

**STOPANSKA BANKA AD - Skopje**

**Audited Financial Statements  
For the year ended December 31<sup>st</sup> 2017**

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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 the Methodology for recording and evaluating the accounting items provided by NBRM and for preparing the financial statements in accordance with the accounting standards applied in the Republic of Macedonia, which give a true and fair view of the state of affairs and 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 those financial statements, the responsibilities of the Management of the Bank include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgements 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 also ensure that the financial statements comply with accounting standards applied in the Republic of Macedonia. 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 Nikolettopoulos

Mrs. Milica Chaparovska - Jovanovska

Chief Executive Officer  
Chairman of the Board of Directors

Chief Retail Officer  
Member of the Board of Directors

Mr. Toni Stojanovski

Mr. Theodoulos Skordis

Chief Risk Officer,  
Member of the Board of Directors

Chief Corporate Officer  
Member of the Board of Directors

# TRANSLATION

## ***Independent Auditor Report***

*To the Supervisory Board and Shareholders of Stopanska Banka AD Skopje*

We have audited the accompanying financial statements of Stopanska Banka AD Skopje (the “Bank”), which comprise the statement of financial position as of 31 December 2017 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management’s responsibility for the financial statements**

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

### **Auditor’s responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## TRANSLATION

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2017, and of its financial performance and its cash flows for the year than ended in accordance with the regulations of the National Bank of the Republic of Macedonia.

### **Report on Other Legal and Regulatory Requirements**

Annual Report prepared by the Management in accordance with the requirement of the Company Law, article 384.

Management is responsible for the preparation of the Annual Accounts and Annual Report of the Bank, which are approved by the Supervisory Board.

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by the Management of the Bank in accordance with article 384 of the Company Law is consistent in all material respects with the financial information presented in the Annual Accounts and audited Financial Statements of the Bank, as of and for the year ended 31 December 2017.

Ljube Gjorgjievski  
General Manager

Ljube Gjorgjievski  
Certified Auditor

PRICEWATERHOUSECOOPERS REVIZIJA DOO - Skopje

Skopje, 18 April 2018

## TRANSLATION

### INCOME STATEMENT

for the period from January 1, 2017 to December 31, 2017

(In thousands of Denars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Interest income		4,430,735	4,526,636
Interest expense		(753,373)	(889,519)
<b>Net interest income (expenditures)</b>	6	<b>3,677,362</b>	<b>3,637,117</b>
Fee and commission income		1,076,297	1,052,579
Fee and commission expense		(94,462)	(100,964)
<b>Net fee and commission income (expenditures)</b>	7	<b>981,835</b>	<b>951,615</b>
Trading income, net	8	1,426	66,350
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	107,673	114,899
Other operating income	11	530,890	338,654
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(932,144)	(490,974)
Impairment losses on non-financial assets, net	13	(110,306)	(154,022)
Personnel expenses	14	(801,066)	(795,313)
Depreciation and amortization	15	(136,776)	(125,113)
Other operating expenses	16	(1,035,162)	(1,039,492)
Share in the loss of associated companies	24	-	-
<b>Profit before tax</b>		<b>2,283,732</b>	<b>2,503,721</b>
Income tax	17	(239,612)	(263,930)
<b>Net profit for the year</b>		<b>2,044,120</b>	<b>2,239,791</b>
<b>Earnings per share</b>	41		
Basic earnings per share (in MKD)		117.07	128.27
Diluted earnings per share (in MKD)		117.07	128.27

The accompanying notes from page 12 to 132  
are an integral part of these financial statements.

The financial statements were approved by the Banks's Board of Directors on April 27, 2018 and adopted by the Bank's Supervisory Board on April 27, 2018.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos  
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

## TRANSLATION

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the period from January 1, 2017 to December 31, 2017**  
**(In thousands of Denars)**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>Profit / (loss) for the financial year</b>		2,044,120	2,239,791
<b>Other profit/ (losses) in periods not shown in the Income Statement (before taxation)</b>			
Revaluation reserve for assets available-for- sale			
- unrealized net- changes in fair value of assets available-for sale		512	(314)
- realized net-profit/(losses) from assets available for sale, reclassified in the Income Statement		-	-
Revaluation reserve for assets taken on the basis of outstanding claims			
- revaluation reserve at the date of acquisition of the asset		131,292	100,562
- reduction in the revaluation reserve reclassified in the Income Statement		-	-
Reserves for cash flow risk protection instruments			
- unrealized net- changes in fair value of cash flow risk protection instruments		-	-
- realized net-profit/(losses) from cash flow risk protection instruments, reclassified in the Income Statement		-	-
Reserve for instruments to protect against the risk of net investments in foreign operations		-	-
Reserve of foreign exchange differences from investment in foreign operations		-	-
Share in other gains / (losses) of affiliated companies not shown in the Income Statement	24	-	-
Other gains / (losses) not shown in the Income Statement		-	(6,407)
Income tax from other gains / (losses) not shown in the Income Statement	17	-	-
<b>Total other gains / (losses) in the periods not shown in the Income Statement</b>		<b>131,804</b>	<b>93,841</b>
<b>Comprehensive income /(loss) for the financial year</b>		<b><u>2,175,924</u></b>	<b><u>2,333,632</u></b>

The accompanying notes from page 12 to 132  
are an integral part of these financial statements.

The financial statements were approved by the Bank's Board of Directors on 27 April, 2018 and adopted by the Bank's Supervisory Board on April 27, 2018.

Signed on behalf of Stopanska Banka AD - Skopje:

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Chief Executive Officer  
Chairman of the Board of Directors

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Chief Corporate Officer  
Member of the Board of Directors

**BALANCE SHEET****As at December 31, 2017****(In thousands of Denars)**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
Cash and cash equivalents	18	17,901,316	17,567,743
Trading financial assets	19	3,676	2,251
Financial assets at fair value through Income Statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	159,539	178,315
Loans to customers	22.2	60,657,198	58,654,991
Investments in securities	23	6,230,521	8,351,655
Investments in associates	24	-	-
Income tax receivable (current)	30.1	6,899	-
Other receivables	25	178,479	147,577
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	201,412	191,936
Intangible assets	28	104,663	105,630
Property and equipment	29	907,473	953,242
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
<b>Total assets</b>		<b><u>86,351,176</u></b>	<b><u>86,153,340</u></b>
<b>LIABILITIES</b>			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through Income Statement determined as such at initial recognition	33	-	-
Derivative obligations held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	82,470	1,742,752
Deposits from customers	34.2	70,880,438	68,291,877
Issued debt securities	35	-	-
Borrowings	36	409,410	557,727
Subordinated debt	37	-	-
Special reserve and provisions	38	132,048	173,481
Income tax payable (current)	30.1	-	61,410
Deferred tax liabilities	30.2	-	-
Other liabilities	39	1,213,031	1,650,795
Liabilities directly related to disposal group of assets	31	-	-
<b>Total liabilities</b>		<b><u>72,717,397</u></b>	<b><u>72,478,042</u></b>

**BALANCE SHEET (continued)**  
**As at December 31, 2017**  
(In thousands of Denars)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>EQUITY AND RESERVES</b>			
Subscribed capital	40	3,511,242	3,511,242
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves	40	200,120	68,316
Other reserves	40	831,373	831,373
Retained earnings		9,091,044	9,264,367
<b>Total equity and reserves</b>		<b><u>13,633,779</u></b>	<b><u>13,675,298</u></b>
<b>Total liabilities and equity and reserves</b>		<b><u>86,351,176</u></b>	<b><u>86,153,340</u></b>
		-	-
Contingent liabilities	42	14,321,606	13,717,866
Contingent assets	42	-	-

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Chief Retail Officer  
Member of the Board of Directors

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Chief Risk Officer  
Member of the Board of Directors

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

**STATEMENT OF CHANGES IN EQUITY AND RESERVES**  
 for the period from January 1, 2017 to December 31, 2017

(In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on outstandings	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2013 / January 1, 2016	3,511,242	-	-	-	(25,560)	35	-	-	-	830,290	-	1,083	3,875,092	5,925,652	-	14,117,834
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	2,239,791	-	-	2,239,791
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	(314)	94,155	-	-	-	-	-	-	-	-	-	93,841
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total unrealized profit/(loss) recognized in the equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive profit/(loss) for the financial year</b>	-	-	-	-	(314)	94,155	-	-	-	-	-	-	2,239,791	-	-	2,333,632
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(2,776,168)	-	-	(2,776,168)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Transactions with shareholders, recognized in the equity and reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	(2,776,168)	-	-	(2,776,168)
<b>On December 31, 2016</b>	<b>3,511,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,874)</b>	<b>94,190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>830,290</b>	<b>-</b>	<b>1,083</b>	<b>3,338,715</b>	<b>5,925,652</b>	<b>-</b>	<b>13,675,298</b>

**STATEMENT OF CHANGES IN EQUITY AND RESERVES**  
 for the period from January 1, 2017 to December 31, 2017

(In thousands of Denars)

	Equity			Revalued reserves					Other reserves			Retained earnings		(Accumul ated losses)	Total equity and reserves	
	Subscribed capital	Share premi um	(Treasury shares)	Other equity instru- ments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on oustandigs claimes	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital compone nt of hybrid financial instrume nts	Other reserves	Available for distribution to shareholders			Limited for distribution to shareholders
As at December 31, 2016/ January 1, 2017	<b>3,511,242</b>	-	-	-	<b>(25,874)</b>	<b>94,190</b>	-	-	-	<b>830,290</b>	-	<b>1,083</b>	<b>3,338,715</b>	<b>5,925,652</b>	-	<b>13,675,298</b>
Comprehensive income/(loss) for the financial year																
Profit /(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	2,044,120	-	-	2,044,120
Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	512	131,292	-	-	-	-	-	-	-	-	-	131,803
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net- investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized profit /(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive profit /(loss) for the financial year	-	-	-	-	<b>512</b>	<b>131,292</b>	-	-	-	-	-	-	<b>2,044,120</b>	-	-	<b>2,175,924</b>
Transactions with shareholders, recognized in the equity and reserves																
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(2,217,443)	-	-	(2,217,443)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	<b>(2,217,443)</b>	-	-	<b>(2,217,443)</b>
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	<b>(2,217,443)</b>	-	-	<b>(2,217,443)</b>
<b>On December 31, 2017</b>	<b>3,511,242</b>	-	-	-	<b>(25,362)</b>	<b>225,482</b>	-	-	-	<b>830,290</b>	-	<b>1,083</b>	<b>3,165,392</b>	<b>5,925,652</b>	-	<b>13,633,779</b>

The accompanying notes from page 12 to 132 are an integral part of these financial statements.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Diomidis Nikolettopoulos  
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  
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Mr. Theodoulos Skordis  
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Member of the Board of Directors

STATEMENT OF CASH FLOW  
for the period from January 1, 2017 to December 31, 2017 (In thousands of Denars)

	Note	2017	2016
<b>Cash flow generated from operating activities</b>			
<b>Profit before taxation</b>		2,283,732	2,503,721
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	34,761	30,646
- property and equipment	15/29	102,015	94,467
Capital gain on sale of:			
- intangible assets		-	-
- property and equipment	11	(19,659)	(651)
- assets acquired through foreclosures	11	(47,612)	(30,314)
Capital loss on sale of:			
- intangible assets		-	-
- property and equipment		2	-
- assets acquired through foreclosures	16	-	-
Interest income	6	(4,430,735)	(4,526,636)
Interest expense	6	753,373	889,519
Net trading expense / (income)	8	(1,426)	(66,350)
Impairment losses of financial assets, on a net basis			
- Additional impairment losses	12	1,491,208	1,117,108
- Release of impairment losses	12	(559,064)	(626,134)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	110,774	154,022
- Release of impairment loss		(468)	-
Special reserves:			
- additional provisions	38	37,966	56,281
- release of provisions	38	(76,795)	(36,378)
Dividend income		(5,723)	(5,022)
Share in profit/(loss) of associates			
Other rectifications – gains from sale of available for sale assets	11	(95,161)	3,816
Interest received		4,447,224	4,532,691
Interest paid		(741,518)	(942,359)
<b>Operating profit before changes in operating assets</b>		<b>3,282,894</b>	<b>3,148,427</b>
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		(1,425)	327,730
Derivative assets held for risk management			
Due from banks and financial institutions		18,777	(6,113)
Loans to customers		(2,934,351)	(3,565,397)
Pledged assets			
Assets acquired through foreclosure proceedings		(9,476)	97,087
Reserve requirements in foreign currency		127,143	(78,664)
Obligatory deposit with NBRM in accordance with special legislative		-	-
Other receivables		(30,902)	26,855
Deferred tax assets		-	-
Non-current assets held for sale and disposal group		-	-
<i>Increase/(decrease) of operating liabilities:</i>			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks and financial institutions		(1,660,282)	1,010,803
Deposits from customers		2,588,561	1,240,940
Other liabilities		(437,765)	(305,685)
Liabilities directly related to group of assets for disposal		-	-

<b>Net cash flows (used in)/ generated from operating activities before tax</b>	<b>943,174</b>	<b>1,895,983</b>
(Paid)/Received on income tax	(246,509)	(278,971)
<b>Net cash flows (used in)/ generated from operating activities</b>	<b>696,665</b>	<b>1,617,012</b>

**STATEMENT OF CASH FLOW (continued)**  
**for the period from January 1, 2017 to December 31, 2017**  
**(In thousands of Denars)**

<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from investing activities</b>		
(Investments in securities)	(5,998,787)	(9,642,476)
Inflows from sale of investments in securities	8,107,654	11,695,010
(Outflows for investments in subsidiaries and affiliates)	-	-
Inflows from sale of investments in subsidiaries and affiliates	-	-
(Acquisition of intangible assets)	(33,795)	(49,566)
Inflows from sale of intangible assets	-	-
(Acquisition of property and equipment)	(70,655)	(134,498)
Inflows from sale of property and equipment	7,205	2,509
(Outflows for non-current assets held for sale)	-	-
Inflows from non-current assets held for sale	-	-
(Other outflows from investing activities)	-	-
Other inflows from investing activities	67,271	30,314
<b>Net cash flows from investing activities</b>	<b>2,078,893</b>	<b>1,901,293</b>
<b>Cash flows from financing activities</b>		
(Repayment of issued debt securities)	-	-
Inflows from issued debt securities	-	-
(Repayment of loan payables)	(148,492)	(621,763)
Increase in loan payables	-	437,000
(Repayment of issued subordinated debt)	-	-
Inflows from issued subordinated debt	-	-
Inflows from issued shares/equity instruments within the period	5,723	5,022
Acquisition of treasury shares)	-	-
Disposal of treasury shares	-	-
(Paid dividends)	(2,226,939)	(2,746,054)
(Other outflows from financing activities)	-	-
Other inflows from financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>(2,369,708)</b>	<b>(2,925,795)</b>
Effects from allowance for impairment of cash and cash equivalents	-	-
Effects from foreign exchange gains/losses of cash and cash equivalents	-	-
<b>Net-increase/(decrease) of cash and cash equivalents</b>	<b>405,850</b>	<b>592,510</b>
Cash and cash equivalents as at January 1	14,627,532	14,035,022
<b>Cash and cash equivalents as at December 31</b>	<b>15,033,382</b>	<b>14,627,532</b>

The accompanying notes from page 12 to 132  
are an integral part of these financial statements.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Diomidis Nikolettopoulos  
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

Mr. Theodoulos Skordis  
Chief Corporate Officer

Member of the Board of Directors

Member of the Board of Directors

## 1. INTRODUCTION

### a) 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 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 66 branches (2016: 66 branches).

The Bank is registered as a universal type of commercial bank in accordance with Macedonian laws. The principal activities of the Bank are as follows:

- 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, traveller'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, headquartered in Greece, which owns 94.64% (2016:94.64%) of the capital of the Bank and represents its ultimate parent company.

The shares of the Bank quote at the Official market of the Macedonian Stock Exchange, sub segment Mandatory Listing, and the code under which they are quoted is:

Code of the security

ISIN number

STB (common share)  
STBP (preferred share)

MKSTBS101014  
MKSTBS120014

## 1. INTRODUCTION (continued)

### a) General Information (continued)

The financial statements of the Bank for the year ended December 31, 2017 were approved by the Bank's Board of Directors on January 26, 2018 and adopted by the Bank's Supervisory Board on January 30, 2018.

### b) Basis of preparation of the financial statements

#### Accounting standards for preparation of the financial statements

The financial statements of the Bank have been prepared in accordance with the Company Law, Law on Banks, the bylaws issued by the National Bank of Republic of Macedonia (hereinafter referred to as "NBRM"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter referred to as "Methodology") ("Official Gazette of RM" no. 169/10, 165/12, 50/13 and 110/13) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no.169/10, 152/11, 54/12 and 166/13), as prescribed by the NBRM, applicable since December 31, 2011.

In June 2017, the National Bank of the Republic of Macedonia amended and supplemented, and subsequently published a completely new „ Decision on the methodology for recording and valuation of accounting items and preparation of financial statements “, together with the Appendix to the Decision - „ on the methodology for recording and valuation of accounting items and preparation of financial statements “ („Official Gazette of the Republic of Macedonia“ No. 83/17). This Decision shall come into force as at January 1, 2018.

In June 2017, the National Bank of the Republic of Macedonia amended and supplemented, and published a completely new „ Decision on the types and contents of banks' financial statements and the notes to the statements“, including the Appendix to the Decision - „Financial Statements“ („Official Gazette of the Republic of Macedonia“ No. 83/17). This Decision shall come into force as at January 1, 2018.

#### Presentation of financial statements

The accompanying financial statements of the Bank have been presented in accordance with the prescribed form and contents of the balance sheet schemes prescribed in the Decision on the types and contents of banks' financial statements ("Official Gazette of RM"no. 169/2010, 152/2011, 54/2012 and 166/2013), (hereinafter referred to as "Decision").

The Bank management estimates the effects of the changes in IAS, new IFRS and their interpretations on the financial statements as well as the requirements for the form and contents of certain balance sheet schemes under the Decision and the valuations of assets, liabilities, revenues and expenses under the Methodology requirements..



**1. INTRODUCTION (continued)****b) Basis of preparation of the financial statements(continued)****Presentation of financial statements (continued)**

These financial statements have been prepared under the historical cost principle, except for the valuation of investment in financial assets available for sale which have been stated at fair value, as well as other financial assets and financial liabilities which have been stated at fair value through the profit and loss under the going concern assumption.

