income	6	3,461,922	3,211,309
Fee and commission income		1,052,579	1,033,688
Fee and commission expense		(109,711)	(106,675)
Net fee and commission income	7	942,868	927,013
Trading income, net	8	66,350	13,307
Foreign exchange gains, net	9	114,899	71,670
Other operating income	10	78,271	118,356
Impairment reversal, net	11	41,852	30,061
Personnel expenses	12	(797,524)	(797,551)
Depreciation and amortization	13	(126,300)	(110,173)
Other operating expenses	14	(1,014,819)	(995,164)
Profit before tax		2,767,519	2,468,828
Income tax expense	15	(263,930)	(225,239)
Profit for the year		2,503,589	2,243,589
Other comprehensive income			
Profit on available-for-sale financial assets, net	30	(315)	161
Service & interest (cost)/income related to defined benefits obligation	30	(117)	1,225
Other comprehensive income for the year, net of tax		(432)	1,386
Total comprehensive income for the year		2,503,158	2,244,975
Profit attributable to:			
Owners of the Bank		2,503,589	2,243,589
Total comprehensive income attributable to:			
Owners of the Bank		2,503,158	2,244,975
Earnings per share	31		
Basic (in Denars)		143.4	128.5
Diluted (in Denars)		143.4	128.5

The accompanying notes are an integral part of these financial statements.

The financial statements have been approved by the management of the Bank on January 26, 2017 and accepted by the Bank's Supervisory Board.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos
Chief Executive Officer,
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska
Chief Retail Officer,
Member of the Board of Directors

Mr. Toni Stojanovski
Chief Risk Officer,
Member of the Board of Directors

Mr. Theodoulos Skordis
Chief Corporate Officer,
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION
At December 31, 2016
(In thousands of Denars)

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	16	17,569,468	16,897,661
Financial assets through profit and loss	17	2,251	329,981
Available-for-sale financial assets	18	8,351,655	10,488,640
Placement with, and loans to banks	19	178,315	172,202
Loans to customers	20	60,047,332	56,988,064
Other assets	21	498,851	496,018
Investment property	22	70,601	75,909
Intangible assets	23	140,933	117,897
Property and equipment	24	888,138	850,497
Total assets		87,747,544	86,416,869
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	25	1,742,752	731,949
Deposits from customers	26	68,291,877	67,103,738
Loans payable	27	557,727	745,597
Other liabilities	28	1,712,212	2,018,602
Provisions	29	71,409	172,405
Total liabilities		72,375,977	70,772,291
EQUITY			
Share capital	30	3,511,242	3,511,242
Reserves	30	835,117	835,549
Retained earnings		11,025,208	11,297,787
Total equity		15,371,567	15,644,578
Total liabilities and equity		87,747,544	86,416,869
Commitments and contingencies	33	13,819,937	11,589,008

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(In thousands of Denars)

	Share capital	Revalua-tion reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2015	3,511,242	2,790	830,290	1,083	9,054,198	13,399,603
Other comprehensive income for the year, net of tax	-	1,386	-	-	-	1,386
Profit for the year	-	-	-	-	2,243,589	2,243,589
Balance, December 31, 2015	3,511,242	4,176	830,290	1,083	11,297,787	15,644,578
Balance, January 1, 2016	3,511,242	4,176	830,290	1,083	11,297,787	15,644,578
Other comprehensive income for the year, net of tax	-	(432)	-	-	-	(432)
Allocation for dividends	-	-	-	-	(2,776,168)	(2,776,168)
Profit for the year	-	-	-	-	2,503,589	2,503,589
Balance, December 31, 2016	3,511,242	3,744	830,290	1,083	11,025,208	15,371,567

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(In thousands of Denars)

	2016	2015
Profit before tax	2,503,589	2,243,589
Adjustments for:		
Depreciation of property and equipment	83,922	71,879
Depreciation of investment property	2,578	2,778
Amortization of intangible assets	39,800	35,516
Gain on sale of property and equipment, net	(849)	(34,364)
Gain on sale of foreclosure assets, net	(9,337)	-
Interest income	(4,351,441)	(4,341,929)
Interest expense	889,519	1,130,620
Net trading income	(66,350)	(13,307)
Impairment losses on financial assets, net	(90,338)	(85,498)
Impairment losses on non-financial assets	48,486	55,437
Provision for employee benefits, net	1,527	490
Provision for litigation, net	(15,156)	6,442
Interest receipts	4,532,691	4,509,382
Interest paid	(938,129)	(1,129,866)
Operating profit before changes in operating assets and liabilities:	2,630,512	2,451,169
(Increase)/decrease of operating assets:		
Financial assets through profit and loss	327,730	(36,978)
Due from banks	(6,113)	(18,862)
Loans to customers	(3,055,449)	(4,311,513)
Mandatory reserves and restricted deposits according NBRM regulations	(78,664)	(17,927)
Other receivables	(48,708)	122,148
Increase/(decrease) of operating liabilities:		
Deposits from banks	1,010,803	438,769
Deposits from customers	1,240,940	1,197,181
Other liabilities	(190,353)	630,424
Net cash flows generated from operating activities before income tax	1,830,698	454,411
Income tax paid	(278,971)	(321,516)
Net cash flows generated from operating activities	1,551,727	132,895

(Continued)

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2016
(In thousands of Denars)

	2016	2015
Cash flows from investing activities		
Acquisition of property and equipment	(122,166)	(95,525)
Acquisition of intangible assets	(62,528)	(48,929)
Receipts from investments, net	2,150,791	1,314,192
Proceeds from sale of property and equipment	1,144	(61)
Proceeds from sale of investment property	2,744	-
Dividend received	5,022	6,170
Net cash flows generated from investing activities	1,975,007	1,175,847
Cash flows from financing activities		
Net decrease of loans (including subordinated debt)	(187,870)	(2,885,218)
Dividends paid	(2,746,054)	(3,799)
Net cash flows used in financing activities	(2,933,924)	(2,889,017)
Net increase/(decrease) of cash and cash equivalents	592,810	(1,580,275)
Cash and cash equivalents, beginning of the year	14,036,447	15,616,722
Cash and cash equivalents at the end of the year	14,629,257	14,036,447

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

STOPANSKA BANKA AD – Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with a network of 66 branches (2015: 64 branches).

The Bank is registered as a universal type of commercial bank in accordance with the Macedonian Laws.

The Bank may perform the following activities:

- accept deposits and other repayable sources of funds,
- lend in the country, including factoring and financing commercial transactions,
- lend abroad, including factoring and financing commercial transactions,
- issuance and administration of means of payment (payment cards, checks, traveler's checks, bills of exchange),
- financial leasing,
- currency exchange operations,
- domestic and international payment operations, including purchase and sale of foreign currency,
- fast money transfer,
- issuance of payment guarantees, backing guarantees and other forms of collateral,
- lease of safe deposit boxes, depositories and depots,
- trade in instruments on the money market (bill of exchange, checks, deposit certificates),
- trade in foreign assets, including trade in precious metals,
- trade in securities,
- trade in financial derivatives,
- asset and securities portfolio management for clients and/or investment advising for clients,
- provides custodian services for investment and pension funds,
- purchase and sale, underwriting or placement of securities issue,
- custody of clients' securities,
- giving advices to legal entities in relation to the structure of capital, business strategy or other related issues, or providing services related to merging or acquisition of legal entities,
- sale of insurance policies,
- intermediation in concluding credit and loan agreements,
- process and analyze information on the legal entities' creditworthiness,
- economic and financial consulting, and
- other financial services specified by law allowed to be performed exclusively by a bank.

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2015: 94.64%) shareholding in the Bank and represents its ultimate parent company.

The shares of the Bank are not listed on the Regular Market on the Macedonian Stock Exchange (MSE), but are listed on MSE on the Market of publicly held companies with the special disclosure requirements and the ID quotation code is the following:

Symbol	ISIN code
STB (common shares)	MKSTBS101014
STBP (preference shares)	MKSTBS120014

The Bank's financial statements for the year ended December 31, 2016 have been approved by the management of the Bank on January 26, 2017 and accepted by the Bank's Supervisory Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the International Accounting Standards Board (the ”IASB”).

The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (included derivative financial instruments) held at fair value through profit or loss, under the going concern assumption.

(c) Functional and reporting currency

The financial statements are presented in Denars which is the Bank’s functional currency. All financial information is presented in Denars rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 3.22 to the financial statements.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

(e) *Standards and Interpretations effective in the current period*

The following new amendments to the existing standards issued by the International Accounting Standards Board are effective for current financial period:

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” -Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

(e) *Standards and Interpretations effective in the current period (Continued)*

- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

(f) *New Standards and amendments to existing standards in issue not yet adopted*

At the date of authorization of these financial statements the following new standards and amendments to existing standards were in issue, but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all instruments measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.2 Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis over the period of service rendering as well as for payment transactions in the moment when the service is rendered. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized using the effective interest rate method.

3.3 Dividend income

Dividend income is recognized when the right to receive payment is established for all shareholders who participate in income distribution.

3.4 Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia (“NBRM”) at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income. Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

3.5 Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit and loss, available-for-sale financial assets, held-to-maturity financial assets and loans to banks and customers. The classification depends on the nature and the purposes of the financial assets and is determined at the time of initial recognition. Financial assets are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the agreed timeframe.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss, which comprise of securities and shares issued by banks and other institutions included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at transaction price, which represents the fair value and subsequently measured at fair value as determined based on their market price.

All the respective realized and unrealized gains and losses are included under net trading income. Interest, if realized, during managing securities, is recorded as interest income. The sale of securities at fair value through profit and loss is recognized on trading date, which is the date when the Bank is obliged to buy/sell the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. This portfolio comprises quoted and unquoted equity investments in shares of banks and other financial institutions and enterprises, where the Bank does not exercise control.

Available-for-sale financial assets are initially recognized at transaction price, which represents the fair value, and subsequently re-measured at fair value based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and accumulated in the revaluation reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously accumulated in the revaluation reserves should be recognized in profit or loss. However, interest calculated using the effective interest method and foreign exchange gains and losses are recognized in the statement of comprehensive income.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. If the Bank is to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. These securities are measured at amortized cost using the effective interest rate method.

Loans originated by the Bank

Loans originated by the Bank include loans where cash is provided directly to the borrower. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. Interest on loans originated by the Bank is included in interest income and is recognized on an accrual basis. Loans to customers and financial institutions are stated at their net amount reduced by provisions for impairment and deferred loan's origination fees.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income. The amount of the impairment loss for financial assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Impairment losses on loans and advances

Allowances for losses on impairment and un-collectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A “claim” means a loan, a commitment such as a letter of credit, guarantee or commitment to extend the credit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items are presented within the provisions. Additions to provision are recognized through impairment losses on financial assets in the statement of comprehensive income. The allowances for losses on impairment and un-collectability are determined on the basis of the degree (size) of the risk of un-collectability or specific country risk on the basis of the following principles:

- Individual loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and un-collectability are measured and determined for the difference between the carrying value of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by effective loan interest rate.
- If there is objective proof of un-collectability of loans in the loan portfolio that may not be identified on a specific basis, the allowances for losses on impairment and un-collectability are determined at level of risk for specific loan portfolio, i.e. collective assessment. These losses are determined on the basis of historical data on loan classification of borrowers and express the current economic environment of the borrowers.
- Losses on impairment and un-collectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and un-collectability are reviewed monthly, and any further changes in the amount and timing of expected future cash flows in comparison to previous assessments result in changes in allowances for losses on impairment and un-collectability recorded in the statement of comprehensive income.
- The loan which is believed that is impossible to be collected is written off against the relevant allowance for losses on impairment and un-collectability. Further collections are recorded as income in the statement of comprehensive income.

Renegotiated loans

Once the terms of the loan have been renegotiated, the loan is no longer considered past due provided that all conditions required under the new arrangement are satisfied. The Bank continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Derecognition of financial assets

The Bank derecognizes financial assets when the right to receive cash from the financial asset has expired or has transferred its rights to receive cash flows from the asset and substantially all the risks and rewards of ownership of the assets to another entity.

3.6 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities are classified as deposits from banks, financial institutions and customers, financial liabilities through profit and loss, loans payable and other payables.

Deposits from banks and other financial institutions and customers

These financial liabilities are initially recognized at fair value net of transaction costs incurred. Subsequently are measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

Financial liabilities through profit and loss

These financial liabilities include derivative financial instruments of foreign exchange contracts and initially and subsequently are measured/re-measured at fair value. These contracts do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held-for-trading, i.e. fair value gains and losses are recognized in net-trading income.

Loans payable

Loans payable are initially recognized at fair value net of transaction costs incurred. Subsequent measurement is at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the loan using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Other payables

Other payables are stated at their nominal amounts.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired.

3.7 Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of comprehensive income as an expense as incurred.

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates for 2016 and 2015 are as follows:

Buildings	2.5% -5%
Furniture and equipment	10% - 25%

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss. The Bank annually reviewed its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses, Intangible assets include:

- Computer software and software that was acquired apart from hardware;
- Leasehold improvements; and
- Other intangibles.

Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The leasehold improvements and other intangible assets are amortized on a straight-line basis over the relevant contract period. The Bank annually reviewed its intangible assets and assess whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

3.9 Impairment of tangible and intangible assets

The Bank's management reviews regularly the carrying amounts of the Bank's tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period. A reversal of an impairment loss is recognized as income immediately.

3.10 Investment property

Investment property includes buildings owned by the Bank with the intention of earning rentals or for capital appreciation or both, and is initially recorded at cost, which includes transaction costs. The classification of the investment property is based on the criteria that the property is mostly held to earn rentals when compared to the property used by the Bank for its own needs.

Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation of investment property is calculated on straight-line basis in a way to write off the cost value of assets over their estimated useful lives, which approximates the useful life of similar assets included in property and equipment.

Investment property is annually reviewed for impairment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period.

3.11 Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and are reported in other assets as non-current assets held for sale. Initially, these asset are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified appraisers on the date of asset foreclosure. After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount less estimated costs to sell and accumulated impairments.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand and nostro accounts, unrestricted demand deposits and placements with other banks and financial institutions, unrestricted account balances with the NBRM and other financial assets such as treasury and other eligible bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

The Bank provides fiduciary and trust services to legal entities and citizens, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Managed funds are not assets of the Bank and are not recognized in the financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3.14 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employment benefits

Health, pension and social insurance contributions from gross wages and salaries are being paid by the Bank during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay to its employees a termination lump sum upon retirement equal to two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets (there are currently no plan assets recognized), together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3.15 Income tax

The current income tax payable is calculated based on the local tax regulation by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

3.16 Leases

Assets leased out under operating lease are included in the statement of financial position as investment property. Rental income from investment property is recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of the Bank. The Bank has determined the Management Board as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

Geographical areas include income from assets that are either located or are managed in the respective geographical area.

3.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when there is there is a legally enforceable right to offset the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis.

3.19 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: a) the unamortized balance of the related fees received and deferred, and b) the best estimate of the amount required to settle the guarantee at the reporting date.

3.20 Related party transactions

Related parties are related to the Bank if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Bank (this includes parent and fellow subsidiaries in the NBG Group) and has an interest in the Bank that gives it significant influence over the Bank, or the party is a member of the key management personnel of the Bank or its parent or is a close member of the family of any individual which is described above. A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. All banking transactions entered into which related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

3.21 Earnings per share

Basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

Diluted earnings per share ration is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

The most significant areas, for which judgments, estimates and assumptions are required, are:

Fair value of financial instruments

The fair value of the financial instruments that are not quoted in active markets are determined using internal valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by qualified personnel independent of the area that created the model. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar instruments, and with actual values when realized, in order to further validate and standardized models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, market conditions and liquidity.

The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the Republic of Macedonia sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

The Management assesses its overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a provision. In the opinion of management, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions.

Allowance for loan losses

The Bank reviews its loan portfolios to assess impairment on monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, The Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Useful lives of tangible and intangible assets

The Bank's management determines estimated useful lives and related depreciation and amortization charges for its tangible and intangible assets. The appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the underlying assumptions, such as anticipated technological developments and changes in the broad economic and industry factors.

Actuarial assumptions in respect of defined benefit plan

The eventual cost to Bank depends on actual future experience and in particular change in discount rate and pay increase. Other factors will also change the overall liability such as the number of employees, leaving service before the retirement and the number of new employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Critical accounting judgments and estimates (Continued)

Risk related to the Greek crisis and the European debt crisis

The ongoing financial and political crisis so far had a limited effect on the Bank's financial position and performance, mostly due to the Bank's internal risk management and capital management bylaws, as well as limits prescribed by the effective legislation. The Bank has adopted strict procedures for loan approval, appraisal and acceptance of collaterals and treasury operations. The Bank regularly monitors credit risk and develops contemporary capital monitoring practices in order to be able to support the desired risk profile and continued business growth at the same time.

Despite risks and challenges in 2016, STOPANSKA BANKA AD – Skopje remained well-capitalized, highly liquid, and funded by domestic deposits. The Bank has no exposure to any foreign European government debt nor significant placements or significant financial commitments with its Parent company. The recent stress test, performed under strict criteria demonstrated that the Bank is adequately capitalized and sufficiently liquid, and the management believes that any eventual withdrawal of the deposits by the Parent or by other related parties would not affect significantly the liquidity of STOPANSKA BANKA AD – Skopje. The strong capital base with a capital adequacy ratio of 16.04%, as disclosed in Note 4.6, enables the Bank to face any reasonably foreseeable adversity. Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, Board of Directors, Senior Management, as well as between the Bank and the NBG Group, its customers and any other stakeholders. Within the Bank, risk management activities broadly take place at the following levels:

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk and capital strategy, ascertaining the Bank's risk definitions, profile and appetite, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors and the Senior Management. These include the establishment of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as, other critical support functions fall into this category.

4. FINANCIAL INSTRUMENTS (Continued)

4.1 Financial risk management (Continued)

- Operational (business line) level – It involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by management.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk.

Credit risk is the most important risk for the Bank's business defined as current or future risk on the financial result and capital arising from a counter party's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, L/G and L/C).

4.2 Credit risk

4.2.1 Credit risk measurement, limits and mitigation policies

Initially, when approving loans and loan commitments, the authorized Credit Approval Committees assess creditworthiness of the clients depending on the type and size of the exposure and based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by relevant organization units of the Bank. The Risk Management Committee, Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The Bank has an internal system of classification of customers whose main aim is determining their creditworthiness and evaluation of the acceptable level of credit risk in starting lending. Classification of customers to which the Bank is exposed is reviewed at least annually. The Bank has implemented a system of early warning signals in order to timely identify any deterioration in the creditworthiness of the client and take appropriate action to mitigate credit risk.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities;
- Pledges over movables, such as cars, equipment and other,

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral, also limit of the exposure to Bank internal persons, and large exposures, exposure by sector of activity are set in the Risk Strategy and further detailed in the Bank's credit risk management policies and procedures. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

The loan portfolio of the Bank remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks. For that purpose, the Bank has introduced a set of limits that control the exposure of the Bank towards different types of borrowers, industry sectors, geographic location and type of collateral.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies

The impairment losses are identified losses of the Bank credit portfolio that incurred at the statement of financial position date and for which there is objective evidence of impairment. The Bank calculates the impairment provision after making the classification of credit exposure in the appropriate risk category.

The classification is made according to the following criteria:

- Client's creditworthiness;
- Client's regularity in settling the liabilities, and
- Collateral quality.

According to the Bank policies, impairment and provisioning are defined on individual and collective basis.

The individual approach encompasses at least the individually significant exposures that are above materiality thresholds set by the Bank. The materiality threshold is 0.007% of the total exposure to credit risk of the Bank. Impairment provision of individually assessed items on individual basis are determined by evaluation of generated loss on the balance sheet date, which represents the difference between the carrying and present value of projected future cash flows. Effective interest rate is used for discounting the future cash over a year.

The calculated impairment losses on group basis are provisioned on portfolios of homogenous assets that are individually lower than the materiality thresholds and for which sufficient long data series for the average life of the portfolio to calculate the impairment parameters. Impairment and provisioning are calculated by using parameters that are obtained from historical data on the delinquency rate of certain portfolios.

The following parameters are used at collective calculation of impairment and provisions:

- EAD (Exposure at Default) – Carrying value of certain group of loans;
- PD (Probability of Default) – Average probability that the loan in the group will be impaired during its lifetime;
- LGD (Loss Given Default) – Expected average loss per loan in the group (shown as % of EAD);
- LIP (Loss Identification Period) – Factor reflecting the period between the loss occurrence and its identification.

Individually important exposures for which there is no identified impairment on individual basis, and which can be grouped in homogenous portfolios according to credit risk similarity, are included in the collective assessment for impairment calculation.Theimpairment methodology assists Management in determining whether objective evidence of impairment exists under IAS 39 – Financial Instruments: Recognition and Measurement in full, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest,
- Initiated bankruptcy procedures or some form of financial reorganization,
- Significant financial difficulty of the debtor,
- Loss of significant customer(s),
- Damage of property, plant or equipment, used in the obligor's operations or taken as collateral,
- Conviction for criminal activities,
- Fraud relating to the granting of the loan,
- Obligor operates in an industry sector with financial difficulties, or in a country whose economy is in recession.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	In thousands of Denars	
	31 December 2016	31 December 2015
Credit risk exposure relating to on balance sheet assets		
Cash and cash equivalents	17,569,468	16,897,661
Financial assets through profit and loss	2,251	329,981
Available-for-sale financial assets	8,351,655	10,488,640
Placement with, and loans to banks	178,315	172,202
Loans to customers	60,047,332	56,988,064
Other receivables (less foreclosure assets)	118,364	127,814
	86,267,385	85,004,362
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	3,127,037	3,400,332
Standby letters of credits	74,105	92,034
Commitments to extend credits	10,647,511	8,212,722
Other off-balance sheet commitments	1,077	1,080
Gross exposure	13,849,730	11,706,168
Less: Provision for off-balance sheet items	(29,793)	(117,160)
	13,819,937	11,589,008
Total credit risk exposure	100,087,322	96,593,370

Deposits, property, cars, government bonds, pledges over machines and other movables are accepted as collateral in order to secure the credit exposures.

Mortgages are fully secured by property (residential and business premises) or deposits with a loan to value ratio up to 75%. Consumer loans in the amounts over EUR 15,000 are fully secured by property (only residential premises) or deposits.