The presentation of the financial statements in conformity with the accounting standards applied in the Republic of Macedonia requires the Bank management to make the best possible estimates and reasonable assumptions that affects the presented values of assets and liabilities, as well as the revenues and expenses arising within the reporting period. These estimates and 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 for estimation of the carrying amounts of assets and liabilities for which no other data is available. Actual results may differ from these estimates.

The presented financial statements are expressed in thousands of Macedonian Denars. The Denar represents functional and reporting currency of the Bank for reporting purposes to NBRM.

The estimates and assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if it affects only that period, or in the period of estimation and future periods if the revised estimation affects both current and future periods.

Information regarding the significant areas of estimation uncertainty and critical estimates in applying the accounting policies with the most significant impact on the amounts disclosed in the financial statements are described in Note 1.d) to the financial statements.

The Bank's financial statements are prepared in accordance with the accounting policies disclosed in Note 1.c) to the financial statements.

The accompanying financial statements are the Bank's stand-alone financial statements.

**c) Significant accounting policies****Interest income and expense**

Interest income and expense are recognized in the Profit and loss for all interest-bearing instruments on an accrual basis, measured at amortized cost using the effective interest rate method.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)**

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.

**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. 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.

**Dividend income**

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

**Foreign exchange translation**

Transactions denominated in foreign currencies have been translated into Denars at exchange rates set by the NBRM at dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the end of reporting period 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 profit and loss in the period in which they occur.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the end of reporting period.

**Financial assets**

Financial assets are classified into the following specified categories: securities held-for-trading, 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 the trade date where the purchase or sale of an investment is under a contract which terms require delivery of the investment within the agreed timeframe.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Securities held-for-trading**

Securities held-for-trading, which comprise bonds issued in local currency by the Ministry of Finance and equity securities issued by banks, are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at cost and subsequently measured at fair value as determined by their market price.

All the respective realized and unrealized gains and losses are included in the net trading income. Interest, if realized during the held-for-trading securities, is recorded as interest income. The sale of securities held-for-trading is recognized on the trading date, which is the date when the Bank is obliged to buy or sell the asset.

**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 cost, 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.

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is sold or impaired at which time the cumulative unrealized gain or loss previously recognized in equity should be recognized in net profit or loss for the period. However, interest calculated using the effective interest rate method, as well as contingent impairment losses and foreign exchange gains and losses are recognized in the profit and loss.

**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 determines to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. These securities are measured at amortized cost using the effective interest rate method.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Loans originated by the Bank**

Loans originated by the Bank include loans where cash is provided directly to the customer. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost by 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 allowance for impairment.

**Impairment of financial assets**

The Bank assesses at each end of reporting period 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 profit and loss. Impairment losses recognized in the profit and loss on equity instruments are not reversed through the profit and loss. 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 profit and loss.

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.

**Impairment losses on loans and advances**

Allowances for impairment and uncollectability 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 increase the credit limit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items it is presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the profit and loss.

## 1. INTRODUCTION (continued)

### c) Significant accounting policies (continued)

#### Impairment losses on loans and advances (continued)

The allowances for impairment and uncollectability of loans and advances and for other active on-balance sheet and off-balance sheet items, are determined in accordance with the regulations prescribed by the NBRM ruling on each end of reporting period, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet items into groups on the basis of the degree (size) of the risk and assess the amount of potential impairment losses which are calculated by applying objective and subjective metrics, as of December 31, 2017 and December 31, 2016 by applying the following percentages:

<u>Risk category</u>	<u>Percentage</u>
A	0%-5%
B	5%-20%
C	20%-45%
D	45%-70%
E	70%-100%

The allowances for impairment and uncollectability are determined on the basis of the degree (size) of the risk of uncollectability or specific country risk on the basis of the following principles:

- Separate 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 uncollectability 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 uncollectability in the loan portfolio that may not be identified on a specific basis, the allowances for impairment and uncollectability are determined at level of risk for the overall loan portfolio. These losses are determined at historical principle for the loan classification of customers and express the current economic environment of the customers.
- Losses on impairment and uncollectability 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 uncollectability are reviewed and tested at least once a quarter, and any further changes in the amount and timing of expected future cash flows in comparison with previous assessments result in changes in allowances for losses on impairment and uncollectability recorded as credit or debit of impairment losses in the profit and loss.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Impairment losses on loans and advances (continued)**

- The loan which is believed that is impossible to be collected is written off against the relevant allowance for losses on impairment and uncollectability. Bank writes off the credit exposure if passed two years from the date when the bank was obliged to impairment or allocate special reserve of 100%." Further collections are recorded as reduction of losses on impairment and uncollectability in the profit and loss.
- In case of loans granted to borrowers in countries with increased risk of difficulties for servicing external debt, the political and economic circumstances are assessed and additional allowances for sovereign risk are allocated.

**Derecognition of financial assets**

The Bank derecognizes financial assets when the rights to receive cash from the financial asset have expired or have been transferred to another entity, thus transferring as well substantially all the risks and rewards of ownership of the assets.

**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, loans payable, other payables and derivative financial instruments.

**Deposits from banks and other financial institutions and clients**

These financial liabilities are initially recognized at fair value net of transaction costs incurred, and they are subsequently measured at amortized cost.

**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 profit and loss 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.

**Derivative financial instruments**

The derivative financial instruments include contractual agreements subject to exchange rate fluctuations and are initially and subsequently valued at fair value. These contracts are not qualified for hedging accounting in accordance with the specific criteria of IAS 39 – “Financial instruments: recognition and measurement” and are accordingly treated as derivative instruments held for trading, i.e. gains and losses are recognized in net trading income.

## 1. INTRODUCTION (continued)

### c) Significant accounting policies (continued)

#### Derecognition of financial liabilities

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

#### 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 profit and loss 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 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 reviews its property and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

#### Intangible assets

Intangible assets are assets acquired separately and are recorded at cost less accumulated amortization and accumulated impairment losses, if such exists. Intangible assets include computer software acquired apart from hardware. Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The Bank annually reviews the carrying amounts of its intangible assets and assesses 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, it is written down to the recoverable amount.

The Bank’s management regularly reviews the carrying amounts of its 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. The impairment loss is recognized as an expense in the current period. The reversal of an impairment loss is immediately recognized as income.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Assets acquired through foreclosure proceedings**

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in foreclosed assets. Initially, these assets are measured at the initial carrying amount i.e. lower value than 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 appraiser on the date of asset foreclosure. For all assets undertaken after April 6, 2013 the Bank recorded at initial recognition and impairment of at least 20% of the lower of cost and estimated value of the foreclosed asset. If the impairment of loan that is paid by foreclosing assets is higher than 20% of the initial value of the foreclosed asset, the difference is recognized in the revaluation reserves of the Bank.

After initial recognition, foreclosed assets, at least annually are reviewed for impairment and are measured at the lower of 80% of the previous carrying value and the estimated value less estimated costs to sell. Impairments are recognized in the income statement of the Bank.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and nostro accounts, which represent demand deposits and placements with other banks and financial institutions, 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.

**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 customers. 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.

**Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and 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 end of reporting period, 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.

**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Employment benefits**

Health, pension and social insurance contributions from gross and net 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 its employees a termination severance upon retirement in the amount of two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of previously recognized assets (there are currently no previous assets recognized), together with adjustments for unrecognized actuarial gains or losses less past service costs which are not recognized yet. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method.

**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.

**Leases**

The Bank rents and leases out assets as operating lease. Rental income and expenditures from investment property is recognized in the profit and loss on a straight-line basis over the term of the lease.

**1. INTRODUCTION (continued)****d) 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 is determined by 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 standardize models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, and 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.

There is no sufficient market experience, stability and liquidity in the Republic of Macedonia for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are at present not readily available.

The Management assesses the 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 a monthly basis. In determining whether an impairment loss should be recorded in the profit and loss, 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. The Bank 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.

## 1. INTRODUCTION (continued)

### d) Critical accounting judgments and estimates (continued)

#### Useful lifetime of tangible and intangible assets

The Bank 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 expenses that may occur in the Bank, depend on actual future experience and in particular change in discount rate and increase in salaries. Other factors will also change the overall liability in this matter such as the number of employees leaving service before the retirement and the number of new employees.

### e) Change of accounting policies, accounting estimates and correction of errors

Except as stated in Note 1.b), there are no changes in the accounting policies, accounting estimates or correction of errors in these financial statements. As mentioned in Note 1.b) in the section Presentation of financial statements, certain Notes in the accompanying financial statements are presented in compliance with the presentation method by the Decision.

### f) Compliance with legislation

The accompanying financial statements are compliance with the regulations prescribed by the Central Bank which is in force on each date of the balance sheet.

- In January 2017, NBRM Report was delivered on conducted on-site supervision within the period from 21 November 2016 to 22 December 2016 regarding implementation of regulations related to foreign exchange operations. The delivered Supervision Report did not contain any findings, but only recommendations that were successfully removed and implemented in the Bank operations.
- Within the period from 20 to 24 February 2017, NBRM conducted on-site supervision regarding the Bank responsiveness to measures pronounced by NBRM according to Recommendation I.no.167 dated 12 August 2016, except the measures with identified compliance status by off-site supervision, and measures related to physical security and IT risk, the status of which was not supervised. The delivered Supervision Report dated May 2017 did not identify any findings, but only specific partial compliance and recommendations, which were successfully removed and implemented in the Bank operations.
- Starting from 22 November 2017 until 22 December 2017, NBRM conducted on-site supervision regarding implementation of regulations related to foreign exchange operations. As at 31.12.2017, the Supervision Report was not delivered to the Bank and it is expected to be delivered in the second quarter of 2018.



**1. INTRODUCTION (continued)**

**g) Risk management disclosure**

Qualitative and quantitative information in respect of the separate types of risks are provided in Notes 2 and 3.

**h) Events after the Balance Sheet date**

The Bank has no significant events after the balance sheet date for which an adjustment in the financial statements will be made.

## 2. RISK MANAGEMENT

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. Therefore, the Bank's aim is 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 analyse 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 in order to reflect the changes in markets, products and the best practices.

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, Executive and Senior Management, as well as between the Bank and NBG Group, its clients and all other related parties. 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 strategy, ascertaining the Bank's risk definitions, profile and aspirations, 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, Executive and Senior Management. These include the approval 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.
- Operational (business line) level which involves management of risks at the point of direct performance of the Bank's activities. The relevant activities are performed by individuals who undertake risk on behalf of the organization. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant policies, procedures and guidelines defined by the management.

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

### 2.1 Credit 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 customer'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).

## **2. RISK MANAGEMENT (continued)**

### **2.1 Credit risk (continued)**

#### **2.1.1 Credit risk measurement, limits and mitigation policies**

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure 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 impairment for potential losses, commitments and contingencies and it is mainly based on reports and analysis prepared by relevant organization units of the Bank. The Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The Bank has internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of corporative clients to which the Bank is exposed to is reviewed at least on semi-annual basis. The Bank has implemented a system of early warning signals for the purpose of identifying timely possible downward trends in the client's creditworthiness and for mitigating the 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 and equity securities;
- Pledges over movables such as automobiles and equipment and other;

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits regarding an individual borrower, related parties, exposure to Bank internal persons, and large exposures, exposures by business sectors as well as other internal limits are set in the Risk Strategy, as well as in the Policies and Procedures regulating the credit risk management. 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.

#### **2.1.2 Impairment and provisioning policies**

The impairment losses are identified losses of the Bank credit portfolio that incurred until the end of reporting period 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.

## **2. RISK MANAGEMENT (continued)**

### **2.1 Credit risk (continued)**

#### **2.1.2 Impairment and provisioning policies(continued)**

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

Impairment provision of individually assessed items on individual base are determined by evaluation of generated loss on the end of reporting period, which represents difference between the carrying and current value of projected future cash flows. Effective interest rate is used at discounting the future cash flows that include also the collateral value.

All non-performing loans are also covered by the impairment on an individual basis.

Calculated impairment provision moves within the following limits:

- 0-5% of credit risk exposure classified into A risk category
- 5-20% of credit risk exposure classified into B risk category
- 20-45% of credit risk exposure classified into C risk category
- 45-70% of credit risk exposure classified into D risk category
- 70-100% of credit risk exposure classified into E risk category

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## A. Analysis of maximum exposure to credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	
I. Carrying amount of exposures for which an allowance for impairment/special reserve has been allocated																			
<i>Carrying amount of separate significant exposures before the allowance for impairment and special reserve on an individual basis</i>			56,080,94	53,943,42						11,129,18							76,907,01	78,783,74	
A risk category	159,539	178,315	1	4	6,223,970	8,345,104	-	-	9,206,786	0	3,189	5,040	26,596	5,521	5,205,990	5,177,164	1	8	
B risk category	-	-	2,731,823	3,163,148	7,355	7,355	-	-	-	-	42	887	217	648	98,434	105,132	2,837,871	3,277,170	
C risk category	-	-	964,100	1,253,422	-	-	-	-	-	-	686	1,446	1,999	219	14,706	30,305	981,491	1,285,392	
D risk category	-	-	1,142,359	222,532	-	-	-	-	988	3,825	7,553	3,238	29,988	115	124,162	208,655	1,305,050	438,365	
E risk category	16,366	23,934	2,663,714	2,631,510	96,279	99,233	-	-	-	-	25,170	18,592	18,796	18,092	-	2,000	2,820,325	2,793,361	
	175,905	202,249	63,582,93	61,214,03	6,327,604	8,451,692	-	-	9,207,774	5	36,640	29,203	77,596	24,595	5,443,292	5,523,256	8	6	
(Allowance for impairment and special reserve on an individual basis)	(16,366)	(23,934)	(3,584,751)	(3,262,123)	(97,083)	(100,037)	-	-	(445)	(1,726)	(28,535)	(20,462)	(33,410)	(19,542)	(77,588)	(123,440)	(3,838,178)	(3,551,264)	
<b>Carrying amount of separate significant exposures less the allowance for impairment and special reserve on an individual basis</b>	<b>159,539</b>	<b>178,315</b>	<b>59,998,18</b>	<b>57,951,91</b>	<b>6,230,521</b>	<b>8,351,655</b>	<b>-</b>	<b>-</b>	<b>9,207,329</b>	<b>9</b>	<b>8,105</b>	<b>8,741</b>	<b>44,186</b>	<b>5,053</b>	<b>5,365,704</b>	<b>5,399,816</b>	<b>81,013,57</b>	<b>83,026,77</b>	
			<b>6</b>	<b>3</b>													<b>0</b>	<b>2</b>	

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
<i>Carrying amount of exposures assessed on a group basis before the allowance for impairment and the special reserve on a group basis</i>																			
- separate insignificant exposures (small loans portfolio)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- separate significant exposures not impaired on a separate basis	-	-	665,457	713,329	-	-	-	-	-	-	-	-	210	-	5,462,428	5,599,671	6,128,095	6,313,000	
(Allowance for impairment and special reserve on a group basis)	-	-	(6,445)	(10,251)	-	-	-	-	-	-	-	-	-	-	(4,210)	(8,424)	(10,655)	(18,675)	
<b>Carrying amount of exposures assessed on a group basis less the allowance for impairment and special reserve on a group basis</b>	-	-	<b>659,012</b>	<b>703,078</b>	-	-	-	-	-	-	-	-	<b>210</b>	-	<b>5,458,218</b>	<b>5,591,247</b>	<b>6,117,440</b>	<b>6,294,325</b>	

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	
	II. Carrying amount of exposures for which there has been no allowance for impairment/special reserve allocated																		
mature receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Maturity structure of mature receivables for which no allowance for impairment has been allocated up to 30 days</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of mature receivables for which no allowance for impairment has been allocated</i>																			
non-mature receivables																			
Restructured receiv.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of non-mature receivable for which no allowance for impairment has been allocated</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016
	Total carrying amount of receivables with credit risk before the allowance for impairment and the special reserve	175,905	202,249	64,248,394	61,927,365	6,327,604	8,451,692	-	-	9,207,774	11,133,005	36,640	29,203	77,806	24,595	10,905,720	11,122,927	90,979,843
(Total allowance for impairment and special reserve)	(16,366)	(23,934)	(3,591,196)	(3,272,374)	(97,083)	(100,037)	-	-	(445)	(1,726)	(28,535)	(20,462)	(33,410)	(19,542)	(81,798)	(131,864)	(3,848,833)	(3,569,939)
Total carrying amount of receivables with credit risk less the allowance for impairment and special reserve	159,539	178,315	60,657,198	58,654,991	6,230,521	8,351,655	-	-	9,207,329	11,131,279	8,105	8,741	44,396	5,053	10,823,922	10,991,063	87,131,010	89,321,097

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## B. Value of collateral (fair value) for mitigating of credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016
<i>Value of collateral of the credit exposure assessed for impairment on an individual basis</i>																
First-class collateral instruments:																
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	1,904,025	1,810,171	-	-	-	-	-	-	-	-	227,553	368,034	2,131,578	2,178,205
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	1,844,721	1,844,436	-	-	-	-	-	-	-	-	-	-	1,844,721	1,844,436
bank guarantees	-	-	504,264	15,415	-	-	-	-	-	-	-	-	187,251	175,830	691,515	191,245
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	6,714,723	7,049,606	-	-	-	-	-	-	-	-	368,944	401,731	7,083,667	7,451,337
Guarantees from individuals	-	-	563,317	645,402	-	-	-	-	-	-	-	-	104,534	182,531	667,851	827,933
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	33,500,497	32,014,658	-	-	-	-	-	-	-	-	238,157	151,298	33,738,654	32,165,956
commercial property	-	-	25,388,391	24,790,707	-	-	-	-	-	-	-	-	2,174,610	1,570,205	27,563,001	26,360,912
Pledge over movables	-	-	13,583,554	12,712,480	-	-	-	-	-	-	-	-	4,393,981	4,318,518	17,977,535	17,030,998
Other types of security	-	-	1,712,829	2,216,605	-	-	-	-	-	-	-	-	145,987	83,171	1,858,816	2,299,776
<b>Total value of collateral of credit exposure assessed for impairment on an individual basis</b>	-	-	<b>85,716,321</b>	<b>83,099,480</b>	-	-	-	-	-	-	-	-	<b>7,841,017</b>	<b>7,251,318</b>	<b>93,557,338</b>	<b>90,350,798</b>