Auto loans (included in category-consumer loans) are secured by vehicles.

The corporate loans and small business lines are secured with different types of collaterals: residential mortgage, commercial premises, cars, pledge over machines and other movables, L/Gs from first-class banks, corporate L/Gs and personal bills of exchange taking into consideration the quality of the collateral and the loan to value ratio.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

Loans to customers are summarized below:

a) Loans to customers neither past due nor impaired, past due but not impaired and individually impaired

	Neither past due nor impaired	Past due but not impaired	Individ. Impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2016								
Cards	3,458,063	655,394	11,267	4,124,724	(9,694)	(214,188)	(223,882)	3,900,842
Consumer	21,632,055	4,949,186	249,534	26,830,775	(183,844)	(1,383,398)	(1,567,242)	25,263,533
Mortgage	7,931,542	1,204,258	183,987	9,319,787	(38,142)	(18,266)	(56,408)	9,263,379
Small business Loans	1,897,721	543,193	335,420	2,776,334	(122,918)	-	(122,918)	2,653,416
Corporate Loans	13,221,009	2,486,747	6,439,625	22,147,381	(3,112,261)	(68,958)	(3,181,219)	18,966,162
Total	48,140,390	9,838,778	7,219,833	65,199,001	(3,466,859)	(1,684,810)	(5,151,669)	60,047,332

	Neither past due nor impaired	Past due but not impaired	Individ. impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2015								
Cards	3,420,263	506,437	10,606	3,937,306	(9,244)	(183,398)	(192,642)	3,744,664
Consumer	19,425,341	4,272,880	261,046	23,959,267	(222,300)	(1,260,346)	(1,482,646)	22,476,621
Mortgage	7,556,673	1,183,165	183,995	8,923,833	(36,234)	(17,330)	(53,564)	8,870,269
Small business Loans	1,682,825	273,350	291,526	2,247,701	(142,248)	(288)	(142,536)	2,105,165
Corporate Loans	14,544,081	2,040,552	6,421,400	23,006,033	(3,135,981)	(78,707)	(3,214,688)	19,791,345
Total	46,629,183	8,276,384	7,168,573	62,074,140	(3,546,007)	(1,540,069)	(5,086,076)	56,988,064

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

a) Loans to customers neither past due nor impaired, past due but not impaired and individually impaired (Continued)

All the loans to customers neither past due nor impaired have been mapped to the group of the satisfactory credit risk based on the criteria of the internal credit-quality grading system.

b) Loans to customers past due but not individually impaired

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2016								
Cards	404,003	25,679	7,193	14,999	30,569	172,951	-	655,394
Consumer	2,780,870	324,828	151,985	127,616	174,574	1,389,313	-	4,949,186
Mortgage	874,930	109,312	76,472	51,524	10,925	81,095	-	1,204,258
Small-business loans	543,193	-	-	-	-	-	-	543,193
Corporate loans	2,486,747	-	-	-	-	-	-	2,486,747
Total	7,089,743	459,819	235,650	194,139	216,068	1,643,359	-	9,838,778

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2015								
Cards	291,857	21,831	7,335	11,072	23,246	151,096	-	506,437
Consumer	2,340,398	292,702	113,260	97,958	164,623	1,263,939	-	4,272,880
Mortgage	854,929	112,488	77,882	56,790	15,227	65,849	-	1,183,165
Small-business loans	273,350	-	-	-	-	-	-	273,350
Corporate loans	2,040,552	-	-	-	-	-	-	2,040,552
Total	5,801,086	427,021	198,477	165,820	203,096	1,480,884	-	8,276,384

The fair value of collateral is based on valuation techniques that are used for similar assets.

The fair value of collateral for retail portfolio is as follows:

	2016	2015
Cash and balances with the Central bank	938,952	758,452
Movable property	221,645	340,414
Residential property	28,820,982	27,538,783
Other real estate	2,085,929	1,960,279
Total	32,067,508	30,597,928

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) Loans to customers past due but not individually impaired (Continued)

The fair value of collateral for corporate portfolio is summarized below:

	2016	2015
Cash and balances with the Central bank	1,075,606	770,133
Financial and corporate guarantees	9,487,018	10,494,183
Movable property	17,365,401	18,882,700
Real estate	29,783,068	28,974,077
Total	57,711,093	59,121,093

c) Renegotiated loans to customers

The Bank is renegotiating the loan to the borrower due to a diminishing of the borrower's creditworthiness, if it has:

a. Extended the principal and interest maturity;
b. Decreased the interest rate on the loan approved;
c. Reduced the amount of debt, principal or interest;
d. Made other concessions, which place the borrower in better financial position.

Upon renegotiating of the loan, the Bank performs a financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is renegotiated.

During 2016 the Bank has renegotiated loans at a total amount of Denar 923,655 thousand (2015: Denar 1,461,254 thousand).

4.2.5 Foreclosed assets

During 2016, the Bank conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Bank sold 8 assets (2015: 20 assets) at a total value of Denar 68,770 thousand (2015: Denar 54,286 thousand), whereas it foreclosed 7 facilities (2015: 1 facilities) at a total value of Denar 100,606 (2015: Denar 862 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2016 and 2015. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and cash equivalents		**Financial assets through profit and loss**		**Available-for-sale financial assets**		**Placements with and loans to banks**		**Loans to customers**		**Other receivables**		**Total**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Geographical region														
Republic of Macedonia	13,640,680	13,824,841	-	-	8,351,624	10,488,609	-	-	60,047,332	56,988,064	118,364	127,814	82,158,000	81,429,328
EU member countries	3,928,788	3,072,820	-	-	31	31	168,588	162,883	-	-	-	-	4,097,407	3,235,734
Europe (other)	-	-	2,251	2,378	-	-	9,561	9,102	-	-	-	-	11,812	11,480
OECD member countries (less European OECD member countries)	-	-	-	327,603	-	-	166	217	-	-	-	-	166	327,820
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	17,569,468	16,897,661	2,251	329,981	8,351,655	10,488,640	178,315	172,202	60,047,332	56,988,064	118,364	127,814	86,267,385	85,004,362

Credit risk exposure relating to net to off-balance sheet items entirely relates to the geographical region of the Republic of Macedonia.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector

The table breaks down the Bank's main credit exposure of the on balance sheet financial assets at their carrying amounts, as summarized by the industry sectors of the counterparties

	Cash and cash equivalents		Financial assets through profit and loss		Available- for-sale financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Industry														
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	732,386	659,290	20	13	732,406	659,303
Mining and quarrying	-	-	-	-	-	-	-	-	254,646	124,206	-	-	254,646	124,206
Manufacturing	-	-	-	-	-	-	-	-	7,379,446	8,100,826	6,773	15,294	7,386,219	8,116,120
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	1,842,674	2,228,050	-	-	1,842,674	2,228,050
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	30,683	35,584	12	-	30,695	35,584
Construction	-	-	-	-	-	-	-	-	1,541,778	1,522,055	492	5,314	1,542,270	1,527,369
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	1,106	1,133	-	-	6,973,608	6,372,076	1,239	606	6,975,953	6,373,815
Transportation and storage	-	-	-	-	-	-	-	-	914,860	1,085,440	176	170	915,036	1,085,610
Accommodation and food service activities	-	-	-	-	-	-	-	-	638,651	536,508	57	610	638,708	537,118
Information and communication	-	-	-	-	-	-	-	-	184,356	222,284	18	10	184,374	222,294
Financial and insurance activities	10,366,461	9,685,951	2,251	329,981	75,818	76,074	178,315	172,202	5,640	6,256	20,472	26,551	10,648,957	10,297,015
Real estate activities	-	-	-	-	-	-	-	-	594,700	445,270	-	-	594,700	445,270
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	260,757	390,351	29	727	260,786	391,078
Administrative and support service activities	-	-	-	-	-	-	-	-	104,495	-	-	-	104,495	-
Public administration and defence; compulsory social security	7,203,007	7,211,710	-	-	8,274,731	10,411,433	-	-	-	-	-	-	15,477,738	17,623,143
Education	-	-	-	-	-	-	-	-	44,272	63,434	-	36	44,272	63,470
Human health and social work activities	-	-	-	-	-	-	-	-	49,590	31,000	30	11	49,620	31,011
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	51,957	60,551	6	4	51,963	60,555
Other service activities	-	-	-	-	-	-	-	-	15,080	13,329	6	7	15,086	13,336
Individuals	-	-	-	-	-	-	-	-	38,427,753	35,091,554	89,034	78,461	38,516,787	35,170,015
Total	17,569,468	16,897,661	2,251	329,981	8,351,655	10,488,640	178,315	172,202	60,047,332	56,988,064	118,364	127,814	86,267,385	85,004,362

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector (Continued)

The table breaks down the Bank's main credit exposure of the off-balance sheet items at their carrying amounts, as summarized by the industry sectors of the counterparties.

	In thousands of Denars	
	2016	**2015**
Industry		
Non-residents	30	95
Agriculture, forestry and fishing	110,950	136,030
Mining and quarrying	69,128	61,736
Manufacturing	944,921	623,222
Electricity, gas, steam and air conditioning supply	370,903	47,023
Water supply; sewerage, waste management and remediation activities	13,847	4,813
Construction	2,135,533	1,691,998
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,368,969	666,694
Transportation and storage	464,892	234,520
Accommodation and food service activities	25,619	29,260
Information and communication	70,161	10,266
Financial and insurance activities	57,297	111,879
Real estate activities	16,166	105,969
Professional, scientific and technical activities	127,660	48,880
Administrative and support service activities	72,980	84,662
Education	24,917	21,507
Human health and social work activities	5,228	3,550
Arts, entertainment and recreation	51,480	42,674
Other service activities	8,251	3,676
Individuals	7,881,005	7,660,554
Total	13,819,937	11,589,008

4.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, interest rate, and equity products, all of which are exposed to market movements and changes in the level of volatility of market rates or prices (such as interest rates, credit spreads, foreign exchange rates and equity prices).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2016 and 2015:

In thousands of Denars
December 31, 2016

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	4,246,791	1,298,715	1,738,535	7,284,041	10,285,427	17,569,468
Financial assets through profit and loss	2,251	-	-	2,251	-	2,251
Available-for-sale financial assets	348,170	-	-	348,170	8,003,485	8,351,655
Placement with, and loans to banks	4,629	171,313	2,373	178,315	-	178,315
Loans to customers	22,847,437	571,498	-	23,418,935	36,628,397	60,047,332
Other receivables	947	353	131	1,431	116,933	118,364
Total assets	27,450,225	2,041,879	1,741,039	31,233,143	55,034,242	86,267,385
LIABILITIES						
Deposits from banks	87,204	1,075	27,804	116,083	1,626,669	1,742,752
Deposits from customers	24,489,727	2,031,997	1,692,351	28,214,075	40,077,802	68,291,877
Loans payable	397,436	-	-	397,436	160,291	557,727
Other liabilities	560,394	145	60	560,599	1,090,203	1,650,802
Total liabilities	25,534,761	2,033,217	1,720,215	29,288,193	42,954,965	72,243,158
Net currency gap:	1,915,464	8,662	20,824	1,944,950	12,079,277	14,024,227

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2015

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	3,799,157	975,760	1,536,416	6,311,333	10,586,328	16,897,661
Financial assets through profit and loss	2,379	327,602	-	329,981	-	329,981
Available-for-sale financial assets	864,348	-	-	864,348	9,624,292	10,488,640
Placement with, and loans to banks	4,637	165,277	2,288	172,202	-	172,202
Loans to customers	24,485,827	1,164,109	-	25,649,936	31,338,128	56,988,064
Other receivables	3,384	181	124	3,689	124,125	127,814
Total assets	29,159,732	2,632,929	1,538,828	33,331,489	51,672,873	85,004,362
LIABILITIES						
Deposits from banks	596,321	113,851	21,777	731,949	-	731,949
Deposits from customers	24,251,756	2,088,554	1,506,559	27,846,869	39,256,869	67,103,738
Loans payable	579,359	-	-	579,359	166,238	745,597
Other liabilities	351,917	409,226	59	761,202	1,180,949	1,942,151
Total liabilities	25,779,353	2,611,631	1,528,395	29,919,379	40,604,056	70,523,435
Net currency gap:	3,380,379	21,298	10,433	3,412,110	11,068,817	14,480,927

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

The Bank is exposed to effects arising from movements at level of interest rates in the market that affect its financial position and cash flows. Taking into account the fact that the trading portfolio of the Bank is inconsiderable and refers mainly to government securities, the interest rate risk exposure is assessed from the aspect of Banking Book. The risk of change in interest rates in the Banking Book is the current or possible risk for profit (net interest income) and / or capital that arises from negative movements in interest rates, which affect the positions in the Banking Book. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholder value. Nonetheless, excessive risk of change in interest rates may represent a significant threat to the profit and capital base of the Bank. The Bank has established a framework for managing this risk in order to minimize the effects of negative changes in future interest rates by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk of changes in interest rates in Banking Book.

The Bank has established a framework for managing this risk in order to minimize the effects of negative changes in future interest rates by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk of changes in interest rates in Banking Book.

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2016 and 2015.

In thousands of Denars
December 31, 2016

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	11,116,915	6,452,553	17,569,468
Financial assets through profit and loss	-	2,251	2,251
Available-for-sale financial assets	8,258,609	93,046	8,351,655
Placement with, and loans to banks	126,236	52,079	178,315
Loans to customers	58,425,328	1,622,004	60,047,332
Other receivables	-	118,364	118,364
Total assets	77,927,088	8,340,297	86,267,385
LIABILITIES			
Deposits from banks	1,742,752	-	1,742,752
Deposits from customers	68,043,271	248,606	68,291,877
Loans payable	407,277	150,450	557,727
Other liabilities	-	1,650,802	1,650,802
Total liabilities	70,193,300	2,049,858	72,243,158
Net interest gap:	7,733,788	6,290,439	14,024,227

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

In thousands of Denars
December 31, 2015

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	8,288,036	8,609,625	16,897,661
Financial assets through profit and loss	-	329,981	329,981
Available-for-sale financial assets	10,384,598	104,042	10,488,640
Placement with, and loans to banks	122,012	50,190	172,202
Loans to customers	55,489,813	1,498,251	56,988,064
Other receivables	-	127,814	127,814
Total assets	74,284,459	10,719,903	85,004,362
LIABILITIES			
Deposits from banks	730,711	1,238	731,949
Deposits from customers	66,824,836	278,902	67,103,738
Loans payable	594,768	150,829	745,597
Other liabilities	-	1,942,151	1,942,151
Total liabilities	68,150,315	2,373,120	70,523,435
Net interest gap:	6,134,144	8,346,783	14,480,927

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

Liquidity risk represents a risk of Bank's inability to provide sufficient monetary assets to settle its short-term liabilities when they come due, i.e. a risk that the necessary liquid assets will be provided at much higher cost.

4.4.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

- Application of operating standards related to the Bank's liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk;
- Maintenance of stock of liquid assets appropriate for the cash flow profile of the Bank which can be readily converted into cash without incurring undue capital losses;
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources;
- Preparing contingency plans of the Bank for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost;
- Monitoring liquidity risk limits and ratios, taking into account the Bank's risk appetite and profile, as well as the regulatory requirements for prescribed minimum level of liquidity rates.

The process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to funding the cash outflows.

During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

Monitoring of the Bank's liquidity is performed by the Treasury Division. The Treasury Division reconciles all inflows and/or outflows in all currencies along with money orders, checks, bank transfers and account transfers.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2016

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	17,569,468	-	-	-	-	-	17,569,468
Financial assets through profit and loss	2,251	-	-	-	-	-	2,251
Available-for-sale financial assets	299,592	2,544,910	4,927,429	502,800	-	76,924	8,351,655
Placement with, and loans to banks	517	-	-	-	-	177,798	178,315
Loans to customers	4,386,923	3,376,601	16,012,030	8,321,320	12,330,773	15,619,685	60,047,332
Other receivables	118,364	-	-	-	-	-	118,364
Total assets	22,377,115	5,921,511	20,939,459	8,824,120	12,330,773	15,874,407	86,267,385
LIABILITIES AND EQUITY							
Deposits from banks	1,742,752	-	-	-	-	-	1,742,752
Deposits from customers	29,449,475	6,422,498	21,864,252	7,735,827	2,648,362	171,463	68,291,877
Loans payable	49,738	-	105,672	107,738	132,614	161,965	557,727
Other liabilities	1,559,824	-	-	-	-	90,978	1,650,802
Total liabilities and equity	32,801,789	6,422,498	21,969,924	7,843,565	2,780,976	424,406	72,243,158
Net liquidity gap	(10,424,674)	(500,987)	(1,030,465)	980,555	9,549,797	15,450,001	14,024,227

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2015

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	16,897,661	-	-	-	-	-	16,897,661
Financial assets through profit and loss	329,981	-	-	-	-	-	329,981
Available-for-sale financial assets	99,878	2,691,541	6,756,687	863,296	-	77,238	10,488,640
Placement with, and loans to banks	217	-	-	-	-	171,985	172,202
Loans to customers	5,422,373	4,298,153	16,880,352	5,260,683	11,054,520	14,071,983	56,988,064
Other receivables	127,814	-	-	-	-	-	127,814
Total assets	22,877,924	6,989,694	23,637,039	6,123,979	11,054,520	14,321,206	85,004,362
LIABILITIES AND EQUITY							
Deposits from banks	731,949	-	-	-	-	-	731,949
Deposits from customers	27,263,260	6,746,320	25,175,165	5,746,955	2,026,320	145,718	67,103,738
Loans payable	64,793	-	132,892	186,589	178,387	182,936	745,597
Other liabilities	1,851,173	-	-	-	-	90,978	1,942,151
Total liabilities and equity	29,911,175	6,746,320	25,308,057	5,933,544	2,204,707	419,632	70,523,435
Net liquidity gap	(7,033,251)	243,374	(1,671,018)	190,435	8,849,813	13,901,574	14,480,927

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2016 and 2015, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 59,931,530 thousand (2015: Denar 51,597,669 thousand) which helps the maturity non-reconciliation to be overcome.

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow)

The table below presents the cash flows payable by the Bank by remaining contractual maturities of non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow) (Continued)

In thousands of Denars
December 31, 2016

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	116,083	1,626,688	-	-	-	-	-	-	-	1,742,771
Deposits from customers	26,229,053	3,376,583	6,510,710	22,192,180	7,919,733	2,097,937	343,886	312,684	174,221	69,156,987
Loans payable	3,783	50,542	-	108,403	109,999	82,178	31,560	21,174	253,007	660,646
Other liabilities	1,565,806	-	-	-	-	-	-	-	-	1,565,806
Total	27,914,725	5,053,813	6,510,710	22,300,583	8,029,732	2,180,115	375,446	333,858	427,228	73,126,210

In thousands of Denars
December 31, 2015

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	34,033	697,923	-	-	-	-	-	-	-	731,956
Deposits from customers	23,341,434	4,123,154	6,852,493	25,540,002	5,898,222	1,447,721	314,460	365,715	156,513	68,039,714
Loans payable	4,453	65,053	8,447	141,515	193,638	72,437	86,526	36,275	273,914	882,258
Other liabilities	1,872,092	-	-	-	-	-	-	-	-	1,872,092
Total	25,252,012	4,886,130	6,860,940	25,681,517	6,091,860	1,520,158	400,986	401,990	430,427	71,526,020

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Contractual maturity analysis for off-balance sheet items (undiscounted cash flow)

In thousands of Denars
December 31, 2016

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	2,414,483	-	-	1,619,909	531,321	-	-	-	6,081,797	10,647,510
Financial guarantees and LCs	-	156,050	288,864	1,502,680	331,353	696,326	71,512	77,016	77,342	3,201,143
Total	2,414,483	156,050	288,864	3,122,589	862,674	696,326	71,512	77,016	6,159,139	13,848,653

In thousands of Denars
December 31, 2015

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	-	-	-	1,617,657	542,052	-	-	-	6,053,015	8,212,724
Financial guarantees and LCs	-	189,646	307,471	1,407,475	751,791	31,448	567,093	51,485	185,956	3,492,365
Total	-	189,646	307,471	3,025,132	1,293,843	31,448	567,093	51,485	6,238,971	11,705,089

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		**Fair value**	
	December 31, 2016	**December 31, 2015**	**December 31, 2016**	**December 31, 2015**
Financial assets				
Cash and cash equivalents	17,569,468	16,897,661	17,569,468	16,897,661
Financial assets through profit and loss	2,251	329,981	2,251	329,981
Available-for-sale financial assets	8,351,655	10,488,640	8,351,655	10,488,640
Placement with, and loans to banks	178,315	172,202	178,315	172,202
Loans to customers	60,047,332	56,988,064	60,047,332	56,988,064
Other receivables (less foreclosure assets)	118,364	127,814	118,364	127,814
	86,267,385	85,004,362	86,267,385	85,004,362
Financial liabilities				
Deposits from banks	1,742,752	731,949	1,742,752	731,949
Deposits from customers	68,291,877	67,103,738	68,291,877	67,103,738
Loans payable	557,727	745,597	557,727	745,597
Other liabilities	1,650,802	1,942,151	1,650,802	1,942,151
	72,243,158	70,523,435	72,243,158	70,523,435

Cash and cash equivalents

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRM, which mature shortly. Fair value of treasury and other eligible bills is based on discounted cash flows.

Financial assets through profit and loss

Fair value as determined by reference to market prices equal to their carrying amount.

Available-for-sale financial assets

Their fair value is measured based on quoted prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

Held-to-maturity financial assets

Taking into consideration the nature of these instruments (fixed maturity and fixed and determinable payments), as well as the existing market information, the management's opinion is that the fair value of such instruments approximates their carrying amount.

Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and sight placements is their carrying amount. The smaller portion of the time deposits are fixed interest bearing deposits, which estimated fair value determined based on discounting cash flow using interest rates for similar placements.

Loans to customers

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate. The remaining part of the loans with fixed interest rate relates to "teaser loans", for which the fair value is estimated based on the discounted cash flow.

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

Other receivables approximate their fair value as they will mature shortly.

Deposits from banks

The fair value of sight and time deposits from banks and other financial institutions is their carrying amount.