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## B. Value of collateral (fair value) for mitigating of credit risk(continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016
<i>Value of collateral of the credit exposure assessed for impairment on a group basis</i>																
First-class collateral instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
commercial property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledge over movables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other types of security	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total value of collateral of credit exposure assessed for impairment on a group basis</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**2. RISK MANAGEMENT (continued)****2.1 Credit risk (continued)****C. Concentration of credit risk by industries and activities**

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Non-residents	-	-	-	-	-	-	-	-	-	-	988	997	-	-	-	-	988	997
Agriculture, Forestry and Fishing	-	-	482,165	689,427	-	-	-	-	-	-	82	19	-	-	31,568	46,630	513,815	736,076
Mining and quarrying	-	-	346,717	254,438	-	-	-	-	-	-	-	-	-	-	4,544	63,477	351,261	317,915
Food industry	-	-	2,732,099	2,221,669	-	-	-	-	-	-	176	29	1,237	1,459	64,442	109,396	2,797,954	2,332,553
Textile industry and clothing and footwear production	-	-	562,149	676,450	-	-	-	-	-	-	34	140	44	4	51,079	57,131	613,306	733,725
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	686,903	754,021	-	-	-	-	-	-	18	13	418	87	31,140	27,201	718,479	781,322
Production of metals, machinery, tools and equipment	-	-	2,687,595	2,993,423	-	-	-	-	-	-	2,340	624	15,989	69	89,776	182,108	2,795,700	3,176,224
Other manufacturing industries	-	-	102,770	102,791	-	-	-	-	-	-	2	1,515	-	-	4,577	6,126	107,349	110,432
Electricity, gas, steam and air conditioning supply	-	-	2,310,420	1,842,046	-	-	-	-	-	-	-	-	-	-	305,057	287	2,615,477	1,842,333
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	22,735	30,633	-	-	-	-	-	-	-	12	-	1	996	9,556	23,731	40,202
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1,478,644	1,523,110	-	-	-	-	-	-	110	340	13,475	898	1,579,909	1,783,790	3,072,138	3,308,138
Transportation and storage	-	-	5,533,736	6,814,702	1,618	1,106	-	-	-	-	560	836	12,733	1,169	596,513	623,848	6,145,160	7,441,661
Facilities for accommodation and food service activities	-	-	945,405	871,521	-	-	-	-	-	-	66	63	329	367	141,908	122,944	1,087,708	994,895
Information and Communications	-	-	468,872	627,422	-	-	-	-	-	-	9	49	27	-	19,112	19,896	488,020	647,367
Financial and insurance activities	-	-	115,984	183,680	-	-	-	-	-	-	5	17	22	89	6,102	3,914	122,113	187,700
	159,539	178,315	30,884	5,626	75,818	75,818	-	-	4,078,488	3,928,272	1,580	1,655	-	146	118,855	108,857	4,465,164	4,298,689

## 2. RISK MANAGEMENT (continued)

### 2.1 Credit risk (continued)

#### C. Concentration of credit risk by industries and activities (continued)

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016
Activities related to real estate	-	-	760,390	593,591	-	-	-	-	-	-	-	-	-	-	1,500	7,009	761,890	600,600
Professional, scientific and technical activities	-	-	316,343	331,877	-	-	-	-	-	-	61	22	63	134	89,002	68,818	405,469	400,851
Administrative and support service activities	-	-	30,399	30,956	-	-	-	-	-	-	4	6	-	-	4,053	3,438	34,456	34,400
Public administration and defence, compulsory social security	-	-	2,102	1,077	6,153,085	8,274,731	-	-	5,128,841	7,203,007	-	-	-	15	-	-	11,284,028	15,478,830
Education	-	-	8,848	91,845	-	-	-	-	-	-	-	6	-	11	13,489	19,903	22,337	111,765
Activities of Health and Social Care	-	-	55,903	-	-	-	-	-	-	-	4	-	-	-	2,677	-	58,584	-
Arts, entertainment and recreation	-	-	50,824	43,917	-	-	-	-	-	-	1	6	-	-	36,489	36,489	87,314	80,412
Other service activities	-	-	2,037	15,179	-	-	-	-	-	-	-	392	58	-	-	3,545	2,095	19,116
Activities of households as employers; activities of households that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extraterritorial organizations and bodies	-	-	40,923,27	37,955,59	-	-	-	-	-	-	-	-	-	-	-	-	48,556,47	-
Individuals	-	-	4	0	-	-	-	-	-	-	2,065	2,000	-	604	7,631,135	7,686,700	4	45,644,894
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>159,539</b>	<b>178,315</b>	<b>60,657,198</b>	<b>58,654,991</b>	<b>6,230,521</b>	<b>8,351,655</b>	<b>-</b>	<b>-</b>	<b>9,207,329</b>	<b>11,131,279</b>	<b>8,105</b>	<b>8,741</b>	<b>44,396</b>	<b>5,053</b>	<b>10,823,923</b>	<b>10,991,063</b>	<b>87,131,010</b>	<b>89,321,097</b>

## 2. RISK MANAGEMENT (continued)

## 2.1 Credit risk (continued)

## D. Concentration of credit risk by geographical location

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
<i>Geographical location</i>																			
Republic of Macedonia	-	-	60,657,198	58,654,991	6,230,521	8,351,655	-	-	5,129,496	7,204,216	8,105	8,741	44,396	5,053	10,823,922	10,991,063	82,893,638	85,215,719	
EU member countries	159,539	178,315	-	-	-	-	-	-	4,077,833	3,927,063	-	-	-	-	-	-	4,237,372	4,105,378	
Europe (other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other (more than 10% of total credit risk exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>159,539</b>	<b>178,315</b>	<b>60,657,198</b>	<b>58,654,991</b>	<b>6,230,521</b>	<b>8,351,655</b>	<b>-</b>	<b>-</b>	<b>9,207,329</b>	<b>11,131,279</b>	<b>8,105</b>	<b>8,741</b>	<b>44,396</b>	<b>5,053</b>	<b>10,823,922</b>	<b>10,991,063</b>	<b>87,131,010</b>	<b>89,321,097</b>	

## 2. RISK MANAGEMENT (continued)

### 2.2 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.

#### 2.2.1 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 the 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.

## 2. RISK MANAGEMENT (continued)

### 2.2 Liquidity risk (continued)

#### 2.2.1 Liquidity risk management process (continued)

##### Analysis according to the maturity of financial assets and liabilities (remaining maturity)

In thousands of Denars							
December 31, 2017							
	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	17,901,316	-	-	-	-	-	17,901,316
Trading assets	3,676	-	-	-	-	-	3,676
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	1,025	-	-	-	-	158,513	159,539
Loans to customers	1,993,483	3,319,134	15,331,390	9,084,135	13,902,856	17,026,200	60,657,198
Investment securities	416,296	1,018,043	4,218,747	500,000	-	77,436	6,230,521
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	6,889	-	-	-	-	-	6,889
Other receivables	178,479	-	-	-	-	-	178,479
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>20,501,175</b>	<b>4,337,177</b>	<b>19,550,137</b>	<b>9,584,135</b>	<b>13,902,856</b>	<b>17,262,148</b>	<b>85,137,628</b>
<b>FINANCIAL LIABILITIES</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	82,470	-	-	-	-	-	82,470
Deposits from customers	33,085,058	6,205,900	21,205,892	7,949,372	2,234,983	199,233	70,880,438
Loans payable	37,420	-	77,388	80,747	64,176	149,678	409,409
Subordinated debt	-	-	-	-	-	-	-
Income tax liabilities (current)	-	-	-	-	-	-	-
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,122,053	-	-	-	-	90,978	1,213,031
<b>Total financial liabilities</b>	<b>34,327,001</b>	<b>6,205,900</b>	<b>21,283,280</b>	<b>8,030,119</b>	<b>2,299,159</b>	<b>439,889</b>	<b>72,585,348</b>
<b>Off balance items</b>							
Off balance assets	-	9,957	-	-	-	-	9,957
Off balance liabilities	11,884,186	227,896	1,096,004	351,681	767,628	76,008	14,403,403

<b>Net liquidity gap</b>	<u>(25.710.013)</u>	<u>(2.086.662)</u>	<u>(2.829.147)</u>	<u>1.202.335</u>	<u>10.836.069</u>	<u>16.746.251</u>	<u>(1.841.167)</u>
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## 2. RISK MANAGEMENT (continued)

### 2.2 Liquidity risk (continued)

#### 2.2.1 Liquidity risk management process (continued)

##### Analysis according to the maturity of financial assets and liabilities (remaining maturity) (continued)

		In thousands of Denars						
December 31, 2016								
		Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>								
Cash and cash equivalents	17,567,743	-	-	-	-	-	-	17,567,743
Trading assets	2,251	-	-	-	-	-	-	2,251
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-	-
Placements with, and loans to banks	517	-	-	-	-	-	177,798	178,315
Loans to customers	2,994,582	3,376,601	16,012,030	8,321,320	12,330,773	15,619,685	58,654,991	84,902,532
Investment securities	299,592	2,544,910	4,927,429	502,800	-	76,924	-	8,351,655
Investments in affiliates	-	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-	-
Other receivables	147,577	-	-	-	-	-	-	147,577
Collateralized assets	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>21,012,262</b>	<b>5,921,511</b>	<b>20,939,459</b>	<b>8,824,120</b>	<b>12,330,773</b>	<b>15,874,407</b>	<b>84,902,532</b>	
<b>FINANCIAL LIABILITIES</b>								
Trading liabilities	-	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-	-
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	84,902,532
Loans payable	49,737	-	105,673	107,738	132,614	161,965	-	557,727
Subordinated debt	-	-	-	-	-	-	-	-
Income tax liabilities (current)	61,410	-	-	-	-	-	-	61,410
Differed tax liabilities	-	-	-	-	-	-	-	-
Other liabilities	1,559,817	-	-	-	-	90,978	-	1,650,795
<b>Total financial liabilities</b>	<b>32,863,191</b>	<b>6,422,498</b>	<b>21,969,925</b>	<b>7,843,565</b>	<b>2,780,976</b>	<b>424,406</b>	<b>72,304,561</b>	

<b>Off balance items</b>							
Off balance assets	315	34.713	-	-	-	-	35.028
Off balance liabilities	<u>10.746.480</u>	<u>347.425</u>	<u>1.501.205</u>	<u>332.425</u>	<u>844.941</u>	<u>77.254</u>	<u>13.849.730</u>
<b>Net liquidity gap</b>	<u>(22.597.094)</u>	<u>(813.699)</u>	<u>(2.531.671)</u>	<u>648.130</u>	<u>8.704.856</u>	<u>15.372.747</u>	<u>(1.216.731)</u>

## **2. RISK MANAGEMENT (continued)**

### **2.2 Liquidity risk (continued)**

#### **2.2.1 Liquidity risk management process (continued)**

##### **Analysis according to the maturity of financial assets and liabilities (remaining maturity) (continued)**

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2017 and 2016, except for loans and receivables from other clients and unutilized limits – potential credit exposure where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, allowed overdrafts etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet receivables under these products, i.e. the amount of utilization of funds under the approved limits.

### **2.3 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).

#### **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, 2017 and 2016.

#### **Risk from changes in interest rates**

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 consideration 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 Bank's portfolio of activities. The risk from 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 Bank's portfolio of activities. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholders value. Nonetheless, excessive risk from change in interest rates may represent a significant threat to the profit and capital base of the Bank.

## 2. RISK MANAGEMENT (continued)

### 2.3 Market risk (continued)

#### Risk from changes in interest rates (continued)

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 from changes in interest rates in Bank's portfolio.

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2017 and 2016.

#### Operational risk

The operational risk is defined as risk of loss that arises from inappropriate or unsuccessful internal processes and systems, human factor or external events. The Bank has established an operational risk management framework based on Strategy and Policy and methodology for managing this risk. It ensures, within the various processes in the Bank, that there are identified risks originating from these processes, that they are measured and that there is an undertake of corrective actions in order to avoid potential negative effect over the financial result and capital position of the Bank.

#### 2.3.1. Sensitivity Analysis of assets and liabilities on change in market risk

##### A. Sensitivity Analysis on the changes of market risk on assets and liabilities

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
<b>December 31, 2017</b>				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2017)		10.559.365	68.484.145	15,42%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	98.448	10.657.813	68.587.316	15,54%
Denar to appreciate by 10% in relation of all other F/X	(98.448)	10.460.917	68.380.975	15,30%
Denar to depreciate by 20% in relation of all other F/X	196.896	10.756.261	68.690.487	15,66%
Denar to appreciate by 20% in relation of all other F/X	(196.896)	10.362.469	68.277.804	15,18%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	(405.696)	10.153.669	68.484.145	14,83%
Decreasing of interest rates by 200 b.p.	(544.790)	10.014.575	68.484.145	14,62%
Increasing of interest rates by 400 b.p.	(811.392)	9.747.973	68.484.145	14,23%
Decreasing of interest rates by 400 b.p.	(1.089.581)	9.469.784	68.484.145	13,83%



## 2. RISK MANAGEMENT (continued)

### 2.3 Market risk (continued)

#### 2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk (continued)

##### A. Sensitivity Analysis on the changes of market risk on assets and liabilities(continued)

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
<b>December 31, 2016</b>				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2016)		10,432,850	65,038,678	16.04%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	114,764	10,547,613	65,154,375	16.19%
Denar to appreciate by 10% in relation of all other F/X	-114,764	10,318,086	64,922,980	15.89%
Denar to depreciate by 20% in relation of all other F/X	229,527	10,662,377	65,270,073	16.34%
Denar to appreciate by 20% in relation of all other F/X	-229,527	10,203,323	64,807,283	15.74%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	-55,729	10,377,121	65,038,678	15.96%
Decreasing of interest rates by 200 b.p.	55,729	10,488,579	65,038,678	16.13%
Increasing of interest rates by 400 b.p.	-111,458	10,321,391	65,038,678	15.87%
Decreasing of interest rates by 400 b.p.	111,458	10,544,308	65,038,678	16.21%

The Bank has established a frame for establishing stress test on the basis of which stress testing is made at least once a year in order to analyze the sensitivity of the Bank to a set of extreme but realistic shocks, which also takes into consideration analysis of the assets and liabilities sensitivity to changes in the foreign exchange rate and in the interest rates from aspect of the banking activities portfolio. In due course, the scenarios which take into consideration the risk from the change of the foreign exchange rate estimate the effect of the possible appreciation and depreciation of the Denar foreign exchange rate in relation to other currencies, and at all other factors unchanged, the effect is observable through the realized foreign exchange gain/loss. On the other hand, the purpose of the stress test analysis of the interest rate risk in the bank's portfolio of activities is to examine the sensitivity of the Bank balance sheets to the interest rate changes, by examining the influence of interest shocks in the assumed scenarios on the net interest income.

In both sensitivity analyses, the change in capital adequacy is estimated through the effect of scenarios over the amount of own funds (if assuming that the profit is zero), and by that also over the capital adequacy of the Bank.

The table presents analysis of assets and liabilities sensitivity to market risk changes as at December 31, 2017 and December 31, 2016.

## 2. RISK MANAGEMENT (continued)

### 2.3 Market risk (continued)

#### 2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk(continued)

#### B. Analysis of value exposed to market risk in trading portfolio

	2017				2016			
	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)
Amount exposed to risk at interest- bearing instruments								
Amount exposed to risk at instruments in foreign currency	-	-	-	-	-	-	-	-
Amount exposed to risk at equity instruments	-	-	-	-	-	-	-	-
Amount (effects on netting)	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

The Bank does not make analysis of the risk exposed value according to the above disclosure in Table B due to the fact that the Bank does not determine capital required for covering the market risks for the trading portfolio according to the “Decision on the methodology for determining the capital adequacy”, and consequently the table referred to in this Note is not filled in.

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets)**

**A Interest rate sensitivity analysis**

	Currency	2017	2016
NET WEIGHTED POSITION FOR CURRENCY EUR (FKS+VKS+PKS)	EUR	(69,525)	36,762
NET WEIGHTED POSITION FOR CURRENCY MKD (FKS+VKS+PKS)	MKD	118,695	300,574
NET WEIGHTED POSITION FOR CURRENCY MKDcEUR (FKS+VKS+PKS)	MKDcEUR	655,762	826,959
NET WEIGHTED POSITION FOR other CURRENCIES (FKS+VKS+PKS)	Other	(11,361)	(4,740)
<b>TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK'S ACTIVITY PORTFOLIO</b>		<b>693,571</b>	<b>1,159,555</b>
OWN FUNDS		10,556,987	10,432,850
<b>TOTAL WEIGHTED VALUE / OWN FUNDS</b>		<b>6.57%</b>	<b>11.11%</b>

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## 2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

## B. Analysis of reconciliation of interest rates

	In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
<b>December 31, 2017</b>								
<b>ASSETS</b>								
Cash and cash equivalents		9,195,967	-	-	-	-	-	9,195,967
Financial assets at fair value through profit and loss account designated as such at initial recognition		-	-	-	-	-	-	-
Loans and receivables from banks		112,467	-	-	-	-	-	112,467
Loans and receivables from other customers		43,886,872	1,372,956	5,225,748	1,916,852	2,711,819	4,772,851	59,887,098
Investments in securities		414,167	1,018,043	4,215,947	500,000	-	-	6,148,157
Other interest-sensitive unstated assets		-	-	-	-	-	-	-
<b>Total interest-sensitive financial assets</b>		<b>53,609,473</b>	<b>2,390,999</b>	<b>9,441,695</b>	<b>2,416,852</b>	<b>2,711,819</b>	<b>4,772,851</b>	<b>75,343,689</b>
<b>LIABILITIES</b>								
Financial liabilities at fair value through profit and loss account designated as such at initial recognition		-	-	-	-	-	-	-
Deposits of banks		82,470	-	-	-	-	-	82,470
Deposits of other customers		40,714,835	5,636,074	18,103,604	5,360,473	585,887	130,705	70,531,578
Issued debt securities		-	-	-	-	-	-	-
Borrowings		36,675	-	77,388	80,747	64,176	279	259,265
Subordinated liabilities and hybrid instruments		-	-	-	-	-	-	-
Other unspecified interest-sensitive liabilities		-	-	-	-	-	-	-
<b>Total interest-sensitive financial liabilities</b>		<b>40,833,980</b>	<b>5,636,074</b>	<b>18,180,992</b>	<b>5,441,220</b>	<b>650,063</b>	<b>130,984</b>	<b>70,873,313</b>
<b>Net - balance position</b>								
Off-balance sheet interest-sensitive assets positions		-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions		-	-	-	-	-	-	-
<b>Net positions - off-balance sheet position</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net-position</b>		<b>12,775,493</b>	<b>(3,245,075)</b>	<b>(8,739,297)</b>	<b>(3,024,368)</b>	<b>2,061,756</b>	<b>4,641,867</b>	<b>4,470,376</b>

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## 2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

## B. Analysis of reconciliation of interest rates(continued)

	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
<b>December 31, 2016</b>							
<b>ASSETS</b>							
Cash and cash equivalents	11,116,915	-	-	-	-	-	11,116,915
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	-	-	126,236	126,236
Loans and receivables from other customers	3,258,669	20,737,981	18,752,577	4,610,975	5,821,360	5,243,767	58,425,329
Investments in securities	299,592	2,540,252	4,918,765	500,000	-	-	8,258,609
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
<b>Total interest-sensitive financial assets</b>	<b>14,675,176</b>	<b>23,278,233</b>	<b>23,671,342</b>	<b>5,110,975</b>	<b>5,821,360</b>	<b>5,370,003</b>	<b>77,927,089</b>
<b>LIABILITIES</b>							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	1,742,752	-	-	-	-	-	1,742,752
Deposits of other customers	26,952,833	17,503,458	18,206,347	4,597,326	692,139	91,169	68,043,272
Issued debt securities	-	-	-	-	-	-	-
Borrowings	48,686	-	105,673	107,738	132,614	12,566	407,277
Subordinated liabilities and hybrid instruments	-	-	-	-	-	-	-
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
<b>Total interest-sensitive financial liabilities</b>	<b>28,744,271</b>	<b>17,503,458</b>	<b>18,312,020</b>	<b>4,705,064</b>	<b>824,753</b>	<b>103,735</b>	<b>70,193,301</b>
<b>Net - balance position</b>							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
<b>Net positions - off-balance sheet position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net-position</b>	<b>(14,069,095)</b>	<b>5,774,775</b>	<b>5,359,322</b>	<b>405,911</b>	<b>4,996,607</b>	<b>5,266,268</b>	<b>7,733,788</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## 2.3.3 Currency risk

	In thousands of Denars December 31, 2017				
	MKD	EUR	USD	Other currency	Total
<b>MONETARY ASSETS</b>					
Cash and cash equivalents	10,531,956	4,037,782	1,487,538	1,844,040	17,901,316
Trading assets	-	3,676	-	-	3,676
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	4,630	152,519	2,390	159,539
Placement with and loans to customers	39,287,428	21,068,053	301,717	-	60,657,198
Investments in securities	4,862,541	1,367,980	-	-	6,230,521
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	6,898	-	-	-	6,898
Other receivables	177,891	41	414	133	178,479
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
<b>Total monetary assets</b>	<b><u>54,866,714</u></b>	<b><u>26,482,162</u></b>	<b><u>1,942,188</u></b>	<b><u>1,846,563</u></b>	<b><u>85,137,627</u></b>
<b>MONETARY LIABILITIES</b>					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	6	58,374	735	23,355	82,470
Deposits from customers	42,037,370	25,044,016	1,983,655	1,815,397	70,880,438
Issued Debt Securities	-	-	-	-	-
Borrowings	155,291	254,119	-	-	409,410
Subordinated debt	-	-	-	-	-
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	1,103,324	109,471	181	55	1,213,031
<b>Total monetary liabilities</b>	<b><u>43,295,991</u></b>	<b><u>25,465,980</u></b>	<b><u>1,984,571</u></b>	<b><u>1,838,807</u></b>	<b><u>72,585,349</u></b>
<b>Net – position</b>	<b><u>11,570,723</u></b>	<b><u>1,016,182</u></b>	<b><u>(42,383)</u></b>	<b><u>7,756</u></b>	<b><u>12,552,278</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## 2.3.3 Currency risk

	In thousands of Denars December 31, 2016				
	MKD	EUR	USD	Other currency	Total
<b>MONETARY ASSETS</b>					
Cash and cash equivalents	10,283,802	4,246,691	1,298,715	1,738,535	17,567,743
Trading assets	-	2,251	-	-	2,251
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	4,629	171,313	2,373	178,315
Placement with and loans to customers	36,136,648	21,973,929	544,414	-	58,654,991
Investments in securities	8,003,485	348,170	-	-	8,351,655
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	-	-	-	-	-
Other receivables	145,292	1,799	354	132	147,577
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
<b>Total monetary assets</b>	<b>54,569,227</b>	<b>26,577,469</b>	<b>2,014,796</b>	<b>1,741,040</b>	<b>84,902,532</b>
<b>MONETARY LIABILITIES</b>					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	1,626,668	87,205	1,075	27,804	1,742,752
Deposits from customers	40,077,802	24,489,727	2,031,997	1,692,351	68,291,877
Issued Debt Securities	-	-	-	-	-
Borrowings	160,291	397,436	-	-	557,727
Subordinated debt	-	-	-	-	-
Income tax payable (current)	61,410	-	-	-	61,410
Deferred tax liabilities	-	-	-	-	-
Other liabilities	1,090,174	560,411	149	61	1,650,795
<b>Total monetary liabilities</b>	<b>43,016,345</b>	<b>25,534,779</b>	<b>2,033,221</b>	<b>1,720,216</b>	<b>72,304,561</b>
<b>Net – position</b>	<b>11,552,882</b>	<b>1,042,690</b>	<b>(18,425)</b>	<b>20,824</b>	<b>12,597,971</b>

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2017

**3. CAPITAL ADEQUACY****Capital management**

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

- to comply with the capital requirements set by NBRM;
- to safeguard the Bank's ability to continue as a successful company providing positive financial results and benefits for other stakeholders; and
- to maintain a strong capital base to support further successful activity.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the directives set by the regulator, for supervisory purposes. The required information is sent to NBRM on a quarterly basis.

According to the Decision on amending the Decision on the methodology on determining the capital adequacy, applied as of March 2017, amendment is made in the part of the structure of the regular capital (own funds) of banks.

The Bank's regulatory capital (own funds) is divided into two tiers:

- Tier 1 capital: consisted of two parts, common equity tier 1 and additional Tier 1 capital. The common equity tier 1 capital is consisting of share capital, retained undistributed profit restricted for distribution to shareholders, reserves created from retained profit, as well as accumulated other comprehensive income. The Bank has no additional tier 1 capital as disposal; and
- Tier 2: consisting of cumulative preferred shares.

The legally prescribed minimum rate for risk-weighted assets is: 4,5% for the common equity tier 1 capital, 6% for the tier 1 capital and 8% for own funds.

Furthermore, in accordance with the assessment of the whole risk profile of the Bank, NBRM determines additional capital of 3,5% and the Bank is obliged to maintain capital adequacy rate of at least 11,5%.

The Bank is obliged to maintain capital buffers prescribed by the Law on banks, namely capital conservation buffer of 2,5% and systemically important banks buffer of 1,5% (at dynamics of 0,75% as at 30.09.2017, and 1,5% as at 31.03.2018). The Bank is complied with the prescribed capital adequacy rates as at 31.12.2017.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2017

**3. CAPITAL ADEQUACY (continued)**

The Bank is calculating the capital adequacy rate in accordance with the Decision on the methodology for determining the capital adequacy of NBRM, according to which the manner is prescribed for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk.

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. In 2017 the Bank was obliged for the first time to allocate capital to cover the operational risk. The calculation of the capital for currency risk was amended and is made to the net amount of aggregate foreign currency position taking into consideration of the calculation of the impairment. Furthermore, as was previously the case, in accordance with the new regulations the Bank is not obliged to determine and dispose of the capital required for covering the market risks.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 3. CAPITAL ADEQUACY (continued)

## Own assets

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2017 and 2016.

	In thousand Denars current year 2017
	<u>10.559.365</u>
<b>Own funds</b>	<b>10.559.365</b>
<b>Tier 1 capital</b>	<b>10.468.387</b>
<b>Common Equity Tier 1 capital (CET)</b>	<b>10.468.387</b>
<i>Positions in CET</i>	<u>10.468.387</u>
Capital instruments of CET	3.511.242
Premium of capital instruments of CET	-
Mandatory general reserve (general reserve fund)	831.373
Retained undistributed profit	5.925.651
(-) Accumulated loss from previous years	-
Current profit or year-end profit	-
Accumulated other profit loss	200.120
<i>(-) Deductions of CET</i>	<u>-</u>
(-) Loss at the year-end or current loss	-
(-) Intangible assets	-
(-) Deferred tax assets that rely on the bank's future profit	-
(-) Investments in own capital instruments of CET	-
(-) Direct investments in own capital instruments of CET	-
(-) Indirect investments in own capital instruments of CET	-
(-) Synthetic investments in own capital instruments of CET	-
(-) Investments in own capital instruments of CET for which the bank has contractual obligations for purchasing	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, with investments in the bank	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, the bank has no significant investment	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, with significant investments in the bank	-
(-) Amount of deduction items of AT exceeding the total AT amount	-
(-) Amount of exceeded limits for investment in non-financial institutions	-
(-) Tax costs	-
(-) Difference between the required and conducted impairment/ special reserve	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 3. CAPITAL ADEQUACY (continued)

## Own assets (continued)

	In thousand Denars current year 2017
<i>Regulatory reconciliations of CET</i>	-
(-) Increase of CET arising from securitization positions	-
(-) Profit or (+) loss from cash-flow risk protection	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-
<i>Positions as result of consolidation</i>	-
Non-controlling (minority) participation acknowledged in CET at consolidated basis	-
Other	-
<i>Other positions of CET</i>	-
<b>Additional Tier capital (AT)</b>	-
<i>Positions in AT</i>	-
Capital instruments of AT	-
Premium of capital instruments of AT	-
<i>(-) Deductions of AT</i>	-
(-) Investments in own capital instruments of AT	-
(-) Direct investments in own capital instruments of AT	-
(-) Indirect investments in own capital instruments of AT	-
(-) Synthetic investments in own capital instruments of AT	-
(-) Investments in own capital instruments of AT for which the bank has contractual obligations for purchasing	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, with investments in the bank	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, the bank has no significant investment	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, with significant investments in the bank	-
(-) Amount of deduction items of AT exceeding the total AT amount	-
(-) Tax costs	-
<i>Regulatory reconciliations of AT</i>	-
(-) Increase of AT arising from securitization positions	-
(-) Profit or (+) loss from cash-flow risk protection	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-
<i>Positions as result of consolidation</i>	-
Acceptable additional tier 1 capital recognized in AT on consolidated basis	-
Other	-
<i>Other positions of AT</i>	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 3. CAPITAL ADEQUACY (continued)

## Own assets (continued)

	In thousand Denars current year 2017
	<u>          </u>
<b>Tier 2 capital (T2)</b>	90.978
<i>Positions in T2</i>	<u>90.978</u>
Capital instruments in T2	90.978
Subordinated loans	-
Premium of capital instruments in T2	-
<i>(-) Deductions of T2</i>	<u>-</u>
(-) Investments in own capital instruments of T2	-
(-) Direct investments in own capital instruments of T2	-
(-) Indirect investments in own capital instruments of T2	-
(-) Synthetic investments in own capital instruments of T2	-
(-) Investments in own capital instruments of T2 for which the bank has contractual obligations for purchasing	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, with investments in the bank	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, the bank has no significant investment	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, with significant investments in the bank	-
<i>Regulatory reconciliations of T2</i>	<u>-</u>
(-) Increase of T2 arising from securitization positions	-
(-) Profit or (+) loss from cash-flow risk protection	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-
<i>Positions as result of consolidation</i>	<u>-</u>
Acceptable additional capital recognized in T2 on consolidated basis	-
Other	-
<i>Other positions of T2</i>	<u>-</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 3. CAPITAL ADEQUACY (continued)

## Own assets (continued)

	In thousands of Denars previous year 2016
	<u>                    </u>
<b>Paid and registered ordinary and non-cumulative preferred shares and their premium</b>	<b>3,511,242</b>
Nominal value	3,511,242
Nominal value of common shares	3,511,242
Nominal value of non-cumulative preferred shares	-
Premium	-
Premium under ordinary shares	-
Premium under non-cumulative preferred shares	-
<b>Reserves and retained profit or loss</b>	<b>6,755,942</b>
Reserve fund	830,290
Retained earnings restricted for distribution to shareholders	5,925,652
Accumulated loss from previous years	-
Current profit	-
<b>Positions as a result of consolidation</b>	<b>-</b>
Minority share	-
Reserves under foreign exchange gains/losses	-
Other differences	-
<b>Deductible items</b>	<b>(25,874)</b>
Loss at the year-end or current loss	-
Purchased own shares	-
Intangible assets	-
Difference between the amount of required and made impairment/special reserves	(25,874)
Amount of allocated impairment and special reserves as a result of accounting delay	-
Unrealized loss from own instruments available for sale	-
Other deducted items	-
<b>Initial capital</b>	<b><u>10,241,310</u></b>

## 3. CAPITAL ADEQUACY (continued)

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**Own assets (continued)**

	<b>In thousands of Denars</b>	
		<b>previous year 2016</b>
<b>Additional capital I</b>		
<b>Paid-in and subscribed cumulative preferred shares and premium under these shares</b>		<b>90,978</b>
Nominal value		90,978
Premium		-
<b>Revaluation reserves</b>		<b>100,562</b>
<b>Hybrid capital instruments</b>		-
<b>Subordinated instruments</b>		-
<b>Amount of cumulative preferred shares and subordinated instruments that can be part of the additional capital I</b>		<b>90,978</b>
<b>Additional capital I</b>		<b>191,540</b>
<b>Deducted items</b>		
Investments in capital of other banks or financial institutions that are over 10% of the capital of those institutions		-
Investments in subordinated and hybrid capital instruments and other instruments of the aforementioned institutions		-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of initial and additional capital		-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies		-
Amount for exceeding the limits for investments in non-financial institutions		-
Positions as a result of consolidation (negative amounts)		-
<b>Deductible items</b>		-
<b>Initial capital after deductions</b>		<b>10,241,310</b>
<b>Additional capital I after deductible items</b>		<b>191,540</b>
<b>OWN ASSETS</b>		<b>10,432,850</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 3. CAPITAL ADEQUACY (continued)

## Own assets (continued)

## Capital adequacy ratio

The table below gives an overview of the Report of the rate of capital adequacy (Form CA) prepared in accordance with the Guidelines for implementation of the Decision on the methodology for determining the capital adequacy according to the applicable prescribed regulations from NBRM as at December 31, 2017 and 2016.

	In thousands of Denars	
	current year	previous year
	2017	2016
<b>Credit risk weighted assets</b>		
Credit risk weighted assets by applying standardized approach	4.777.706	4,516,134
Capital required for covering the credit risk	59.721.320	56,451,678
<b>Currency risk weighted assets</b>		
<b>Currency risk weighted assets</b>	1.031.708	1,156,975
Aggregate foreign currency position	-	-
Net position in gold	82.537	92,558
Capital required for covering the currency risk	1.031.708	1,156,975
<b>Operational risk weighted assets</b>		
Capital required for covering the operational risk by applying the basic indicator approach	-	-
Capital required for covering the operational risk by applying the standardized approach	618.489	594,402
Operational risk weighted assets	7.731.117	7,430,024
<b>Other risk weighted assets</b>		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the positional risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity instruments	-	-
Capital required for covering the general risk of investments in equity instruments	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
<b>Other risk weighted assets</b>	-	-
<b>Risk weighted assets</b>	<b>68.484.145</b>	<b>65,038,677</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

Capital required for covering the risks	5.478.732	5,203,094
<b>Own assets</b>	<b>10.559.365</b>	<b>10,432,850</b>
<b>Capital adequacy ratio</b>	<b>15.42%</b>	<b>16.04%</b>

**4. SEGMENT REPORTING**

**A. Operating segments**

In thousands of Denars  
December 31, 2017

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investme nt banking</b>	<b>All other significant operating segments</b>	<b>Unallocat ed</b>	<b>Total</b>
Net interest income /(expense)	2,447,967	1,248,642	-	(19,247)	-	3,677,362
Net fees and commissions income / (expense)	527,328	454,479		28	-	981,835
Net trading income			1,426	-	-	1,426
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	279,479	344,302		14,782	-	638,563
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>3,254,774</b>	<b>2,047,423</b>	<b>1,426</b>	<b>(4,437)</b>	<b>-</b>	<b>5,299,186</b>
Allowance for impairment of financial assets, on net basis	35,708	(954,141)	-	(13,711)	-	(932,144)
Impairment loss of non-financial assets, on net-basis	(1,126)	(109,180)	-	-	-	(110,306)
Depreciation	-	(136,776)	-	-	-	(136,776)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(800,155)	(465,885)	(12)	(275,316)	(294,860)	(1,836,228)
<b>Total expenses by segments</b>	<b>(765,573)</b>	<b>(1,665,982)</b>	<b>(12)</b>	<b>(289,027)</b>	<b>(294,860)</b>	<b>(3,015,454)</b>
Financial result by segment	2,489,201	381,441	1,414	(293,464)	(294,860)	2,283,732
Income tax	-	-	-	-	-	(239,612)
<b>Profit/(loss) for the financial year</b>	<b>2,489,201</b>	<b>381,441</b>	<b>1,414</b>	<b>(293,464)</b>	<b>(294,860)</b>	<b>2,044,120</b>
Total assets by segment	40,752,283	39,369,624	6,229,268	-	-	86,351,175
Unallocated assets per segment	-	-	-	-	-	-
<b>Total assets</b>						<b>86,351,175</b>
Total liabilities by segment	55,741,226	16,972,887	3,284	-	-	72,717,397
Unallocated liabilities by segment	-	-	-	-	-	-
<b>Total liabilities</b>						<b>72,717,397</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. SEGMENT REPORTING (continued)