Financial liabilities through profit and loss

Fair value as determined by inputs derived from market prices.

Deposits from customers

The fair value of the sight deposits and the deposits with floating interest rate is their carrying amount. The estimated fair value of the deposits with fixed interest rate is based on discounted cash flows using the interest rate for similar deposits with similar maturity.

Loans payable (including subordinated debt)

Subordinated debt represents the major part of this position. This loan is with floating interest rate. The remaining part relates to the loans from specific sources for which the market interest rate cannot be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

Other liabilities

Other liabilities approximate their fair value as they will mature shortly.

Fair value hierarchy

The Bank classifies all financial assets and liabilities at fair value, using fair value hierarchy which reflects the significance of inputs used in determining fair value. The fair value hierarchy includes the following levels:

a) Level 1 - Fair value is determined directly with reference to quoted market prices of the financial instruments in active markets;

b) Level 2 -Fair value is determined using valuation techniques that include active markets inputs, which can be direct, i.e. prices, or indirect, i.e. derived from prices;

c) Level 3- Fair value is determined using valuation techniques that include inputs that cannot be directly or indirectly followed on the active markets, or are not visible.

There were no transfers between Level 1 and 2 in the period.

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable:

				In thousands of Denars December 31, 2016
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	2,251	2,251		-
Available-for-sale financial assets	76,924	-	52,517	24,407
Total	79,175	2,251	52,517	24,407

				In thousands of Denars December 31, 2015
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	329,981	329,981	-	-
Available-for-sale financial assets	77,238	-	52,831	24,407
Total	407,219	329,981	52,831	24,407

Level 3 financial instruments at December 31, 2016 include available-for sale non-marketable private equity investments where prices are determined by the price of the most recent investments, based on which it is not practical to quote a range of key unobservable inputs.

Reconciliation of the fair value measurement in level 3 is not presented since there was no movement during 2016.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the regulatory capital are regularly monitored by the Bank's management, employing techniques prescribed by national regulatory authority, i.e. the National Bank of Republic of Macedonia. The required information is submitted to regulatory authority on a quarterly basis.

The regulatory authority requires that each Bank has to maintain capital adequacy ratio above 8%.

The Bank's regulatory capital is divided in two groups:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The bank's uncovered loss from previous years, the current loss, own shares, intangible assets, net negative revaluation reserves, difference between the amount of required and made impairment/special reserves, amount of unallocated impairment and special reserves as a result of accounting time lag are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, cumulative preferred shares and premium from cumulative preferred shares sold, revaluation reserves, hybrid capital instruments.

Investments in financial institutions are deducted from Tier 1 and Tier 2 capital in determining the regulatory capital.

The Bank is calculating capital adequacy ratio based on the National Bank of the Republic of Macedonia Decision on the methodology for determining the capital adequacy, in which the manner for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk is prescribed.

The calculation of the capital required for covering the credit risk is based on the so called standardized approach according to Basel II. The Bank is obliged to distribute the on-balance sheet and off-balance sheet claims in appropriate categories of exposure and to provide them with a risk weight depending on the credit quality degree of the debtor or the claim. Capital to cover the operational risk is also calculated according standardized approach. The calculation of the capital for currency risk is to the net amount of aggregate foreign currency position taking into consideration the impairment. The Bank is not obliged to determine and dispose of the capital required for covering the market risks.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended December 31, 2016 and 2015 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

	In thousands of Denars December 31, 2016
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	6,755,942
Deductions from Tier 1 capital	(25,874)
Total qualifying Tier 1 capital	10,241,310
Tier 2 capital	
Cumulative non-voting shares	90,978
Revaluation reserves	100,562
Total qualifying Tier 2 capital	191,540
Total regulatory capital	10,432,850
Credit risk-weighted assets	
On-balance sheet	51,407,182
Off-balance sheet	5,044,496
Total credit risk-weighted assets	56,451,678
FX risk-weighted assets	1,156,975
Operational risk-weighted assets	7,430,024
Risk-weighted assets	65,038,677
Capital adequacy ratio	16.04%

	In thousands of Denars December 31, 2015
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	6,755,942
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	10,243,201
Tier 2 capital	
Cumulative non-voting shares and share premium	90,978
Revaluation reserves	1,296
Total qualifying Tier 2 capital	92,274
Total regulatory capital	10,335,475
Credit risk-weighted assets	
On-balance sheet	46,071,837
Off-balance sheet	5,257,105
Total credit risk-weighted assets	51,328,942
FX risk-weighted assets	2,481,264
Operational risk-weighted assets	6,959,207
Risk-weighted assets	60,769,413
Capital adequacy ratio	17.01%

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

The currency risk management, performed by monitoring the assets and liabilities in foreign currencies, is supplemented by conducting sensitivity analysis of the Bank's foreign currencies assets and liabilities. Therefore, appropriate scenario (change of the exchange rates by +10% i.e. -10%, with respect to the Denar) is used.

		In thousands of Denars	
December 31, 2016		**Change in exchange rate**	
	Total	**10%**	**-10%**
ASSETS			
Cash and cash equivalents	17,569,468	728,404	(728,404)
Financial assets through profit and loss	2,251	225	(225)
Available-for-sale financial assets	8,351,655	34,817	(34,817)
Placement with, and loans to banks	178,315	17,832	(17,832)
Loans to customers	60,047,332	2,341,894	(2,341,894)
Other receivables	118,364	143	(143)
Total assets	86,267,385	3,123,315	(3,123,315)
LIABILITIES			
Deposits from banks	1,742,752	11,608	(11,608)
Deposits from customers	68,291,877	2,821,408	(2,821,408)
Loans payable	557,727	39,744	(39,744)
Other liabilities	1,650,802	56,060	(56,060)
Total liabilities	72,243,158	2,928,820	(2,928,820)
Net currency gap:	14,024,227	194,495	(194,495)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

December 31, 2015		**In thousands of Denars** **Change in exchange rate**	
	Total	**+10%**	**-10%**
ASSETS			
Cash and cash equivalents	16,897,661	631,133	(631,133)
Financial assets through profit and loss	329,981	32,998	(32,998)
Available-for-sale financial assets	10,488,640	86,435	(86,435)
Placement with, and loans to banks	172,202	17,220	(17,220)
Loans to customers	56,988,064	2,564,994	(2,564,994)
Other receivables	127,814	369	(369)
Total assets	85,004,362	3,333,149	(3,333,149)
LIABILITIES			
Deposits from banks	731,949	73,195	(73,195)
Deposits from customers	67,103,738	2,784,687	(2,784,687)
Loans payable	745,597	57,936	(57,936)
Other liabilities	1,942,151	76,120	(76,120)
Total liabilities	70,523,435	2,991,938	(2,991,938)
Net currency gap:	14,480,927	341,211	(341,211)

At December 31, 2016, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 194,495 thousand higher (2015: Denar 341,211 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 194,495 thousand lower (2015: Denar 341,211 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

		In thousands of Denars	
		December 31, 2016	
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	17,569,468	222,338	(222,338)
Financial assets through profit and loss	2,251	-	-
Available-for-sale financial assets	8,351,655	165,172	(165,172)
Placement with, and loans to banks	178,315	2,525	(2,525)
Loans to customers	60,047,332	1,168,507	(1,168,507)
Other receivables	118,364	-	-
Total assets	86,267,385	1,558,542	(1,558,542)
LIABILITIES			
Deposits from banks	1,742,752	34,855	(34,855)
Deposits from customers	68,291,877	1,360,865	(1,360,865)
Loans payable	557,727	8,146	(8,146)
Other liabilities	1,650,802	-	-
Total liabilities	72,243,158	1,403,866	(1,403,866)
Net interest gap:	14,024,227	154,676	(154,676)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

In thousands of Denars
December 31, 2015

	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	16,897,661	165,761	(165,761)
Financial assets through profit and loss	329,981	-	-
Available-for-sale financial assets	10,488,640	207,692	(207,692)
Placement with, and loans to banks	172,202	2,440	(2,440)
Loans to customers	56,988,064	1,109,796	(1,109,796)
Other receivables	127,814	-	-
Total assets	85,004,362	1,485,689	(1,485,689)
LIABILITIES			
Deposits from banks	731,949	14,614	(14,614)
Deposits from customers	67,103,738	1,336,497	(1,336,497)
Loans payable	745,597	11,895	(11,895)
Other liabilities	1,942,151	-	-
Total liabilities	70,523,435	1,363,006	(1,363,006)
Net interest gap:	14,480,927	122,683	(122,683)

As a part of interest rate risk management, the Bank analyzes the sensitivity of the balance sheet items. The sensitivity analysis is performed taking into account interest bearing assets and liabilities. Hence, it was tested what would happen, if interest rates decreased/increased by 200 bp.

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2016, profit for the year would have been Denar 154,676 thousand (2015: 122,683 Denar thousand higher) higher. Conversely, if the interest rates had been 200 bp lower with all other variables held constant, profit for the year would have been Denar 154,676 thousand (2015: Denar 122,683 thousand lower) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

Retail banking includes all individual customers to whom the Bank, through extended network of branches, offers various types of loan, deposit as well as wide range of other traditional services and products.

Corporate banking

Corporate includes lending to all large, medium-sized and small companies. The Bank offers its corporate customers a wide range of products and services, deposit accounts, loans, foreign exchange and trade service activities.

Investment banking

Investment banking includes safekeeping and administration of financial instruments for clients, including custodianship and related services and own portfolio management bonds investment portfolio (available for sale and held to maturity)

Other

This segment includes all other insignificant operating activities.

Unallocated

The segment unallocated include accrued revenue from activities that cannot be readily mapped into a particular business line such as commissions, income derived from insurance or income from extraordinary or non-regular items.