A. Operating segments (continued)

In thousands of Denars  
December 31, 2016

	Retail banking	Corporate banking	Investme nt banking	All other significant operating segments	Unallocat ed	Total
Net interest income /(expense)	2,160,603	1,476,356	-	158	-	3,637,117
Net fees and commissions income / (expense)	497,419	454,196	-	-	-	951,615
Net trading income	-	-	64,998	1,352	-	66,350
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	224,810	212,955	-	15,788	-	453,553
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>2,882,832</b>	<b>2,143,507</b>	<b>64,998</b>	<b>17,298</b>	<b>-</b>	<b>5,108,635</b>
Allowance for impairment of financial assets, on net basis	49,210	(530,924)	-	(9,260)	-	(490,974)
Impairment loss of non-financial assets, on net-basis	(28,748)	(125,274)	-	-	-	(154,022)
Depreciation	(54,387)	(69,050)	-	(163)	(1,513)	(125,113)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(1,257,029)	(564,102)	-	(1,299)	(12,375)	(1,834,805)
<b>Total expenses by segments</b>	<b>(1,290,954)</b>	<b>(1,289,350)</b>	<b>-</b>	<b>(10,722)</b>	<b>(13,888)</b>	<b>(2,604,914)</b>
Financial result by segment	1,591,878	854,157	64,998	6,576	(13,888)	2,503,721
Income tax	-	-	-	-	-	(263,930)
<b>Profit/(loss) for the financial year</b>	<b>1,591,878</b>	<b>854,157</b>	<b>64,998</b>	<b>6,576</b>	<b>(13,888)</b>	<b>2,239,791</b>
Total assets by segment	37,769,463	40,046,093	8,337,784	-	-	86,153,340
Unallocated assets per segment	-	-	-	-	-	-
<b>Total assets</b>						<b>86,153,340</b>
Total liabilities by segment	53,659,821	18,818,221	-	-	-	72,478,042
Unallocated liabilities by segment	-	-	-	-	-	-
<b>Total liabilities</b>						<b>72,478,042</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 4. SEGMENT REPORTING (continued)

## B. Concentration of total revenue and expenses by customers

	In thousands of Denars					
	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	Total
<b>Current year, 2017</b>						
Customer 1						
Income	1,727	92,615	-	-	-	94,342
(Expenses)	(14,184)	(39,170)	-	-	-	(53,354)
Customer 2						
Income	1,331	84,907	-	-	-	86,238
(Expenses)	(11,050)	(31,228)	-	-	-	(42,278)
Customer 3						
Income	1,150	77,812	-	-	-	78,962
(Expenses)	(8,094)	(23,942)	-	-	-	(32,036)
Customer 4						
Income	1,062	58,887	-	-	-	59,949
(Expenses)	(7,615)	(22,430)	-	-	-	(30,045)
Customer 5						
Income	986	55,228	-	-	-	56,214
(Expenses)	(6,437)	(21,220)	-	-	-	(27,657)
<b>Total by segment</b>	<b>(41,124)</b>	<b>231,459</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>190,335</b>
<b>Previous year, 2016</b>						
Customer 1						
Income	1,626	98,945	-	-	-	100,571
(Expenses)	(13,026)	(80,294)	-	-	-	(93,320)
Customer 2						
Income	1,359	96,367	-	-	-	97,726
(Expenses)	(9,157)	(43,525)	-	-	-	(52,682)
Customer 3						
Income	1,231	89,266	-	-	-	90,497
(Expenses)	(7,389)	(30,171)	-	-	-	(37,560)
Customer 4						
Income	1,198	70,719	-	-	-	71,917
(Expenses)	(6,375)	(25,673)	-	-	-	(32,048)
Customer 5						
Income	1,092	43,759	-	-	-	44,851
(Expenses)	(5,864)	(22,254)	-	-	-	(28,118)
<b>Total by segment</b>	<b>(35,305)</b>	<b>197,139</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,834</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**4. SEGMENT REPORTING(continued)**

**C. Geographic areas**

In thousands of Denars  
December 31, 2017

	Republic of Macedonia	Member countries of European Union	Europe (other)	Member- countries of OECD (without European Member- countries of OECD)	Other	Unallocat ed	Total
<b>Current year, 2017</b>							
Total income	5,865,035	154,224	1,786	125,976	-	-	<b>6,147,021</b>
Total assets	<u>82,390,269</u>	<u>2,166,304</u>	<u>25,089</u>	<u>1,769,513</u>	-	-	<b><u>86,351,175</u></b>
<b>Previous year, 2016</b>							
Total income	5,833,272	200,299	60,104	5,443	-	-	<b>6,099,118</b>
Total assets	<u>82,398,113</u>	<u>2,829,344</u>	<u>848,993</u>	<u>76,890</u>	-	-	<b><u>86,153,340</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

## A. Fair value of financial assets and liabilities

	December 31, 2017		In thousands of Denars December 31, 2016	
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents	17,901,316	17,901,316	17,567,743	17,567,743
Trading assets	3,676	3,676	2,251	2,251
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	159,539	159,539	178,315	178,315
Placement with, and loans to other customers	60,657,198	60,657,198	58,654,991	58,654,991
Investment securities	6,230,521	6,230,521	8,351,655	8,351,655
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	6,898	6,898	-	-
Other receivables	178,749	178,749	147,577	147,577
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	<b>85,137,897</b>	<b>85,137,897</b>	<b>84,902,532</b>	<b>84,902,532</b>
<b>Financial liabilities</b>				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	82,470	82,470	1,742,752	1,742,752
Deposits from other customers	70,880,438	70,880,438	68,291,877	68,291,877
Issued debt securities	-	-	-	-
Borrowings	409,410	409,410	557,727	557,727
Subordinated debt	-	-	-	-
Income tax liabilities (current)	-	-	61,410	61,410
Differed tax liabilities	-	-	-	-
Other liabilities	1,213,031	1,213,031	1,650,795	1,650,795
	<b>72,585,349</b>	<b>72,585,349</b>	<b>72,304,561</b>	<b>72,304,561</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

## B. Levels of fair value of financial assets and liabilities, measured at fair value

## B.1 Levels of fair value of financial assets and liabilities, measured at fair value

	Note	In thousands of Denars			
		Level 1	Level 2	Level 3	Total
<b>Current year, 2017</b>					
<b>Financial assets measured at fair value</b>					
Trading assets	19	3,676	-	-	3,676
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	53.029	6.153.085	24.407	6.230.521
<b>Total</b>		<b>53.029</b>	<b>6.153.085</b>	<b>24.407</b>	<b>6.230.521</b>
<b>Financial liabilities</b>					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Previous year, 2016</b>					
<b>Financial assets measured at fair value</b>					
Trading assets	19	2,251	-	-	2,251
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	-	8.327.248	24.407	8.351.655
<b>Total</b>		<b>-</b>	<b>8.327.248</b>	<b>24.407</b>	<b>8.351.655</b>
<b>Financial liabilities</b>					
<b>Liabilities for trading</b>	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

Total - - - -

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Level of fair value of financial assets and liabilities, measured at fair value (continued)

B.2 Transfers between fair value level 1 and 2

	Current year, 2017		Previous year, 2016	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
<b>Financial assets measured at fair value</b>				
Trading assets	-	-	-	-
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in securities, available for sale	-	-	52.517	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>52.517</b>	<b>-</b>
<b>Financial liabilities</b>				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

## B. Levels of fair value of financial assets and liabilities, measured at fair value (continued)

## B.3 Reconciliation of the Movements in Fair Values Measured at Level 3 During the Year

	Assets for trading	Financial assets at fair value through profit and loss account designated as such at initial recognition	Investments in securities available –for-sale	Total assets	Liabilities for trading	In thousands of Denars	
						Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
<b>Balance at January 1, 2016</b>							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not recognized in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
<b>Balance at December 31, 2016</b>	-	-	-	-	-	-	-
<b>Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2016</b>	-	-	-	-	-	-	-
<b>Balance at January 1, 2017</b>							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
<b>Balance at December 31, 2017</b>	-	-	-	-	-	-	-
<b>Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2017</b>	-	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

## B Levels of fair value of financial assets and financial liabilities, measured at fair value (continued)

*a) 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*.

*b) Held-for-trading financial assets*

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

*c) Placement with, and loans to banks*

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

*d) Placements with and loans to customers*

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate (over 95%). The remaining part of the loans with fixed interest rate relates to "teaser loans", for which the fair value is estimated by the Bank based on the discounted cash flow.

*e) Investment in securities*

The fair value of investments in held-to-maturity financial assets is their carrying amount having regard to the fact that their carrying amount is determined on the basis of discounted cash flows. The fair value of investments in available-for-sale financial assets is determined on the basis of quoted market prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

*f) Other receivables*

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

*g) Deposits from banks*

The fair value of demand and time deposits is their carrying amount.

*h) Deposits from other customers*

The fair value of demand deposits and time 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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

## B Levels of fair value of financial assets and financial liabilities, measured at fair value (continued)

## i) 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 can not be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

## j) Other liabilities

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

## 6. NET INTEREST INCOME /(EXPENSE)

## A. Structure of interest income and expenses by category of financial instruments

	In thousands of Denars	
	Current year 2017	Previous year 2016
<b>Interest income</b>		
Cash and cash equivalents	184,633	183,587
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	29,013	19,821
Placements with and loans to customers	3,943,763	3,896,246
Investments in securities	151,003	245,562
Other receivables	8,541	6,224
(Allowance for impairment of income interest, on net-basis)	(66,194)	(54,906)
Collected previously written-off interest	179,976	230,102
<b>Total interest income</b>	<b>4,430,735</b>	<b>4,526,636</b>
<b>Interest expense</b>		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	29	2,589
Deposits from other customers	745,684	875,902
Issued debt securities	-	-
Borrowings	5,386	7,033
Subordinated debt	-	-
Other liabilities	2,274	3,995
<b>Total interest expense</b>	<b>753,373</b>	<b>889,519</b>
<b>Net interest income / (expense)</b>	<b>3,677,362</b>	<b>3,637,117</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 6. NET INTEREST INCOME/(EXPENSE) (continued)

## B. Sector analysis of interest income and expenses by sector

	In thousands of Denars	
	current year 2017	previous year 2016
<b>Interest income</b>		
Non-financial companies	1,008,261	1,117,150
Government	151,162	245,748
Non-profit institutions servicing households	61	118
Banks	29,747	19,842
Other financial companies (non-banking)	189,110	186,692
Households	2,938,584	2,781,849
Non-residents	28	41
(Allowance for impairment of interest income, on net-basis)	(66,194)	(54,906)
Collected previously written-off interest	179,976	230,102
<b>Total interest income</b>	<b>4,430,735</b>	<b>4,526,636</b>
<b>Interest expense</b>		
Non-financial companies	79,941	87,650
Government	2,248	2,256
Non-profit institutions servicing households	2,683	3,229
Banks	3,174	8,259
Other financial companies (non-banking)	53,506	55,312
Households	599,170	719,513
Non-residents	12,651	13,300
<b>Total interest expense</b>	<b>753,373</b>	<b>889,519</b>
<b>Net interest income / (expense)</b>	<b>3,677,362</b>	<b>3,637,117</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 7. NET FEE AND COMMISSION INCOME/(EXPENSE)

## A. Structure of fee and commission income and expenses by financial activity

	In thousands of Denars	
	current year 2017	previous year 2016
<b>Fee and commission income</b>		
Financing	124,359	116,991
Payment operations		
domestic	306,856	320,486
international	90,768	89,951
L/Cs and L/Gs	46,649	56,000
Brokerage operations	2,056	1,758
Asset management	474	383
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	421,700	391,365
Deposit operations	1,204	1,115
Renting safe-deposit-boxes	8,345	8,533
Third party accounts collection	6,629	9,541
Other	67,257	56,456
<b>Total fee and commission income</b>	<b>1,076,297</b>	<b>1,052,579</b>
<b>Fee and commission expense</b>		
Financing	-	-
Payment operations		
domestic	64,258	72,135
international	22,928	20,475
L/Cs and L/Gs	-	-
Brokerage operations	410	384
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	6,866	7,970
<b>Total fee and commission expense</b>	<b>94,462</b>	<b>100,964</b>
<b>Net fee and commission income / (expense)</b>	<b>981,835</b>	<b>951,615</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 7. NET FEE AND COMMISSION INCOME/(EXPENSE) (continued)

## B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current year 2017	previous year 2016
<b>Fee and commission income</b>		
Non-financial companies	505,887	517,361
Government	3,741	1,854
Non-profit institutions servicing households	49	65
Banks	23,787	21,812
Other financial companies (non-banking)	-	-
Households	515,608	486,993
Non-residents	27,225	24,494
<b>Total fee and commission income</b>	<b>1,076,297</b>	<b>1,052,579</b>
<b>Fee and commission expense</b>		
Non-financial companies	6,160	6,162
Government	-	-
Non-profit institutions servicing households	-	-
Banks	63,282	62,451
Other financial companies (non-banking)	25,020	32,351
Non-residents	-	-
<b>Total fee and commission expense</b>	<b>94,462</b>	<b>100,964</b>
<b>Net fee and commission income / (expense)</b>	<b>981,835</b>	<b>951,615</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 8. NET TRADING INCOME

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2016</b>
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	163
unrealized	-	-
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	64,998
unrealized	1,426	(122)
Income from dividend from trading assets	-	1,311
Income from interest from trading assets	-	-
<i>Trading liabilities</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit /(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	-	-
<b>Net trading income</b>	<b>1,426</b>	<b>66,350</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 9. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

	In thousands of Denars	
	current year 2017	previous year 2016
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
<b>Net income from other financial instruments carried at fair value</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**10. NET FOREIGN EXCHANGE GAINS/(LOSSES)**

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2016</b>
	<u>2017</u>	<u>2016</u>
Realized net foreign exchange gains/(losses)	93,201	143,167
Non-realized net foreign exchange gains/(losses)	-	-
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	-	-
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis	-	-
other foreign exchange gains/(losses), on net basis	14,472	(28,268)
	<u>14,472</u>	<u>(28,268)</u>
<b>Net foreign exchange gains/(losses)</b>	<b><u>107,673</u></b>	<b><u>114,899</u></b>

**11. OTHER OPERATING INCOME**

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2016</b>
	<u>2017</u>	<u>2016</u>
Profit from sales of assets available for sale	-	-
Dividend from equity instruments available for sale	5,723	5,022
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
property and equipment	19,659	651
intangible assets	-	-
foreclosed assets	47,612	30,314
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	1,291	3,192
Income from won court disputes	27,764	13,810
Collected previously written-off receivables	325,248	238,790
Release of special reserves and provisions for:		
off-balance sheet credit exposures	50,066	-
contingent liabilities based on court disputes	-	815
pensions and other benefits for employees	510	-
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
early withdrawal of deposits of non-residents	38,730	29,063
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	1,896	1,657
other income	12,391	15,340
	<u>12,391</u>	<u>15,340</u>
<b>Total other operating income</b>	<b><u>530,890</u></b>	<b><u>338,654</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 12. IMPAIRMENT LOSSES OF FINANCIAL ASSETS, NET

In thousands of Denars

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total
<b>December 31, 2017</b>								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	102	1,424,015	-	-	11,901	17,263	22,497	1,475,778
(Release of allowance for impairment)	(7,671)	(514,324)	-	-	(13,181)	(2,371)	(3,046)	(540,593)
	<u>(7,569)</u>	<u>909,691</u>	<u>-</u>	<u>-</u>	<u>(1,280)</u>	<u>14,892</u>	<u>19,451</u>	<u>935,185</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	15,430	-	-	-	-	-	15,430
(Release of allowance for impairment)	-	(18,471)	-	-	-	-	-	(18,471)
	<u>-</u>	<u>(3,041)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,041)</u>
<b>Total allowance for impairment of financial assets, on net-basis</b>	<b><u>(7,569)</u></b>	<b><u>906,650</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(1,280)</u></b>	<b><u>14,892</u></b>	<b><u>19,451</u></b>	<b><u>932,144</u></b>
<b>December 31, 2016</b>								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	916	1,074,577	-	-	5,652	9,563	8,633	1,099,341
(Release of allowance for impairment)	(654)	(573,820)	-	-	(5,352)	(7,554)	(440)	(587,820)
	<u>262</u>	<u>500,757</u>	<u>-</u>	<u>-</u>	<u>300</u>	<u>2,009</u>	<u>8,193</u>	<u>511,521</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	17,767	-	-	-	-	-	17,767
(Release of allowance for impairment)	-	(38,314)	-	-	-	-	-	(38,314)
	<u>-</u>	<u>(20,547)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,547)</u>
<b>Total allowance for impairment of financial assets, on net-basis</b>	<b><u>262</u></b>	<b><u>480,210</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>300</u></b>	<b><u>2,009</u></b>	<b><u>8,193</u></b>	<b><u>490,974</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

13. IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET

	In thousands of Denars					Total
	Real estate and equipment	Intangible assets	Foreclosed assets	Non-current assets held for sale and group for sale	Other non- financial assets	
<b>December 31, 2017</b>						
Additional impairment loss	-	-	110,306	-	-	110,306
(Release of impairment loss)	-	-		-	-	-
<b>Total impairment loss of non-financial assets, on net-basis</b>	<b>-</b>	<b>-</b>	<b>110,306</b>	<b>-</b>	<b>-</b>	<b>110,306</b>
<b>December 31, 2016</b>						
Additional impairment loss	-	-	154,022	-	-	154,022
(Release of impairment loss)	-	-		-	-	-
<b>Total impairment loss of non-financial assets, on net-basis</b>	<b>-</b>	<b>-</b>	<b>154,022</b>	<b>-</b>	<b>-</b>	<b>154,022</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 14. PERSONNEL EXPENSES

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2016</b>
<b>Short-term personnel benefits</b>		
Salaries	446,463	444,403
Compulsory contributions for social and health insurance	217,836	217,917
Short-term paid leaves	-	-
Costs for temporary employment	14,022	12,063
Share in profit and remuneration	893	216
Non-monetary benefits	-	-
Other personnel benefits	120,767	99,580
	<u>799,981</u>	<u>774,179</u>
<b>Post retirement benefits</b>		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	-	44
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	1,085	21,090
	<u>1,085</u>	<u>21,134</u>
<b>Total personnel expenses</b>	<b><u>801,066</u></b>	<b><u>795,313</u></b>

The amounts referring to provisions for retirement benefits in the amount of Denar 3,291 thousand (2016: Denar 7,806 thousand) are presented in Note 38.

	current year <b>2017</b>	previous year <b>2016</b>
Average number of employees for the period	1,037	1,047
Number of permanent employees at year-end	1,047	1,052
Number of temporary employees at year-end	-	-

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**December 31, 2017**

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 15. DEPRECIATION

	In thousands of Denars	
	current year 2017	previous year 2016
<b>Depreciation of intangible assets</b>		
Internally developed software	-	-
Software acquired from external suppliers	34,762	30,646
Other internally developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>34,762</u>	<u>30,646</u>
<b>Depreciation of property and equipment</b>		
Buildings	30,341	31,155
Means of transport	-	-
Furniture and equipment	57,735	51,227
Other equipment	2,156	1,540
Other items of property and equipment	1,325	1,390
Property and equipment leasehold improvements	10,457	9,155
	<u>102,014</u>	<u>94,467</u>
<b>Total depreciation</b>	<u><u>136,776</u></u>	<u><u>125,113</u></u>

## 16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current year 2017	previous year 2016
Losses from sale of assets available for sale	12	-
Software licensing expense	-	-
Deposit insurance premium	246,731	263,497
Premium on property and employee insurance	11,945	11,137
Materials and services	570,946	529,182
Administrative and marketing expense	117,848	135,897
Other taxes and contributions	2,118	2,224
Rental expense	54,661	57,430
Court dispute expense	2,721	2,339
Special reserve for off-balance sheet exposure, on a net basis	-	12,912
Provisions for pension and other employee benefits, on a net basis	1,868	1,399
Provisions for contingent liabilities based on court disputes, on a net basis	9,369	-
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	2	-
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		

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business trip expense	4,058	6,313
other costs	12,883	17,162
<b>Total other operating expenses</b>	<b>1,035,162</b>	<b>1,039,492</b>

**17. INCOME TAX**

**A. Expenses/ (income) based on current and deferred income tax**

	In thousands of Denars	
	current year 2017	previous year 2016
	_____	_____
<b>Current income tax</b>		
Expenses/(income) for current income tax for the year	239,612	263,930
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	_____	_____
	239,612	263,930
<b>Deferred income tax</b>		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	_____	_____
	-	-
	_____	_____
<b>Total income tax expenses/(returns)</b>	<b>239,612</b>	<b>263,930</b>

	In thousands of Denars	
	current year 2017	previous year 2016
	_____	_____
<b>Current income tax</b>		
Recognized in income statement	239,612	263,930
Recognized in capital and reserves	-	-
	_____	_____
	239,612	263,930
<b>Deferred income tax</b>		
Recognized in income statement	-	-
Recognized in capital and reserves	-	-
	_____	_____
	-	-
	_____	_____

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

Total income tax expenses/(returns) 239,612 263,930

In accordance with the Income Tax Law which is in appliance for the fiscal 2017 and 2016, basis for taxation represents the realized gross profit (difference between the total income and expenditures) increased by certain costs that are not subject to taxation, or decreased by certain income, investments and similar which are not subject to taxation..

17. INCOME TAX (continued)

A. Expenses/(income) based on current and deferred income tax (continued)

In accordance with the previous Law on income tax, the accumulated in distributed profit for the period from 2009 to 2013 shall be subject to taxation at the moment of its distribution.

B. Reconciliation of the effective average tax rate with the applicable tax rate

	in %	In thousands of Denars	in%	In thousands of Denars
	current year 2017		previous year 2016	
Profit/(loss) before taxation	100,00	2,283,732	100.00	2,503,721
Income tax as per applicable tax rate	10,00	228,373	10.00	250,372
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0,52	11,811	0.56	14,060
Tax-exempted income	-	-	-	-
Tax exemptions unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	(0,03)	(572)	(0.02)	(502)
<b>Total expenses/(return) on income tax</b>	<b>10.49</b>	<b>239,612</b>	<b>10.54</b>	<b>263,930</b>
<b>Average effective tax rate</b>	<b>10.49</b>		<b>10.54</b>	

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 17. INCOME TAX (continued)

## B Income tax from other gains / (losses) in the period not disclosed in the Income Statement

	In thousands of Denars					
	Current year, 2017			Previous year, 2016		
	Before taxation	Expenditure/ return of income tax	Less Income tax	Before taxation	Expenditure/ return of income tax	Less Income tax
Revaluated reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against the cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk of net investments in foreign operations	-	-	-	-	-	-
Reserve of foreign exchange differences from investments in foreign operations	-	-	-	-	-	-
Share in other gains / (losses) of affiliates companies that are not shown in the Income Statement	-	-	-	-	-	-
Other gains / (losses) not shown in the Income Statement	-	-	-	-	-	-
Total other gains / (losses) in the period that are not shown in the Income Statement	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

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## 18. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2016</b>
Cash on hand	1.143.282	1.249.952
Accounts and deposits with NBRM, besides mandatory FCdeposits	4.724.032	4.688.961
Current accounts and transaction deposits with foreign banks	1.638.896	1.644.863
Current accounts and transaction deposits with local banks	90	609
Treasury bills that may be traded in the secondary market	5.128.841	4.803.007
Government bills that may be traded in the secondary market	-	-
Time deposits up to 3 months	2.398.378	2.241.516
Other short-term highly liquid assets	308	350
Receivables based on interest (allowance for impairment loss)	(445)	(1.726)
<b>Included in cash and cash equivalents for the needs of the Statement on cash flows</b>	<b>15.033.382</b>	<b>14.627.532</b>
Mandatory FC deposits	2.770.408	2.897.551
Restricted deposits (allowance for impairment loss)	97.526	42.660
	-	-
<b>Total</b>	<b>17.901.316</b>	<b>17.567.743</b>

	In thousands of Denars	
	current year <b>2017</b>	previous year <b>2017</b>
<b>Movement of allowance for impairment</b>		
On January 1	1.726	1.426
Allowance for impairment for the year		
Additional allowance for impairment	11.901	5.652
(release from allowance for impairment)	(13.182)	(5.352)
(foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
<b>On December 31</b>	<b>445</b>	<b>1.726</b>

Level of mandatory deposits in foreign currency is determined in the amount of 2.770.408 thousands of Denars (2016: 2.897.551 thousands of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with NBRM. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies in 2017 and 2016 are not calculated interest.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**18. CASH AND CASH EQUIVALENTS (continued)**

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 4,724,032 thousands of Denars (2016: 4,688,961 thousands of Denars), represent mandatory reserve in Denars. On the mandatory reserves in Denars in 2017 and 2016 are not bear an interest.

Treasury bills that can be traded at the secondary market in the amount of 5,128,841 thousands of Denars (2016: 4,803,007 thousands of Denars) have been purchased from NBRM with maturity period of 35 days. Depending on maturity, interest rates on these bills are 3,50% (2016: 3,50%).

**19. TRADING ASSETS**

**A Structure of trading assets by type of financial instrument**

	In thousands of Denars	
	current year 2017	previous year 2016
	_____	_____
<b><i>Trading securities</i></b>		
<i>Debt securities for trading</i>		
Treasury bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	_____	_____
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	3,676	2,251
Other equity instruments	-	-
	_____	_____
	3,676	2,251
Quoted	3,676	2,251
Unquoted	-	-
<b><i>Trading derivatives</i></b>		
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	-
Agreements dependant on changes in price of securities	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

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Other agreements that meet the IAS 39 criteria

**Total trading assets**

-	-
<u>3,676</u>	<u>2,251</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
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**19. TRADING ASSETS (continued)**

**B. Reclassified trading assets**

**B.1 Balance of the reclassified trading assets**

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year, 2017		Previous year, 2016	
		Book amount on 31.12.2017	Fair value on 31.12.2017	Book amount on 31.12.2016	Fair value on 31.12.2016
Trading assets, reclassified in 2017 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2016 (previous year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-

The Bank trades in 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 companies in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these companies.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 19. TRADING ASSETS (continued)

## B. Reclassified trading assets (continued)

## B.2 Profit and loss from reclassified trading assets

	In thousands of Denars					
	Reclassified in 2017 (Current year)		Reclassified in 2016 (previous year)			
	Income Statement 2017 (Current year)	Other profit /(loss) 2017 (Current year)	Income Statement 2017 (Current year)	Other profit /(loss)2017 (Current year)	Income Statement 2016 (Previous year)	Other profit /(loss)2016 (Previous year)
<b>Period before reclassification</b>						
Trading assets, reclassified in financial assets available-for-sale						
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
<b>Period after reclassification</b>						
Trading assets, reclassified in financial assets available-for-sale						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
- changes in the fair value on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 19. TRADING ASSETS (continued)

## B. Reclassified trading assets (continued)

## B.3 Profit or loss recognized in the Income Statement if assets have not been reclassified

	In thousands of Denars		
	Reclassified in	Reclassified in 2016 (previous year)	
	2017 (Current year)	Income Statement 2017 (Current year)	Income Statement 2016 (Previous year)
Trading assets, reclassified in financial assets available- for-sale			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from banks			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from other customers			
- Net income from trading	-	-	-

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT, DETERMINED AS SUCH AT INITIAL RECOGNITION

	In thousands of Denars	
	current year	previous year
	2017	2016
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
<b>Total financial assets at fair value through the income statement determined as such at initial recognition</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
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**21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT**

		In thousands of Denars			
		current year 2017		previous year 2016	
		derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
<b>A.</b>	<b>Derivatives for protection against risk/Derivatives held for risk management</b>				
A.1	<i>by type of variable</i>				
	<b>Derivatives held for risk management</b>				
	Agreements dependant on interest rate change	-	-	-	-
	Agreements dependant on exchange rate change	-	-	-	-
	Agreements dependant on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	<b>Total derivatives held for risk management</b>	-	-	-	-
A.2	<i>by type of protection against risk</i>				
	Protection against risk to fair value	-	-	-	-
	Protection against risk to cash flows	-	-	-	-
	Protection against risk to net investment in international operations	-	-	-	-
	<b>Total derivatives held for risk management</b>	-	-	-	-
<b>B</b>	<b>Inherent derivatives</b>				
	Agreements dependant on interest rate change	-	-	-	-
	Agreements dependant on exchange rate change	-	-	-	-
	Agreements dependant on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	<b>Total inherent derivatives</b>	-	-	-	-
	<b>Total derivatives held for risk management</b>	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
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**22. LOANS AND PLACEMENTS**

**22.1 PLACEMENTS WITH AND LOANS TO BANKS**

	<b>current year 2017</b>		<b>In thousands of Denars previous year 2016</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Loans to banks				
domestic banks	-	-	-	-
foreign banks	25,089	-	33,210	-
Time deposits at maturity period of				
over 3 months				
domestic banks	-	-	-	-
foreign banks	-	149,790	-	168,522
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Receivables based on interests	1,025	-	517	-
Current maturity	-	-	-	-
<b>Total placements with and loans to banks before allowance for impairment</b>	<b>26,114</b>	<b>149,790</b>	<b>33,727</b>	<b>168,522</b>
(Allowance for impairment)	(16,365)	-	(23,934)	-
<b>Total placements with and loans to banks less allowance for impairment</b>	<b>9,749</b>	<b>149,790</b>	<b>9,793</b>	<b>168,522</b>

	<b>In thousands of Denars</b>	
	<b>current year 2017</b>	<b>previous year 2016</b>
<b>Movements of allowance for impairment</b>		
As at January 1	23,934	23,879
Allowance for impairment for the year		
Additional allowance for impairment	102	916
(Release of allowance for impairment)	(7,671)	(654)
(Foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	(207)
<b>As at December 31</b>	<b>16,365</b>	<b>23,934</b>

Part of loans and advances with banks amounting to 19,071 thousands of Denars (2016: 21,284 thousands of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002 (Note 34.1).

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**22. LOANS AND PLACEMENTS (continued)**

**22.1 PLACEMENTS WITH AND LOANS TO BANKS (continued)**

Part of facilities with foreign banks are as well the restricted accounts totalling 149,790 thousands of Denars (2016: 168,522 thousands of Denars), which represent deposits with United Overseas Bank Limited Singapore and HSBC Bank PLC London, Great Britain, as collateral for VISA and Master credit card transactions. These funds are not available in Bank's daily operations.

**22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS**

**A. Structure of placements with and loans to customers by type of debtor**

	In thousands of Denars			
	current year 2017		previous year 2016	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	10,792,216	11,205,353	11,934,084	10,816,720
interest receivables	62,194	-	77,542	-
Government				
receivables upon principal	1,095	112	1,452	323
interest receivables	1	-	1	-
Non-profit institutions that serve households				
receivables upon principal	-	609	12	1,435
interest receivables	3	-	4	-
Financial companies, besides banks				
receivables upon principal	12,300	18,713	-	938
interest receivables	-	-	-	-
Households				
receivables upon principal				
housing loans	273,927	9,229,547	289,713	8,977,505
consumer loans	803,691	22,867,022	698,243	19,818,448
auto loans	1,482	53,141	2,842	62,841
mortgage loans	-	-	-	-
credit cards	359,048	6,566,448	373,499	6,910,522
other loans	131,497	1,724,288	119,349	1,721,884
interest receivables	128,105	-	118,189	-
Non-residents, besides banks				
receivables upon principal	972	96	841	978
interest receivables	1	-	-	-
Current maturity	10,690,032	(10,690,032)	10,311,506	(10,311,506)
<b>Total placements with and loans to customers before allowance for impairment</b>	<b>23,256,564</b>	<b>40,975,297</b>	<b>23,927,277</b>	<b>38,000,088</b>
(Allowance for impairment)	(2,926,146)	(648,517)	(489,344)	(2,783,030)

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Total placements with and loans to customers less allowance for impairment

20,330,418    40,326,780    23,437,933    35,217,058

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

A. Structure of placements with and loans to customers by type of debtor (continued)

	In thousands of Denars	
	current year 2017	previous year 2016
	<u>2017</u>	<u>2016</u>
<b>Movement of allowance for impairment on a separate basis</b>		
As at 1 January	3,262,123	6,418,930
Allowance for impairment for the year		
Additional allowance for impairment	1,424,015	1,074,577
(Release of allowance for impairment)	(514,324)	(573,820)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(604,361)	(3,657,564)
<b>As at 31 December</b>	<b><u>3,567,453</u></b>	<b><u>3,262,123</u></b>
<b>Movement of allowance for impairment on a group basis</b>		
As at 1 January	10,251	30,798
Allowance for impairment for the year		
Additional allowance for impairment	15,430	17,767
(Release of allowance for impairment)	(18,471)	(38,314)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
<b>As at 31 December</b>	<b><u>7,210</u></b>	<b><u>10,251</u></b>
<b>Total allowance for impairment for placements with and loans to customers</b>	<b><u>3,574,663</u></b>	<b><u>3,272,374</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 22. LOANS AND PLACEMENTS (continued)

## 22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

## B. Structure of placements with and loans to customers by type of security

	In thousands of Denars	
	current year 2017	previous year 2016
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	1,369,254	1,316,998
government securities	-	-
government unconditional guarantees	1,090,063	1,257,570
bank guarantees	503,953	15,585
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	335,029	560,140
Guarantees from individuals	-	-
Property pledge:		
private property (flats, houses)	13,857,667	12,934,763
commercial property	13,035,390	13,016,413
Pledge over movables	1,798,671	1,717,727
Other types of collateral	543,555	1,285,040
Unsecured	28,123,616	26,550,755
<b>Total placements with and loans to customers less allowance for impairment</b>	<b>60,657,198</b>	<b>58,654,991</b>

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2017

**22. LOANS AND PLACEMENTS (continued)****22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)****Risks and uncertainties**

The 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 influenced by the 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 recovery of the Bank's receivables. The receivables from such debtors were classified on the bases of the latest available information and expectations of the restructuring process effects.

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment and in the case of retail services the loans collateralization depends on the type of loan product. Depending on the classification of loans, the Management is placing maximal efforts for prompt realization of the collateral. In case this proves to be unsuccessful, it will be needed to make additional provisions for impairment losses in future.

The Bank's operation could be influenced by the financial trends in case of deterioration of the overall global and local economic environment. In 2017 and 2016, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems given the fact that it undertook measures of strengthening its capital base by retaining the income.

The Management of the Bank has adequately reacted to any developments on the market and the entire economy. Some of the undertaken measures are: limiting the long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening the monitoring of large customers and industrial sectors to which the Bank is mostly exposed, providing appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial market, whereat it is possible to have increase the collateral limits. The aforementioned is focusing on protection and development of the current and future customer/borrower/depositor base heading to achievement of the Bank's goals and objectives for 2017 and beyond.