5.1 Operating segments

In thousands of Denars
December 31,2016

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	2,053,272	1,408,492	-	158	-	3,461,922
Net fee and commission income	488,672	454,196	-	-	-	942,868
Net trading income	-	-	64,998	1,352	-	66,350
Other operating income	(88,308)	4,032	5,022	-	272,424	193,170
Total income	2,453,636	1,866,720	70,020	1,510	272,424	4,664,310
Profit before tax	2,030,505	299,659	70,020	(7,913)	375,248	2,767,519
Income tax expense						(263,930)
Net profit for the year						2,503,589
Total assets	37,769,457	41,640,303	8,337,784	-	-	87,747,544
Total liabilities	53,659,821	18,716,156	-	-	-	72,375,977
Impairment of financial assets, net	454,312	(354,714)	-	(9,260)	-	90,338
Impairment of non-financial assets	(28,748)	(125,274)	-	-	105,536	(48,486)
Depreciation and amortization	(54,387)	(69,050)	-	(163)	(2,700)	(126,300)
Property and equipment purchases	(81,851)	(39,093)	-	-	(1,222)	(122,166)
Other expenses	(794,308)	(1,018,023)	-	-	(12)	(1,812,343)

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
December 31,2015

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	1,731,430	1,480,686	(377)	(430)	-	3,211,309
Net fee and commission income	445,897	480,763	353	-	-	927,013
Net trading income	-	-	-	13,307	-	13,307
Other operating income	101,969	59,739	4,696	-	23,622	190,026
Total income	2,279,296	2,021,188	4,672	12,877	23,622	4,341,655
Profit before tax	1,666,087	751,833	4,661	17,760	28,487	2,468,828
Income tax expense	-	-	-	-	(225,239)	(225,239)
Net profit for the year						2,243,589
Total assets	36,069,441	39,406,724	10,818,621	379	121,704	86,416,869
Total liabilities	34,852,814	35,919,477	-	-	-	70,772,291
Impairment of financial assets, net	316,464	(235,980)	(11)	5,025	-	85,498
Impairment of non-financial assets	(9,382)	(63,874)	-	-	17,819	(55,437)
Depreciation and amortization	(47,313)	(60,069)	-	(142)	(2,649)	(110,173)
Property and equipment purchases	(64,001)	(30,568)	-	-	(955)	(95,524)
Other expenses	(872,978)	(909,432)	-	-	(10,305)	(1,792,715)

5.2 Geographical areas

In thousands of Denars
December 31,2016

	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	4,126,040	200,299	60,104	5,443	272,424	4,664,310
Total assets	83,992,317	2,829,344	848,993	76,890	-	87,747,544

In thousands of Denars
December 31, 2015

	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallo-cated	Total
Total income, net	4,091,006	108,407	53,190	65,430	23,622	4,341,655
Total assets	83,133,955	1,567,616	769,148	946,150	-	86,416,869

6. INTEREST INCOME AND EXPENSE

Interest income and expense analyzed by category of financial instruments is as follows:

	In thousands of Denars Year ended December 31, 2016	2015
Interest income:		
Cash and cash equivalents	183,587	179,408
Placement with, and loans to banks	19,821	18,499
Loans to customers	3,896,246	3,857,991
Investment securities	245,562	279,343
Other receivables	6,225	6,688
	4,351,441	4,341,929
Interest expense:		
Deposits from banks and financial institutions	2,589	2,691
Deposits from customers	875,902	1,062,767
Loans payable	7,033	8,968
Subordinated debt	-	52,552
Other liabilities	3,995	3,642
	889,519	1,130,620
Net interest income	3,461,922	3,211,309

The sector analysis of interest income and expense is as follows:

	Year ended December 31, 2016		In thousands of Denars Year ended December 31, 2015	
	Income	**Expense**	**Income**	**Expense**
Enterprises	1,049,286	87,650	1,124,959	120,208
State	245,748	2,256	279,512	2,454
Not-for-profit institutions	118	3,229	200	5,198
Banks	19,842	8,259	18,550	9,572
Other non-banking financial entities	186,692	55,312	183,660	28,846
Households	2,849,714	719,513	2,735,042	898,801
Non-residents	41	13,300	6	65,541
	4,351,441	889,519	4,341,929	1,130,620
Net interest income	3,461,922		3,211,309	

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense is analyzed by financial activity as follows:

			In thousands of Denars	
	Year ended December 31, 2016		**Year ended December 31, 2015**	
	Income	**Expense**	**Income**	**Expense**
Loans provided	116,991	-	116,217	-
Domestic payment operations	320,486	72,135	314,702	71,690
Foreign payment operations	89,951	20,475	91,312	18,918
Letters of credit and guaranties	56,000	-	64,186	-
Brokerage	1,758	384	1,296	118
Assets administering	383	-	386	-
Credit cards	350,678	8,694	320,811	8,010
Consumer credit	40,687	-	46,892	3
Mortgage credit	-	53	-	75
Deposits	1,115	-	1,175	-
Safe box	8,533	-	6,825	-
Third party collection	9,541	-	9,945	-
Other	56,456	7,970	59,941	7,861
	1,052,579	109,711	1,033,688	106,675
Net fee and commission income	942,868		927,013	

The sector analysis of fee and commission income and expense is as follows:

			In thousands of Denars	
	Year ended December 31, 2016		**Year ended December 31, 2015**	
	Income	**Expense**	**Income**	**Expense**
Enterprises	517,361	6,162	534,450	5,646
State	1,854	-	4,098	-
Not-for-profit institutions	65	-	126	-
Banks	21,812	62,451	16,304	68,529
Other non-banking financial entities	-	32,351	-	24,412
Households	486,993	8,747	454,299	8,088
Non-residents	24,494	-	24,411	-
	1,052,579	109,711	1,033,688	106,675
Net fee and commission income	942,868		927,013	

8. TRADING INCOME, NET

	In thousands of Denars Year ended December 31, 2016	2015
Financial assets through profit and loss:		
Net gain/(loss) on fair valuation of debt securities	163	(2,649)
Net gain on sales and fair valuation of equity securities	64,876	11,531
Income from trading securities -equity shares (dividend)	1,311	1,670
Trading securities - sovereign bonds	-	2,755
	66,350	13,307

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2016	2015
Realized exchange gains, net	143,167	94,749
Unrealized exchange losses, net	(28,268)	(23,079)
	114,899	71,670

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2016	2015
Early withdrawal of deposits and operations with non-residents	29,063	39,614
Court claims collections	13,810	18,018
Gain on sale of property and equipment and foreclosed assets	10,186	34,364
Dividend from available-for-sale investments	5,022	4,500
Rental income	3,192	4,079
Income from mediation at mortgage insurance	1,657	1,925
Income from collected damage from insurance companies	712	695
Other	14,629	15,161
	78,271	118,356

11. IMPAIRMENT REVERSAL, NET

	In thousands of Denars Year ended December 31, 2016	2015
Reversal of impairment loss on financial assets, net	90,338	85,498
Impairment loss on non-financial assets	(48,486)	(55,437)
	41,852	30,061

Reversal of impairment loss on financial assets, net

In thousands of Denars

	December 31,2016			December 31, 2015		
	Charge	**Release**	**Net**	**Charge**	**Release**	**Net**
Placement with, and loans to banks (Note 19)	916	(654)	262	2,197	(844)	1,353
Loans to customers (Note 20)	1,014,243	(1,024,117)	(9,874)	926,689	(1,008,109)	(81,420)
Other assets(Note 21)	7,081	(440)	6,641	8,504	(12,859)	(4,355)
Available-for-sale financial assets (Note 18)	-	-	-	11	-	11
Off-balance sheet items (Note 29)	9,866	(97,233)	(87,367)	7,824	(8,911)	(1,087)
	1,032,106	(1,122,444)	(90,338)	945,225	(1,030,723)	(85,498)

Accrued Interest income on impaired financial assets as at December 31, 2016 amount to nil (2015: Denar nil).

Impairment loss on non-financial asset

	In thousands of Denars Year ended December 31, 2016	2015
Investment property (Note 22)	-	4,839
Assets acquired through foreclosure procedures (Note 21a)	48,486	50,598
	48,486	55,437

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2016	2015
Wages and salaries	456,466	461,677
Social security cost	217,917	215,933
Other staff costs	119,942	119,451
Pension costs based on defined benefit plans, net	3,199	490
	797,524	797,551
Average number of employees during the period	1,047	1,050
Number of permanent employees at the end of the year	1,052	1,038

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2016	2015
Depreciation of property and equipment	83,922	71,879
Amortization of intangible assets	39,800	35,516
Depreciation of investment property	2,578	2,778
	126,300	110,173

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2016	2015
Material and services	529,182	518,318
Insurance premiums for deposits	263,497	261,611
Administrative and marketing costs	127,150	106,258
Rent	57,430	58,339
Insurance premiums for property and employees	11,137	12,172
Court claims	2,339	6,486
Travel expenses	6,313	6,927
Other taxes and contributions	1,422	2,402
Other expenses	16,349	22,651
	1,014,819	995,164

15. INCOME TAX EXPENSE

The major components of income taxes in the statement of comprehensive income are as follows:

	In thousands of Denars Year ended December 31, 2016	2015
Current income tax expense	263,930	225,239
	263,930	225,239

The total charge for the year can be reconciled to the accounting profit as follows:

	In thousands of Denars Year ended December 31, 2016	2015
Profit before tax	2,767,519	2,468,828
Income tax at the statutory income tax rate of 10%	276,752	246,883
Tax on expenses not allowed for tax purposes	14,060	11,495
Effects of income not subject to taxation	(26,882)	(33,139)
At effective rate of 9.54% (2015: 9.12%)	263,930	225,239

As a result of the anti-crisis measures, Income tax law that was applicable from 2009 through 2013 prescribed that profits for the abovementioned years are not taxable and the rate of 10% is applied only on the expenses which are not deductible for tax purposes. The accumulated undistributed profit for the years from 2009 to 2013 shall be subject to taxation at the moment of its distribution.

Income tax law was amended in 2014, whereas the final income tax is calculated at the rate of 10% on the profit reported in the statement of comprehensive income, adjusted for certain items as defined by the local tax legislation.

16. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Cash on hand	1,249,952	1,385,231
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	4,688,961	4,390,484
Accounts and deposits with foreign banks	1,644,862	1,838,307
Accounts and deposits with domestic banks	609	2,018
Treasury bills which can be traded on the secondary market	4,803,007	5,216,358
Time deposits up to three months	2,241,516	1,203,711
Other short-term highly liquid assets	350	338
Included in Statement of Cash Flows	14,629,257	14,036,447
Mandatory reserves in foreign currency	2,897,551	2,818,887
Restricted deposits	42,660	42,327
	17,569,468	16,897,661

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 4,688,961 thousand (2015: Denar 4,390,484 thousand) represent mandatory reserves in Denars. These reserves are non-interest bearing.

Treasury bills which can be traded on the secondary market in the amount of Denar 4,803,007 thousand (2015: Denar 5,216,358 thousand) represent bills issued by the Central Bank with a maturity of 35 days. Interest rate is 3.75% p.a. (2015: 3.25% p.a.).

Mandatory reserves in foreign currency represent non-interest bearing (2015: 0.1% p.a.) mandatory deposit with NBRM amounting to Denar 2,897,551 thousand (2015: Denar 2,818,887 thousand) calculated as an average amount of deposits in foreign currencies during the last calendar month.

17. FINANCIAL ASSETS THROUGH PROFIT AND LOSS

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Equity securities issued by banks	2,251	329,981
	2,251	329,981

The Bank trades with the trading securities in order to generate profit from the short-term fluctuations in their stock price. The Bank is not able to exert significant influence over the banks in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these entities.

During 2016, the Bank has sold the equity securities in Visa Inc. / USA which amounted to Denar 327,603 thousand.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Debt securities issued by the Government	8,274,731	10,411,402
Equity securities issued by banks	3,476	3,476
Equity securities issued by other entities	377,538	391,658
	8,655,745	10,806,536
Less: Allowance for impairment	(304,090)	(317,896)
	8,351,655	10,488,640

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Balance at the beginning of the year	317,896	312,106
Addition for the year (Note 11)	-	11
Foreign exchange effects	(13,806)	5,779
	304,090	317,896

Debt securities issued by the Government in the amount of Denar 8,274,731 thousand include the amount of Denar 6,908,609 thousand (2015: Denar 6,493,345 thousand) relating to eligible bills issued by the Ministry of Finance of the Republic of Macedonia which can be traded on the secondary market with a maturity from six months up to one year and fixed interest rate from 2.20% p.a. to 2.60% % p.a. (2015: from 1.70% p.a. to 2.50% p.a.), as well as amount of Denar 1,366,122 thousand (2015: Denar 3,918,057 thousand) which relate to continued coupon government bonds issued by the state of Republic of Macedonia with maturity from February 2015 till October 2018 and fixed interest rate from 2.20% p.a. to 2.80% p.a.(2015: from 2% p.a. to 3.20% p.a.) being repayable in annual coupons.