Presently, the influence of the adverse economic trends at the global level and in the country has limited impact on the Bank's operations; however, the future unfavourable developments in certain industries may influence the customer's ability to service their liabilities, which may consequently impact the level of impairment of loans. Based on the aforementioned, any additional impairment, if any, cannot be determined at this stage with rational accuracy.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 23. INVESTMENTS IN SECURITIES

## 23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE

## A. Structure of investments in financial assets available-for-sale by type of financial instrument

	In thousands of Denars	
	Current year 2017	Previous year 2016
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	5,148,157	6,908,609
Other instruments in the money market		
Government bonds	1,004,928	1,366,122
Corporate bonds		
Other debt instruments		
	<u>6,153,085</u>	<u>8,274,731</u>
Quoted		
Unquoted	6,153,085	8,274,731
<i>Equity instruments</i>	-	-
Equity instruments issued by banks		
Other equity instruments	174,519	176,961
	<u>147,519</u>	<u>176,961</u>
Quoted	-	-
Unquoted	174,519	176,961
<b>Total investment in financial instruments available for sale before allowance for impairment</b>	<b>6,327,604</b>	<b>8,451,692</b>
<i>(Allowance for impairment)</i>	<u>(97,083)</u>	<u>(100,037)</u>
<b>Total investment in financial instruments available for sale reduced by the allowance for impairment</b>	<b><u>6,230,521</u></b>	<b><u>8,351,655</u></b>

	In thousands of Denars	
	Current year 2017	Previous year 2016
<b>Movements of allowance for impairment</b>		
Balance on January 1	100,037	281,882
Allowance for impairment for the year:		
Additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	(13,817)
(Written off receivables)	(2,954)	(168,028)
	<u>(2,954)</u>	<u>(168,028)</u>
<b>Balance on December 31</b>	<b><u>97,083</u></b>	<b><u>100,037</u></b>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

23. INVESTMENTS IN SECURITIES (continued)

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

B. Reclassified financial assets available-for-sale

B.1 Balance of the reclassified financial assets available-for-sale

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year 2017		Previous year 2016	
		Book value on 31.12.2017	Fair value on 31.12.2017	Book value on 31.12.2016	Fair value on 31.12.2016
Assets available-for-sale reclassified in 2017 (current year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2016 (previous year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-

B.2 Profit and loss from reclassified assets available-for-sale

	In thousands of Denars			
	Income Statement 2017	Other profit /(loss) 2017	Income Statement 2016	Other profit /(loss) 2016
<b>Period before reclassification</b>				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
<b>Period after reclassification</b>				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 23. INVESTMENT IN SECURITIES (continued)

## 23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

## B. Reclassified financial assets available-for-sale (continued)

## B.3 Profit or loss that would have been recognized if assets were not reclassified

	In thousands of Denars			
	Income Statement 2017 (current year)	Other profit /(loss) 2017	Income Statement 2016 (previous year)	Other profit /(loss) 2016
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 23. INVESTMENT IN SECURITIES (continued)

## 23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES

	In thousands of Denars	
	Current year 2017	Previous year 2016
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	<hr/>	<hr/>
	-	-
Quoted	-	-
Unquoted	-	-
	<hr/>	<hr/>
<b>Total investment in financial instruments hold to maturity before allowance for impairment</b>	-	-
(Allowance for impairment)	-	-
	<hr/>	<hr/>
<b>Total investment in financial instruments hold to maturity reduced by the allowance for impairment</b>	-	-
	<hr/> <hr/>	<hr/> <hr/>

	In thousands of Denars	
	Current year 2017	Previous year 2016
<b>Movements of allowance for impairment</b>		
Balance on January 1	-	-
Allowance for impairment for the year:		
additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	<hr/>	<hr/>
<b>Balance on December 31</b>	-	-
	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 24. INVESTMENT IN ASSOCIATES

## A. Bank's participation percentage in subsidiaries and associates

Name of subsidiaries and associates	Country	Share percentage in ownership		Percentage of voting share	
		Current year	Previous year	Current year	Previous year
		2017	2016	2017	2016
-	-	-	-	-	-

## B. Financial data of associates – 100 %

Name of associates	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the fin. year
Current year 2017	-	-	-	-	-
Previous year 2016	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

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## 25. OTHER RECEIVABLES

	In thousands of Denars	
	Current year	Previous year
	2017	2016
Trade receivables	73,339	17,210
Prepaid expenses	29,734	19,893
Deferred income	-	1,755
Fees and commissions receivables	36,640	29,203
Receivables from the employees	1,354	1,421
Advances for intangible assets	-	-
Advances for property and equipment	-	2
Other:		
Materials in stocks	12,667	10,579
Numismatic collections	9,907	9,907
Arka sub-branch (judicial process)	11,500	11,500
Receivables for disbursements to foreign VISA cards	51,910	73,213
Other	13,370	12,898
<b>Total other receivables before allowance for impairment</b>	<b>240,421</b>	<b>187,581</b>
(Allowance for impairment)	(61,942)	(40,004)
<b>Total other receivables reduced for the allowance for impairment</b>	<b>178,479</b>	<b>147,577</b>

	In thousands of Denars	
	Current year	Previous year
	2017	2016
<b>Movements of allowance for impairment</b>		
Balance on January 1	40,004	82,527
Allowance for impairment for the year:		
Additional allowance for impairment	39,760	18,196
(release of the allowance for impairment)	(5,418)	(7,994)
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(12,404)	(52,725)
<b>Balance on December 31</b>	<b>61,942</b>	<b>40,004</b>

## 26. COLLATERALIZED ASSETS

	In thousands of Denars	
	Current year	Previous year
	2017	2016
Debt securities	-	-
Equity instruments	-	-
<b>Total collateralized assets</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS**

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and apartments	Other valuables	Total
<b>Cost</b>						
Balance on 1 <sup>st</sup> January 2016	5,453	606,739	34,557	103,666	276	750,691
Assets acquired during the year	-	127,243	-	2,914	23	130,180
(Sold during the year)	-	(102,610)	(5,141)	(6,918)	(276)	(114,945)
(Transferred to own assets)	12,287	164	-	(12,407)	-	44
<b>Balance on 31<sup>st</sup> December 2016</b>	<b>17,740</b>	<b>631,536</b>	<b>29,416</b>	<b>87,255</b>	<b>23</b>	<b>765,970</b>
Balance on 1 <sup>st</sup> January 2017	17,740	631,536	29,416	87,255	23	765,970
Assets acquired during the year	10	176,115	-	-	7,634	183,759
(Sold during the year)	(44)	(63,494)	(2,445)	(11,803)	-	(77,786)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>17,706</b>	<b>744,157</b>	<b>26,971</b>	<b>75,452</b>	<b>7,657</b>	<b>871,943</b>
<b>Impairment</b>						
Balance on 1 <sup>st</sup> January 2016	4,333	356,394	34,557	66,109	276	461,669
Impairment loss during the year	2,273	147,615	-	29,390	-	179,278
(Sold during the year)	-	(58,934)	(5,141)	(5,233)	(276)	(69,584)
(Transferred to own assets)	5,991	3,475	-	(6,795)	-	2,671
<b>Balance on 31<sup>st</sup> December 2016</b>	<b>12,597</b>	<b>448,550</b>	<b>29,416</b>	<b>83,471</b>	<b>-</b>	<b>574,034</b>
Balance on 1 <sup>st</sup> January 2017	12,597	448,550	29,416	83,471	-	574,034
Impairment loss during the year	5,135	152,753	-	1,125	6,123	165,136
(Sold during the year)	(26)	(55,344)	(2,445)	(10,824)	-	(68,639)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>17,706</b>	<b>545,959</b>	<b>26,971</b>	<b>73,772</b>	<b>6,123</b>	<b>670,531</b>
<b>Current carrying amount</b>						
Balance on 1 <sup>st</sup> January 2016	1,120	250,345	-	37,557	-	289,022
<b>Balance on 31<sup>st</sup> December 2016</b>	<b>5,143</b>	<b>182,986</b>	<b>-</b>	<b>3,784</b>	<b>23</b>	<b>191,936</b>
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>-</b>	<b>198,198</b>	<b>-</b>	<b>1,680</b>	<b>1,534</b>	<b>201,412</b>

Assets acquired on the basis of outstanding claims consist of assets that are not used in the regular operations of the Bank, except in rare cases when the Bank uses them for its own activities. During 2017, the Bank recorded impairment losses on these assets in the total amount of Denar 165,136 thousand (2016: Denar 179,278 thousand).

During this period, the Bank sold 17 assets (2016: 8 assets) totalling MKD 9,147 thousand (2016: Denar 47,990 thousand), and took over 8 objects (2016: 7 objects) value totalling Denar 128,951 thousand (2016: Denar 100,606 thousand). Activities are undertaken for the preparation for sale of the assets taken over in 2017 because the Bank's general policy is these facilities to be sold within a period of 3 years.

## NOTES TO THE FINANCIAL STATEMENTS

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## 28. INTANGIBLE ASSETS

## A. Reconciliation of the current book value

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets	Total
<b>Cost</b>							
Balance at 1 January 2016	-	658,624	-	-	4,719	-	663,343
increases through new purchases	-	49,566	-	-	-	-	49,566
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals )	-	2,902	-	-	(2,902)	-	-
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>711,092</b>	<b>-</b>	<b>-</b>	<b>1,817</b>	<b>-</b>	<b>712,909</b>
Balance at 1 January 2017	-	711,092	-	-	1,817	-	712,909
increases through new purchases	-	26,856	-	-	6,939	-	33,795
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals )	-	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>737,948</b>	<b>-</b>	<b>-</b>	<b>8,756</b>	<b>-</b>	<b>746,704</b>
<b>Depreciation and impairment</b>							
Balance at 1 January 2016	-	576,633	-	-	-	-	576,633
Depreciation for the year	-	30,646	-	-	-	-	30,646
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
<b>Balance at 31 December 2016</b>	<b>-</b>	<b>607,279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>607,279</b>
<b>Balance at 1 January 2017</b>	<b>-</b>	<b>607,279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>607,279</b>
Depreciation for the year	-	34,762	-	-	-	-	34,762
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>642,041</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>642,041</b>
Current book value at							
January 1, 2016	-	81,991	-	-	4,719	-	86,710
December 31, 2016	-	103,813	-	-	1,817	-	105,630
December 31, 2017	-	95,907	-	-	8,756	-	104,663

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 28. INTANGIBLE ASSETS (continued)

## B. Carrying value of intangible assets where there is a limitations of ownership and / or pledged as collateral for the liabilities to the bank

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets	Total
Current book value at							
December 31, 2016	-	-	-	-	-	-	-
December 31, 2017	-	-	-	-	-	-	-

On December 31, 2017 and 2016, the Bank has no intangible assets for which there is limitations of ownership and /or pledged as collateral for the liabilities to the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 29. REAL ESTATE AND EQUIPMENT

## A. Reconciliation of the present carrying amount

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
<b>Cost</b>									
On 1 January 2016	-	1,203,066	5,841	1,176,649	66,764	57,888	14,648	152,976	2,677,832
Increases	-	25,290	-	82,177	5,357	-	8,713	12,961	134,498
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(775)	-	(103)	-	(5,052)	(677)	-	(6,607)
(entering through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	368	-	-	-	-	624	309	1,301
<b>On December 31, 2016</b>	<b>-</b>	<b>1,227,949</b>	<b>5,841</b>	<b>1,258,723</b>	<b>72,121</b>	<b>52,836</b>	<b>23,308</b>	<b>166,246</b>	<b>2,807,024</b>
On 1 January 2017	-	1,227,949	5,841	1,258,723	72,121	52,836	23,308	166,246	2,807,024
Increases	-	29,661	-	23,942	3,940	186	2,573	10,353	70,655
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(10,506)	-	(359,747)	(18,157)	(5,465)	-	-	(393,875)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	9,411	-	(18)	-	-	(18,261)	(25,858)	(34,726)
<b>On December 31, 2017</b>	<b>-</b>	<b>1,256,515</b>	<b>5,841</b>	<b>922,900</b>	<b>57,904</b>	<b>47,557</b>	<b>7,620</b>	<b>150,741</b>	<b>2,449,078</b>
<b>Depreciation and impairment</b>									
On 1 January 2016	-	514,482	5,841	1,039,914	56,234	24,503	-	121,788	1,762,762
Depreciation for the year	-	31,155	-	51,227	1,540	1,390	-	9,155	94,467
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(480)	-	(103)	-	(2,864)	-	-	(3,447)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-	-
<b>On December 31, 2016</b>	<b>-</b>	<b>545,157</b>	<b>5,841</b>	<b>1,091,038</b>	<b>57,774</b>	<b>23,029</b>	<b>-</b>	<b>130,943</b>	<b>1,853,782</b>
On 1 January 2017	-	545,157	5,841	1,091,038	57,774	23,029	-	130,943	1,853,782
Depreciation for the year	-	30,341	-	57,735	2,156	1,325	-	10,457	102,014
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(9,526)	-	(356,123)	(18,033)	(2,982)	-	-	(386,664)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	(10)	-	-	-	(27,517)	(27,527)
<b>On December 31, 2017</b>	<b>-</b>	<b>565,972</b>	<b>5,841</b>	<b>792,640</b>	<b>41,897</b>	<b>21,372</b>	<b>-</b>	<b>113,883</b>	<b>1,541,605</b>
<b>Current carrying amount</b>									
On January 1, 2016	-	688,584	-	136,735	10,530	33,385	14,648	31,188	915,070
<b>On December 31, 2016</b>	<b>-</b>	<b>682,792</b>	<b>-</b>	<b>167,685</b>	<b>14,347</b>	<b>29,807</b>	<b>23,308</b>	<b>35,303</b>	<b>953,242</b>

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On December 31, 2017	<u>-</u>	<u>690,543</u>	<u>-</u>	<u>130,260</u>	<u>16,007</u>	<u>26,185</u>	<u>7,620</u>	<u>36,858</u>	<u>907,473</u>
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**29. REAL ESTATE AND EQUIPMENT (continued)**

**B. Carrying amount of tangible assets for which there is a limit on ownership and / or pledged as collateral for the liabilities to the bank**

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
Current carrying amount									
On December 31, 2016	-	-	-	-	-	-	-	-	-
On December 31, 2017	-	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2017 includes assets with a net book value of Denar 4,334 thousand (2016: Denar 8,356 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

**30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES****30.1 Current tax assets and current tax liabilities**

	In thousands of Denars	
	Current year	Previous year
	2017	2016
Income tax receivable (current)	6,899	-
Income tax payable (current)	-	61,410

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

## 30.2 Deferred tax assets and deferred tax liabilities

## A. Recognized deferred tax assets and deferred tax liabilities

	31 December 2017			In thousands of Denars 31 December 2016		
	Deferred tax assets	Deferred tax liabilities	Net basis	Deferred tax assets	Deferred tax liabilities	Net basis
Derivative assets held for risk management	-	-	-	-	-	-
Loans to and receivables on banks	-	-	-	-	-	-
Loans to and receivables on other customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Real estate and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Deferred tax assets / liabilities recognized in the income statement</b>	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Hedging of cash flows	-	-	-	-	-	-
<b>Deferred tax assets / liabilities recognized in the equity</b>	-	-	-	-	-	-
<b>Total recognized deferred tax assets / liabilities</b>	-	-	-	-	-	-

## B. Unrecognized deferred tax assets

	In thousands of Denars	
	Current year 2017	Previous year 2016
Tax losses	-	-
Tax credits	-	-
<b>Total unrecognized deferred tax assets</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)**

**30.2 Deferred tax assets and deferred tax liabilities (continued)**

**C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year**

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in equity	Balance at December 31
<b>31 December 2016</b>				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
<b>Total recognized deferred tax assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)**

**30.2 Deferred tax assets and deferred tax liabilities (continued)**

**C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year (continued)**

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in equity	Balance at December 31
<b>31 December 2017</b>				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
<b>Total recognized deferred tax assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**31. NON-CURRENT ASSETS HELD FOR SALE AND GROUPS FOR DISPOSAL**

**A. Non-current assets held for sale**

	In thousands of Denars	
	Current year 2017	Previous year 2016
Intangible assets	-	-
Property and equipment	-	-
<b>Total non-current assets held for sale</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 31. NON-CURRENT ASSETS HELD FOR SALE AND GROUPS FOR DISPOSAL (continued)

## B. Group for disposal

	In thousands of Denars	
	Current year 2017	Previous year 2016
<i>Group of assets for disposal</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in associates	-	-
Income tax receivables	-	-
Other assets	-	-
<b>Total group of assets for sale</b>	<b>-</b>	<b>-</b>
<i>Liabilities directly related to the group of assets for disposal</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
<b>Total liabilities directly related to the group of assets for disposal</b>	<b>-</b>	<b>-</b>

## C. Profit/ (loss) recognized from sale of assets held for sale and group for disposal

	In thousands of Denars	
	Current year 2017	Previous year 2016
Profit/(loss) recognized from sale of held for sale assets and group for disposal	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**32. TRADING LIABILITIES**

	In thousands of Denars	
	Current year <b>2017</b>	Previous year  <b>2016</b>
	<hr/>	<hr/>
<i>Deposits from banks</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<hr/>	<hr/>
	-	-
<i>Deposits from other clients</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<hr/>	<hr/>
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	<hr/>	<hr/>
	-	-
<i>Other financial liabilities</i>	-	-
<i>Derivatives for trading</i>		
Agreements depending on the change of interest rate	-	-
Agreements depending on changes in the exchange rate	-	-
Agreements depending on the change of the price of securities	-	-
Other agreements that meet the criteria of IAS 39	-	-
	<hr/>	<hr/>
<b>Total liabilities held for trading</b>	<hr/> <b>-</b>	<hr/> <b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 33. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT, DETERMINED AS SUCH AT INITIAL RECOGNITION

	Current year 2017		In thousands of Denars Previous year 2016	
	Current carrying amount	Agreed amount, payable at maturity	Current carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>				
	-	-	-	-
<i>Other liabilities</i>				
	-	-	-	-
<b>Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition</b>	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 34. DEPOSITS

## 34.1 DEPOSITS FROM BANKS

	Current year 2017		In thousands of Denars Previous year 2016	
	short-term	long-term	short-term	long-term
Current accounts				
with domestic banks	55,728	-	88,506	-
with foreign banks	7,671	-	1,632,962	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	19,071	-	21,284	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Interest payable on deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Current maturity	-	-	-	-
<b>Total deposits from banks</b>	<b>82,470</b>	<b>-</b>	<b>1,742,752</b>	<b>-</b>

The restricted deposits with foreign banks in the amount of Denar 19,071 thousand (2016: Denar 21,284 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 34. DEPOSITS (continued)

## 34.2 DEPOSITS FROM OTHER CLIENTS

	In thousands of Denars			
	Current year 2017		Previous year 2016	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	9,182,182	-	8,823,207	-
Demand deposits	172,080	-	79,455	-
Time deposits	1,150,322	1,119,776	1,678,629	957,835
Restricted deposits	242,539	521,418	199,217	492,975
Other deposits	6,045	-	2,123	-
Interest payable on deposits	19,973	-	18,403	-
	10,773,141	1,641,194	10,801,034	1,450,810
State				
Current accounts	55,747	-	48,953	-
Demand deposits	-	-	-	-
Time deposits	5,000	-	-	-
Restricted deposits	72	-	72	-
Other deposits	-	-	-	-
Interest payable on deposits	-	-	-	-
	60,819	-	49,025	-
Non-profit institutions serving the households				
Current accounts	494,339	-	475,528	-
Demand deposits	-	-	-	-
Time deposits	158,631	19,580	185,124	22,655
Restricted deposits	3,283	410	9,588	409
Other deposits	-	-	-	-
Interest payable on deposits	970	-	1,012	-
	657,223	19,990	671,252	23,064
Financial companies, except banks				
Current accounts	54,482	-	57,605	-
Demand deposits	-	-	-	-
Time deposits	176,500	1,842,408	137,700	1,548,304
Restricted deposits	154	357	583	34,506
Other deposits	-	-	-	-
Interest payable on deposits	27,670	-	29,776	-
	258,806	1,842,765	225,664	1,582,810
Households				
Current accounts	17,558,498	-	14,765,750	-
Demand deposits	39,820	-	44,838	-
Time deposits	18,950,093	15,689,275	20,573,279	14,828,398
Restricted deposits	1,339,261	1,031,274	1,266,993	1,020,907
Other deposits	-	-	-	-
Interest payable on deposits	88,322	-	74,441	-
	37,975,994	16,720,549	36,725,301	15,849,305
Non-residents, except banks				
Current accounts	528,852	-	444,618	-
Demand deposits	1,298	-	47	-
Time deposits	163,699	207,841	205,694	234,585
Restricted deposits	27,680	19	28,138	18
Other deposits	-	-	-	-
Interest payable on deposits	568	-	512	-
	722,097	207,860	679,009	234,603
Current maturity	10,079,113	(10,079,113)	8,615,716	(8,615,716)
<b>Total deposits from other clients</b>	<b>60,527,193</b>	<b>10,353,245</b>	<b>57,767,001</b>	<b>10,524,876</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	Current year <b>2017</b>	Previous year <b>2016</b>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on deposits	-	-
<b>Total issued debt securities</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 36. BORROWINGS