19. PLACEMENTS WITH, AND LOANS TO BANKS

				In thousands of Denars
	Year ended December 31, 2016		**Year ended December 31, 2015**	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Loans to domestic banks	-	-	206	-
Loans to foreign banks	33,210	-	32,774	-
Other placements due from foreign banks	-	168,522	-	162,884
Interest receivable	517	-	217	-
	33,727	168,522	33,197	162,884
Less: Allowance for impairment	(23,934)	-	(23,879)	-
	9,793	168,522	9,318	162,884
	178,315		172,202	

The movement in the provision for impairment is as follows:

		In thousands of Denars
	December 31, 2016	**December 31, 2015**
Balance at the beginning of the year	23,879	22,526
Charge for the year (Note 11)	916	2,197
Release (Note 11)	(654)	(844)
Write off	(207)	-
Balance at the end of the year	23,934	23,879

Part of the loans to foreign banks amounting to Denar 21,284 thousand (2015: Denar 20,913 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 25).

Other placement due from foreign banks relate to restricted accounts of Denar 168,522 thousand (2015: Denar 162,884 thousand) which represent deposits held with Barclays' Bank and HSBC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Bank's daily operations.

20. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

	Year ended December 31, 2016		Year ended December 31, 2015 (In thousands of Denars)	
	Short-term	Long-term	Short-term	Long-term
Non-financial entities				
principal amount	13,980,944	10,817,658	14,377,781	10,744,037
interest receivable	77,542	-	93,822	-
State				
principal amount	1,456	323	1,488	522
interest receivable	1	-	2	-
Not-for-profit organizations				
principal amount	12	1,435	9	1,869
interest receivable	4	-	8	-
Households				
principal amount:				
- housing loans	318,946	8,977,505	299,034	8,600,750
- consumer loans	1,664,818	19,818,448	1,113,266	16,727,116
- auto loans	57,079	62,841	58,693	124,653
- credit cards	494,146	6,910,522	876,388	7,143,158
- other loans	173,429	1,721,884	172,241	1,630,438
interest receivable	118,189	-	107,839	-
Non-residents, except banks				
principal amount	841	978	602	304
interest receivable	-	-	120	-
Current maturity	10,311,506	(10,311,506)	5,569,508	(5,569,508)
	27,198,913	38,000,088	22,670,801	39,403,339
Total gross loans	65,199,001		62,074,140	
Provision for impairment	(5,151,669)		(5,086,076)	
	60,047,332		56,988,064	

The allowance for impairment presented represents total provision and relate to both, short-term and long-term loans to customers.

Movement in allowance for impairment is as follows:

	December 31, 2016	December 31, 2015 (In thousands of Denars)
Balance at the beginning of the year	5,086,076	5,081,549
Charge for the year (Note 11)	1,014,243	926,689
Release (Note 11)	(1,024,117)	(1,008,109)
Recoveries	299,224	285,330
Write off	(223,757)	(199,383)
Balance at the end of the year	5,151,669	5,086,076

20. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Agriculture and forestry	732,386	659,290
Mining and quarrying	254,646	124,206
Manufacturing	7,379,446	8,100,826
Electricity, gas, steam and air conditioning supply	1,842,674	2,228,050
Water supply; sewerage, waste management and remediation activities	30,683	35,584
Construction	1,541,778	1,522,055
Wholesale and retail trade; repair of motor vehicles and motorcycles	6,973,608	6,372,076
Transportation and storage	914,860	1,085,440
Accommodation and food service activities	638,651	536,508
Information and communication	184,356	222,284
Financial and insurance activities	5,640	6,256
Real estate activities	594,700	445,270
Professional, scientific and technical activities	260,757	390,351
Administrative and support service activities	104,495	-
Education	44,272	63,434
Human health and social work activities	49,590	31,000
Arts, entertainment and recreation	51,957	60,551
Other service activities	15,080	13,329
Individuals	38,427,753	35,091,554
	60,047,332	56,988,064

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Cash and cash equivalents or restricted accounts held in Bank	1,312,896	1,235,086
Government guarantees	1,257,570	1,427,877
Bank guarantees	15,585	23,405
Corporate guarantees	547,337	799,862
Property	26,050,067	25,561,362
Equipment and other movable assets	1,710,006	2,098,979
Other securities	1,593,439	1,216,239
Non-secured	27,560,432	24,625,254
	60,047,332	56,988,064

d) Risks and uncertainties

Management of the Bank has recorded provisions for impairment losses for all known and estimated risks as of the date of the financial statements. The Bank's portfolio contains a number of debtors whose ability to service and repay their debts has been impacted by economic developments in the Republic of Macedonia. The portfolio also contains a number of debtors that are involved in restructuring processes that are expected to lead to either partial or complete recoveries of the Bank's receivables. The receivables from such debtors were classified on the latest available information and the expected course of the restructuring process.

20. LOANS TO CUSTOMERS (Continued)

d) Risks and uncertainties (Continued)

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment for corporate loans and in the case of retail loans depending on the type of loan product. Depending on the classification of loans, management is maximizing efforts to realize collateral on a timely basis. In the event that this proves to be unsuccessful, additional provisions will need to be made in the future to provide for any possible shortfall.

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During 2016 and 2015, when the global financial crisis have enforceable to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital base through retaining the earnings.

The potential impact of the financial crises could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All of the above is focusing to protect and develop current and future customer/depositor base and achievements of the Bank's goals and objectives for 2016 and beyond.

Currently, the impact of the financial crisis has limited impact on the Bank's operations; however, future unfavorable developments in certain industry sectors may have impact on the customer's ability for loan's repayment, which may consequently have impact on the level of provision for loan losses. Any additional provision based on the above, if any, cannot be determined at this stage with any reasonably accuracy.

21. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars December 31, 2016	December 31, 2015
Foreclosed collateral		
Land	13,015	4,091
Buildings	787,747	735,925
Other	4,701	4,678
	805,463	744,694
Less: Allowance for impairment (Note 11)	(424,976)	(376,490)
	380,487	368,204

b) Other receivables and prepaid expenses

	In thousands of Denars December 31, 2016	December 31, 2015
Trade receivables	17,210	44,967
Prepaid expenses	19,893	5,184
Receivables for commission and fees	5,572	10,299
Advances to suppliers	3,206	610
Advances for property and equipment	3	136
Short term settlements of operations with credit cards	1,326	2,732
Receivables upon payments on foreign VISA credit cards on ATM	33,208	38,466
Receivables upon payments on foreign VISA credit cards in trade	19,262	13,024
Stock of material, plastic cards, coins and numismatic collection	39,619	23,331
Settlements upon transactions with VISA cards	-	5,903
Treasury shortage	9,652	6,292
Other receivables	14,761	15,492
	163,712	166,436
Less: Allowance for impairment	(45,348)	(38,622)
	118,364	127,814

The movement in the allowance for impairment in other receivables and prepaid expenses is as follows:

	In thousands of Denars December 31, 2016	December 31, 2015
Balance at the beginning of the year	38,622	43,006
Charge for the year (Note 11)	7,081	8,504
Release (Note 11)	(440)	(12,859)
Write off	85	(29)
Balance at the end of the year	45,348	38,622

22. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2015	190,321
Transfer from assets acquired through foreclosure procedure	46
Balance at December 31, 2015	190,367
Balance at January 1, 2016	190,367
Transfer from assets acquired through foreclosure procedure	14
Disposals	(6,071)
Balance at December 31, 2016	184,310
Accumulated depreciation	
Balance at January 1, 2015	11,110
Charge for the year	2,778
Other transfer	(1)
Balance at December 31, 2015	13,887
Balance at January 1, 2016	13,887
Charge for the year	2,578
Disposals	(3,327)
Balance at December 31, 2016	13,138
Impairment	
Balance at January 1, 2015	95,732
Charge for the year (Note 11)	4,839
Balance at December 31, 2015	100,571
Balance at January 1, 2016	100,571
Charge for the year (Note 11)	-
Balance at December 31, 2016	100,571
Carrying amount	
Balance at December 31, 2015	75,909
Balance at December 31, 2016	70,601

As of December 31, 2016, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

23. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold improvements	Other intangibles	Total
Cost				
Balance at January 1, 2015	634,318	128,643	1,828	764,789
Additions	24,529	21,498	2,902	48,929
Disposals	-	(4,711)	-	(4,711)
Transfer (Note 24)	9	7,540	(9)	7,540
Balance at December 31, 2015	658,856	152,970	4,721	816,547
Balance at January 1, 2016	658,856	152,970	4,721	816,547
Additions	49,567	12,961	-	62,528
Transfer (Note 24)	2,902	308	(2,902)	308
Balance at December 31, 2016	711,325	166,239	1,819	879,383
Accumulated amortization				
Balance at January 1, 2015	549,323	118,141	-	667,464
Charge for the year	27,545	7,971	-	35,516
Disposals	-	(4,330)	-	(4,330)
Balance at December 31, 2015	576,868	121,782	-	698,650
Balance at January 1, 2016	576,868	121,782	-	698,650
Charge for the year	30,646	9,154	-	39,800
Balance at December 31, 2016	607,514	130,936	-	738,450
Carrying amount				
Balance at December 31, 2015	81,988	31,188	4,721	117,897
Balance at December 31, 2016	103,811	35,303	1,819	140,933

24. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	Total
Cost				
Balance at January 1, 2015	1,158,534	1,240,738	11,281	2,410,553
Additions	31,167	62,063	2,293	95,523
Transfer (Note 23)	3,414	113	(11,067)	(7,540)
Disposals	-	(41,493)	-	(41,493)
Balance at December 31, 2015	1,193,115	1,261,421	2,507	2,457,043
Balance at January 1, 2016	1,193,115	1,261,421	2,507	2,457,043
Additions	25,296	88,157	8,713	122,166
Transfer (Note 23)	369	-	(677)	(308)
Disposals	(775)	(102)	-	(877)
Balance at December 31, 2016	1,218,005	1,349,476	10,543	2,578,024
Accumulated depreciation				
Balance at January 1, 2015	474,212	1,101,887	-	1,576,099
Charge for the year	28,862	43,017	-	71,879
Disposals	-	(41,432)	-	(41,432)
Balance at December 31, 2015	503,074	1,103,472	-	1,606,546
Balance at January 1, 2016	503,074	1,103,472	-	1,606,546
Charge for the year	29,765	54,157	-	83,922
Disposals	(480)	(102)	-	(582)
Balance at December 31, 2016	532,359	1,157,527	-	1,689,886
Carrying amount				
Balance at December 31, 2015	690,041	157,949	2,507	850,497
Balance at December 31, 2016	685,646	191,949	10,543	888,138

The Bank's buildings as of December 31, 2016 include property with a net carrying amount of Denar 8,356 thousand (2015: Denar 28,699 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2016 and 2015 the Bank's property and equipment are free of any pledges and mortgages.

25. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2016		December 31, 2015	
	Up to one year	Over one year	Up to one year	Over one year
Current accounts				
domestic banks	88,506	-	4,407	-
foreign banks	1,632,962	-	7,492	-
	1,721,468	-	11,899	-
Time deposits				
domestic banks	-	-	585,150	-
foreign banks	-	-	112,749	-
	-	-	697,899	-
Restricted deposits				
domestic banks	-	-	-	-
foreign banks	21,284	-	20,913	-
	21,284	-	20,913	-
Interest payable on deposits				
domestic banks	-	-	1,221	-
foreign banks	-	-	17	-
	-	-	1,238	-
Total deposits from banks	1,742,752		731,949	

The restricted deposits held with foreign banks amounting to Denar 21,284 thousand (2015: Denar 20,913 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 19).

26. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2016		December 31, 2015	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	8,823,207	-	8,249,414	-
Sight deposits	79,455	-	29,474	-
Time deposits	1,678,629	957,835	1,758,768	788,145
Restricted deposits	199,217	492,975	330,205	488,441
Other deposits	2,123	-	40,350	-
Interest payable on deposits	18,403	-	18,031	-
	10,801,034	1,450,810	10,426,242	1,276,586
State				
Current accounts	48,953	-	33,273	-
Time deposits	-	-	-	-
Restricted deposits	72	-	345	116
Interest payable on deposits	-	-	1	-
	49,025	-	33,619	116
Not-for-profit organizations				
Current accounts	475,528	-	440,354	-
Sight deposits	0	-	-	-
Time deposits	185,124	22,655	159,092	49,992
Restricted deposits	9,588	409	2,499	912
Interest payable on deposits	1,012	-	1,300	-
	671,252	23,064	603,245	50,904
Financial institutions, except banks				
Current accounts	57,605	-	54,623	-
Sight deposits	-	-	-	-
Time deposits	137,700	1,548,304	413,483	1,343,110
Restricted deposits	583	34,506	1	35,067
Interest payable on deposits	29,776	-	33,089	-
	225,664	1,582,810	501,196	1,378,177
Households				
Current accounts	14,765,750	-	12,729,102	-
Sight deposits	44,838	-	17,610	-
Time deposits	20,573,279	14,828,398	21,987,410	14,892,660
Restricted deposits	1,266,993	1,020,907	1,165,100	1,032,936
Interest payable on deposits	74,441	-	118,220	-
	36,725,301	15,849,305	36,017,442	15,925,596
Non-residents, except banks				
Current accounts	444,618	-	347,525	-
Sight deposits	47	-	5	-
Time deposits	205,694	234,585	241,964	238,032
Restricted deposits	28,138	18	56,767	18
Interest payable on deposits	512	-	6,304	-
	679,009	234,603	652,565	238,050
Current maturity	8,615,716	(8,615,716)	11,056,762	(11,056,762)
	57,767,001	10,524,876	59,291,071	7,812,667
Total deposits from customers	68,291,877		67,103,738	

27. LOANS PAYABLE

In thousands of Denars

	December 31, 2016		**December 31, 2015**	
	Up to one year	**Over one year**	**Up to one year**	**Over one year**
Domestic sources:				
Agency for assets management				
- long-term loan in amount of Denar 149,398 thousand (2015: Denar 149,398 thousand) is payable in January 2020 on a once off basis. Related fees for these loans are 1.5% p.a. annually.	203	149,398	194	149,398
Agency for undeveloped regions				
- Matured in 2015, interest rate of 3.9% p.a. annually (2015: 3.9% p.a.).	10,689	-	10,689	-
MBPR				
- Matures in 2023 and interest rate is equal to 1.0% p.a. annually (2015: 1% p.a.)	848	396,589	1,237	578,122
	11,740	545,987	12,120	727,520
Foreign sources:				
Other banks	-	-	-	5,957
	-	-	-	5,957
Current maturity of long-term loans	143,893	(143,893)	180,011	(180,011)
	155,633	402,094	192,131	553,466
Total loans payable	557,727		745,597	

28. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Unallocated cash receipts due to depositors and others	1,128,519	1,475,891
Accrued expenses	162,629	188,622
Preference shares	90,978	90,978
Income tax payable	61,410	76,451
Trade payables	12,974	56,899
Deferred revenue	69,299	47,633
Premature repayment of loans and other liabilities	119,855	27,538
Overpaid fees of credit cards	36,164	27,024
Obligations to merchants for outstanding payments on credit cards	23,667	21,791
Dividends payable for preferred shares	3,583	3,799
Claimed transactions with VISA cards	2,989	1,908
Fee and commissions liabilities	149	75
Custodian accounts (Note 33b)	(4)	(7)
	1,712,212	2,018,602

The Bank has issued 227,444 non-redeemable cumulative preference shares with a nominal value of Denar 400.

The preference shares give preferential rights for dividends and do not have voting rights and participation in equity in the event of a liquidation of the Bank.

As of December 31, 2016, the Bank allocated an amount of Denar 2,502 thousand as a dividend to the holders of these shares for the year 2016 (2015: Denar 2,729 thousand).

29. PROVISIONS

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2015	118,247	47,584	31,262	197,093
Additions	7,824	6,641	2,032	16,497
Used	-	(29,310)	(2,765)	(32,075)
Release	(8,911)	(199)	-	(9,110)
Balance at December 31, 2015	117,160	24,716	30,529	172,405

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2016	117,160	24,716	30,529	172,405
Additions	9,866	2,206	3,298	15,370
Used	-	(14,340)	-	(14,340)
Release	(97,233)	(3,022)	(1,771)	(102,026)
Balance at December 31, 2016	29,793	9,560	32,056	71,409

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

The principal actuarial assumptions used were as follows:

	2016	2015
Interest rate	3.90%	4.35%
Average salary increase	4.50%	4.50%
Inflation rate	2.50%	2.50%

Mortality rate:

From the study of the mortality rates in the last years, we have determined a representation of the expected current mortality in the Republic of Macedonia. We have used the Swiss mortality table, which is a reasonable approximation of the long-term mortality rate in the country.

30. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2016 and 2015 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

30. EQUITY (Continued)

a) Share capital (Continued)

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2016 and 2015 officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2016		December 31, 2015	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

Revaluation reserves include unrealized gains and losses arising from changes in the fair value of available-for-sale investments.

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Profits on available for sale financial assets, net	(315)	161
Service & interest income/(cost) related to defined benefits obligation	(117)	1,225
Other comprehensive income	(432)	1,386
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	(432)	1,386

c) Statutory reserve

In accordance with the local regulations, the Bank is required to set aside 5 percent of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/10 of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute.

d) Special fund

Special fund represent a fund set up based on the internal Bank's policy for various purposes broadly classified as restrictive.

31. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data in the earnings per share computations:

	December 31, 2016	December 31, 2015
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	2,503,589	2,243,589
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	143.4	128.5
Diluted earnings per share (in Denars)	143.4	128.5

32. RELATED PARTY TRANSACTIONS

Related parties include major shareholders, affiliates and jointly controlled entities, control/management with the Bank, or whose activities the Bank has an ability to control. All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

The significant related party balances and transactions are presented as follows:

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2016				
Assets				
Current accounts	3,823	5,374	805	10,002
Loans	-	8,516	-	8,516
	3,823	13,890	805	18,518
Liabilities				
Deposits	1,626,669	31,440	1,331	1,659,440
Other liabilities	16,163	-	2	16,165
	1,642,832	31,440	1,333	1,675,605
December 31, 2015				
Assets				
Current accounts	3,160	6,335	3,185	12,680
Loans	-	11,459	-	11,459
	3,160	17,794	3,185	24,139
Liabilities				
Deposits	-	21,067	114,101	135,168
	-	21,067	114,101	135,168

32. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2016				
Income				
Interest income	-	598	4	602
Fee and commission income	-	39	20	59
	-	637	24	661
Expenses				
Interest expense	-	661	305	966
Fee and commission expense	-	-	22	22
Other expenses	53,471	28,327	-	81,798
	53,471	28,988	327	82,786
December 31, 2015				
Income				
Interest income	-	695	1,022	1,717
Fee and commission income	-	42	20	62
	-	737	1,042	1,779
Expenses				
Interest expense	52,552	688	416	53,656
Fee and commission expense	-	-	22	22
Other expenses	34,467	26,212	-	60,679
	87,019	26,900	438	114,357

National Bank of Greece, Athens represents the parent and the ultimate parent company of the Bank. Other related party transactions relate to United Bulgarian Bank, Banca Romanesca S.A., NBG Cairo branch, NBG Bank Malta and Vojvodjanska Banka a.d. Novi Sad which are fellow subsidiaries of the NBG Group.

The total compensation and other transactions with key management personnel as follows:

In thousands of Denars

	December 31, 2016	December 31, 2015
Short-term compensation and benefits	28,312	26,212
	28,312	26,212

The Bank entered into banking transactions with key management personnel in the normal course of business.

33. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars	
	December 31, 2016	**December 31, 2015**
Payment guarantees:		
in Denars	938,171	917,889
in foreign currency	426,766	632,973
in Denars with foreign currency clause	405,765	479,061
Performance guarantees:		
in Denars	411,484	225,502
in foreign currency	42,540	81,121
in Denars with foreign currency clause	603,145	730,682
Letters of credit in foreign currency	62,026	40,751
Cash covered letter of credit	12,079	51,283
Cash covered letter of guarantees	299,166	333,104
Unused current account overdrafts	4,565,714	2,159,708
Credit cards commitments	6,081,797	6,053,014
Other	1,077	1,080
	13,849,730	11,706,168
Less: provision for off-balance sheet items (Note 31)	(29,793)	(117,160)
	13,819,937	11,589,008

b) Managed funds

The Bank administrates assets on a fee basis on behalf of customers. Such managed funds are not Bank's assets and are not recognized in the statement of financial position.

	December 31, 2016			December 31, 2015		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Loans in Denars	271,074	271,074	-	269,945	269,945	-
Loans in foreign currency	274,618	274,618	-	262,669	262,669	-
Other receivables in Denars	1,040,989	1,040,989	-	1,025,950	1,025,950	-
Other receivables in foreign currency	419,977	419,977	-	426,399	426,399	-
Custodian accounts (Note 30)	48,958	48,962	(4)	6,019	6,026	(7)
	2,055,616	2,055,620	(4)	1,990,982	1,990,989	(7)

In thousands of Denars

The Bank is not exposed to any credit risk in respect of the above placements, as it does not guarantee placements.

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2016 the provision for legal proceedings filed against the Bank amounted to Denar 9,560 thousand (2015: Denar 24,716 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations. During 2016, the Bank has allocated additional provisions for impairment losses upon litigation in the amount of Denar 2,206 thousand (2015: Denar 6,641 thousand).

33. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 3,191 thousand (2015: Denar 4,080 thousand).

The Bank as lessee

The payment for operating lease was recognized within other operating expenses and relate to business premises. Lease contracts are up to one year and have a clause stipulating a 30-days'notice period. Rental expense paid by the Bank amounting to Denar 57,430 thousand (2015: Denar 58,339 thousand).

The minimum future lease payments approximate the current rent expense level.

34. TAXATION RISK

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any additional circumstances, which may give rise to a potential material liability in this respect.

35. EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period to be reported.

36. EXCHANGE RATES

Official exchange rates used in the translation of the balance sheet items denominated in foreign currencies were as follows:

		In Denars
	2016	**2015**
1 USD	58.3258	56.3744
1 EUR	61.4812	61.5947