## A. Borrowings structure according to the type of liability and sector of the creditor

	Current year 2017		In thousands of Denars Previous year 2016	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	253,577	-	396,589
Repo-transactions	-	-	-	-
Interest payable	542	-	848	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	5,690	149,398	10,689	149,398
Repo-transactions	-	-	-	-
Interest payable	203	-	203	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-residents, except banks				
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Current maturity	106,679	(106,679)	143,893	(143,893)

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

	<b>Total loans payable</b>	<b>113,114</b>	<b>296,296</b>	<b>155,633</b>	<b>402,094</b>
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## 36. BORROWINGS (continued)

## B. Borrowings according to the creditor

	In thousands of Denars			
	Current year 2017		Previous year 2016	
	short-term	long-term	short-term	long-term
<i>Domestic sources:</i>				
<b>Asset Management Agency -</b> long-term loans amounting to Denar 149,399 thousand (2016: Denar 149,399 thousand) matures and is payable in January 2020 on one-off basis. Related fees for these loans are 1.5% per annum	203	149,398	203	149,398
<b>Agency for underdeveloped regions</b> – matures in 2016 and the interest rate is equal to 3.9% per annum (2016: 3.9% p.a.).	5,690	-	10,689	-
<b>Macedonian Bank for Promotion and Development</b> – with maturity deadline in 2019 and interest rate of 1.0% at annual level (2016: 1 %.)	542	253,577	848	396,589
	<u>6,435</u>	<u>402,975</u>	<u>11,740</u>	<u>545,987</u>
<i>Foreign sources:</i>				
Other banks	-	-	-	-
Current maturities	106,679	(106,679)	143,893	(143,893)
<b>Total loans payable</b>	<b>113,114</b>	<b>296,296</b>	<b>155,633</b>	<b>402,094</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**37. SUBORDINATED DEBT**

	<u>Maturity</u>	<u>Interest rate</u>	In thousands of Denars	
			<u>current year 2017</u>	<u>previous year 2016</u>
<i>Liabilities under subordinated deposits</i>				
Principal payables			-	-
Interest payables			-	-
			<hr/>	<hr/>
			-	-
<i>Liabilities under subordinated loans</i>				
			-	-
			-	-
Interest payables			-	-
			<hr/>	<hr/>
			-	-
<i>Liabilities under subordinated issued debt securities</i>				
Principal payables			-	-
Interest payables			-	-
			<hr/>	<hr/>
			-	-
Redeemable preferred shares			-	-
			<hr/>	<hr/>
			-	-
<b>Total subordinated debt</b>			<hr/>	<hr/>
			-	-

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

38. SPECIAL RESERVE AND PROVISIONS

In thousands of Denars

	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuring	Provisions for unfavourable agreements	Other provisions	Total
Balance as at January 1, 2016	118,952	24,716	24,250	-	-	-	167,918
Additional provisions during the year	44,498	2,206	9,577	-	-	-	56,281
(utilized provisions during the year)	-	(14,340)	-	-	-	-	(14,340)
(provisions recovery during the year)	(31,586)	(3,021)	(1,771)	-	-	-	(36,378)
<b>Balance at 31 December 2016</b>	<b>131,864</b>	<b>9,561</b>	<b>32,056</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>173,481</b>
Balance as at January 1, 2017	131,864	9,561	32,056	-	-	-	173,481
additional provisions during the year	25,169	9,369	3,428	-	-	-	37,966
(utilized provisions during the year)	-	(226)	-	-	-	-	(226)
(provisions recovery during the year)	(75,235)	-	(3,938)	-	-	-	(79,173)
<b>Balance as at 31 December 2017</b>	<b>81,798</b>	<b>18,704</b>	<b>31,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,048</b>

The present value of provisions for pensions and other benefits to employees is determined by discounting the estimated future cash outflows.

The basic used actuarial assumptions are as following:

	<u>2017</u>	<u>2016</u>
Interest rate	3.90%	3.90%
Average salary increase	4.00%	4.50%
Inflation rate	2.00%	2.50%

Mortality rate:

By the study of mortality rates in the past years, we have established the representation of the expected rate of mortality in the Republic of Macedonia. We used a mortality table of Switzerland, which is a reasonable approximation of long-term mortality rate in the country.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**39. OTHER LIABILITIES**

	In thousands of Denars	
	Current year <b>2017</b>	Previous year <b>2016</b>
Trade payables	8,786	12,974
Received advances	-	-
Fees and commissions liabilities	132	149
Accrued expenses	158,595	162,628
Deferred income from previous year	99,848	69,299
Short-term liabilities to employees	-	43,126
Short-term liabilities for employees benefits	-	-
Other:		
Preferred cumulative shares	90,978	90,978
Liabilities for dividend on preferred shares	3,284	3,583
Disputed VISA cards transactions	2,099	2,989
Unallocated inflows upon deposits and other inflows	733,672	1,128,519
Obligations to merchants for outstanding payments on credit cards	23,219	23,667
Overpaid fees of credit cards	24,063	36,164
Commitments for closing current accounts - bankruptcy	13,180	11,210
Obligations for settlement with VISA	1,410	37,776
Premature repayment of loans and other liabilities	53,765	27,733
<b>Total other liabilities</b>	<b><u>1,213,031</u></b>	<b><u>1,650,795</u></b>

As at December 31, 2017 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400.

The priority non-redeemable cumulative shares give right to priority in payment of dividends and no voting rights. Preferred shares do not participate equally in the distribution of the rest of the bankruptcy i.e. liquidation equity of the Bank.

On 31 December 2017, the Bank allocated an amount of Denar 2,274 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2017 (2016: Denar 2,502 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 40. SUBSCRIBED CAPITAL

## A. Subscribed capital

	In Denars		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Common shares	Non-redeemable preferred shares	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Balance as at 1 January – paid in full	201,1	400	17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
<b>Balance as at 31 December – paid in full</b>			<b><u>17,460,180</u></b>	<b><u>17,460,180</u></b>	<b><u>227,444</u></b>	<b><u>227,444</u></b>	<b><u>3,602,220</u></b>	<b><u>3,602,220</u></b>

## B. Dividends

## B.1 Announced dividends and paid dividends by the Bank

	In thousands of Denars	
	Current year 2017	Previous year 2016
Announced dividends and paid dividends for the year	<u>2,220,017</u>	<u>2,778,887</u>

Announced dividends and paid dividends for the year in the amount of Denar 2,220,017 thousand including gross dividend for the holders of the ordinary shares in the amount of Denar 2,217,443 thousand allocated from a part of net profit for 2016 based on Shareholders Assembly, as well as Denar 2,574 thousand which are allocated for the holders of the preferred shares of the net profit in 2016 (2016: Denar 2,776,168 thousand allocated from a part of net profit for 2014 and 2015 based on Shareholders Assembly, as well as Denar 2,574 thousand which are allocated for the holders of the preferred shares of the net profit in 2015).

	In MKD	
	Current year 2017	Previous year 2016
Dividend per ordinary share	-	-
Dividend per preferred share	11,00	12,00

## B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet)

	In thousands of Denars	
	Current year 2017	Previous year 2016
Announced dividends after 31 December	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 40. SUBSCRIBED CAPITAL(continued)

## B. Dividend (continued)

## B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet) (continued)

	Current year 2017	In Denars Previous year 2016
Dividend per ordinary share	-	-
Dividend per preferred share	-	-

## C. Shareholders whose stake exceeds 5% of the voting shares

The structure of shareholders whose stake exceeds 5% of the issued voting shares on December 31, 2017 and 2016 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

	In thousands of Denars		In %	
	current year 2017	previous year 2016	current year 2017	previous year 2016
Shareholder	Subscribed capital (nominal value)	Subscribed capital (nominal value)	Voting right	Voting right
National Bank of Greece	3,323,094	3,323,094	94.64%	94.64%
Other	188,148	188,148	5.36%	5.36%
<b>Total</b>	<b>3,511,242</b>	<b>3,511,242</b>	<b>100.00%</b>	<b>100.00%</b>

The share capital of the Bank as at December 31, 2017 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 dividends when it will be released and have the right to one vote in the Shareholders Assembly of the Bank for the equivalent of one ordinary share, as well as the right to participate equally in the distribution of the rest of the bankruptcy or liquidation equity of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2017

**40. SUBSCRIBED CAPITAL(continued)****Revaluation reserve for available-for-sale assets**

These revaluation reserves consist of unrealized gains and losses arising from changes in fair value of investment in securities available for sale until they are sold or it is determined that they are impaired, whereat the cumulative unrealized gain or loss previously recognized within the revaluation reserves are recognized in the net profit or loss for the period.

**Statutory reserves**

In accordance with the local regulations, the Bank is required to calculate and set aside at least 5% of the net profit for the year to statutory reserve until the level of the statutory reserve reaches an amount equal to one-tenth of the share capital. While the legal reserve shall not exceed the minimum amount it can only be used to cover losses. When the legal reserve exceeds the minimum level and after the recovery of all losses of annual financial statements, with the decision of the Shareholders Assembly, the excess can be used for distribution of dividend, if within that business year it had not reached the minimum amount prescribed by the Companies Act or of the Statute of the Bank.

**Other reserves**

Other reserves represent a fund that is determined on the basis of the Bank's internal policy and is used for various purposes, classified as restrictive.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 41. EARNINGS PER SHARE

## A. Basic earnings per share

	In thousands of Denars	
	current year 2017	previous year 2017
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	2,044,120	2,239,791
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	2,044,120	2,239,791
<b>Net profit attributable to ordinary shareholders</b>	<b>2,044,120</b>	<b>2,239,791</b>
	Number of shares	
	current year 2017	previous year 2017
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at 1 January	17,460,180	17,460,180
Effects of changes in the number of ordinary shares during the year	-	-
<b>Weighted average number of ordinary shares at 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Basic earnings per share ( in MKD)</b>	<b>117.07</b>	<b>128.28</b>

## B. Diluted earnings per share

	In thousands of Denars	
	current year 2017	previous year 2017
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	2,044,120	2,239,791
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
<b>Net gains to which the holders of common shares are entitled (diluted)</b>	<b>2,044,120</b>	<b>2,239,791</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 41. EARNINGS PER SHARE (continued)

## B. Diluted earnings per share (continued)

	In thousands of Denars	
	current year 2017	previous year 2017
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from issuance of potential common shares	-	-
<b>Weighted average number of common shares (diluted) on 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Diluted earnings per share (in MKD)</b>	<b>117.07</b>	<b>128.28</b>

## 42. COMMITMENTS AND CONTINGENCIES

## 42.1 COMMITMENTS

	In thousands of Denars	
	current year 2017	previous year 2016
Uncovered payment guarantees		
in MKD	697,671	938,171
in foreign currency	262,845	426,766
in MKD with FC Clause	227,880	405,765
Uncovered performance guarantees		
in MKD	420,973	411,484
in foreign currency	54,375	42,540
in MKD with FC Clause	628,269	603,145
Uncovered letters of credit		
in MKD	-	-
in foreign currency	24,066	62,026
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1,648,641	1,619,909
Unutilized limits under credit cards	5,996,410	6,081,797
Taken liabilities for financing and unutilized credit limits	4,199,528	2,945,805
Other uncovered contingent liabilities	2,577	1,077
Issued covered letters of guarantee	234,394	299,166
Covered letters of credit	5,774	12,079
Other covered contingent liabilities	-	-
<b>Total contingent liabilities before special reserve</b>	<b>14,403,403</b>	<b>13,849,730</b>
(Provisions)	(81,797)	(131,864)
<b>Total contingent liabilities reduced by special reserve</b>	<b>14,321,606</b>	<b>13,717,866</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**42. COMMITMENTS AND CONTINGENCIES (continued)**

**42.1 COMMITMENTS (continued)**

Bank's contingent liabilities consist of liabilities in respect of guarantees, letters of credit, and unused overdrafts on current accounts, unused limits on credit cards and unused credit limits granted to legal entities.

From the total potential liabilities on the basis of covered and uncovered guarantees issued with maturity up to one year in the amount of Denar 1,873,489 thousand (2016: Denar 1,873,489 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2016: 1year). The unused overdrafts on current accounts are short-term overdrafts.

Contingent liabilities in respect of unused overdrafts on current accounts and unused limits on credit cards are unsecured and are revocable in the event of deterioration of the creditworthiness of the debtor. The interest rates on current accounts and credit cards in 2017 are ranged from 10.13% to 11.25%.

Contingent liabilities of the Bank towards legal entities on the basis of guarantees and letters of credit are irrevocable, and unused credit limits granted to legal entities are subject to annual revision. Apart from the covered guarantees and letters of credit that are secured by deposit, the remaining uncovered guarantees and letters of credit, and unused credit limits granted to legal entities are secured by real estate mortgage, pledge on movable property, guarantees, etc.

**Litigation**

The Bank is involved in litigation from its regular operations. The amount of litigation cases against the Bank as of 31 December 2017, for which additional analyses were made on the basis of which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank for that material losses could result in respect of these disputes amounted to Denar 18,704 thousand (2016: Denar 9,561 thousand). This amount includes the penalty interests, and other court expenses as well. Accordingly, in 2017, the Bank made provisions for impairment losses on the basis of litigations in the amount of Denar 9,369 thousand (2016: Denar 2,206 thousand).

**42.2 CONTINGENCIES**

	In thousands of Denars	
	current year 2017	previous year 2016
	<u>          </u>	<u>          </u>
	-	-
<b>Total contingent assets</b>	<u>          </u>	<u>          </u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year 2017			In thousands of Denars Previous year 2016		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
	<i>Administration of assets on behalf and for account of third parties</i>					
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	274,635	274,528	107	271,074	271,074	-
FC loans	291,011	291,011	-	274,618	274,618	-
Other MKD receivables	1,066,293	1,066,301	(8)	1,040,989	1,040,989	-
Other FC receivables	581,599	581,698	(99)	419,977	419,977	-
<i>Asset management on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other MKD claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
<i>Custody accounts</i>	35,512	35,515	(3)	48,958	48,962	(4)
<i>Other</i>	-	-	-	-	-	-
<b>Total</b>	<b>2,249,050</b>	<b>2,249,053</b>	<b>(3)</b>	<b>2,055,616</b>	<b>2,055,620</b>	<b>(4)</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## RELATED PARTY TRANSACTIONS

## A. Balance Sheet

	In thousands of Denars					Total
	Parent company	Subsidiaries	Associates	Management personnel of the Bank	Other related parties	
<b>31 December 2017</b>						
<b>Assets</b>						
Current accounts	988	-	-	-	-	988
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	4,868	-	4,868
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>988</b>	<b>-</b>	<b>-</b>	<b>4,868</b>	<b>-</b>	<b>5,856</b>
<b>Liabilities</b>						
Trading liabilities	-	-	-	-	-	-
Deposits	6	-	-	43,592	-	43,598
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	37,724	-	-	-	5	37,729
<b>Total</b>	<b>37,730</b>	<b>-</b>	<b>-</b>	<b>43,592</b>	<b>5</b>	<b>81,327</b>
<b>Contingent liabilities</b>						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent assets</b>						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 44. RELATED PARTY TRANSACTIONS (continued)

## A. Balance Sheet (continued)

	In thousands of Denars					Total
	Parent company	Subsidiaries	Associates	Management personnel of the Bank	Other related parties	
<b>31 December 2016</b>						
<b>Assets</b>						
Current accounts	3,823	-	-	-	805	4,628
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	8,516	-	8,516
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>3,823</b>	<b>-</b>	<b>-</b>	<b>8,516</b>	<b>805</b>	<b>13,144</b>
<b>Liabilities</b>						
Trading liabilities	-	-	-	-	-	-
Deposits	1,626,669	-	-	36,814	1,331	1,664,814
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	16,163	-	-	-	2	16,165
<b>Total</b>	<b>1,642,832</b>	<b>-</b>	<b>-</b>	<b>36,814</b>	<b>1,333</b>	<b>1,680,979</b>
<b>Contingent liabilities</b>						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent assets</b>						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions

	In thousands of Denars					
	Parent company	Subsidiarie s	Associates	Managem ent personnel of the Bank	Other related parties	Total
<b>2017 current year</b>						
<b>Income</b>						
Interest income	3	-	-	331	-	334
Income from fees and commissions	-	-	-	36	18	54
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	21	-	21
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>388</b>	<b>18</b>	<b>409</b>
<b>Expenses</b>						
Interest expenses	36	-	-	802	198	1,036
Expenses for fees and commissions	-	-	-	-	22	22
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	60,117	-	-	28,316	-	88,433
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>60,153</b>	<b>-</b>	<b>-</b>	<b>29,118</b>	<b>220</b>	<b>89,491</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions (continued)

	In thousands of Denars					
	Parent company	Subsidiarie s	Associates	Managem ent personnel of the Bank	Other related parties	Total
<b>2016 previous year</b>						
<b>Income</b>						
Interest income	-	-	-	598	4	602
Income from fees and commissions	-	-	-	39	20	59
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>637</b>	<b>24</b>	<b>661</b>
<b>Expenses</b>						
Interest expenses	-	-	-	661	305	966
Expenses for fees and commissions	-	-	-	-	22	22
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	53,471	-	-	28,327	-	81,798
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>53,471</b>	<b>-</b>	<b>-</b>	<b>28,988</b>	<b>327</b>	<b>82,786</b>

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2017	previous year 2016
Short-term benefits for employees	28,309	28,312
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	-	-

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2017

Total

28,309

28,312

44. RELATED PARTIES TRANSACTIONS (continued)

Related parties include the major shareholders, associates 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 the Bank's business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

45. LEASES

A. Lessor

A.1 Financial leases receivables

	Total financial leases receivables	In thousands of Denars Maturity period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
<b>31 December 2017 (current year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-
<b>31 December 2016 (previous year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-

A.2 irrevocable operating lease receivables

	Total financial leases receivables	In thousands of Denars Maturity period of period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
<b>31 December 2017 (current year)</b>				
Net present value of minimum lease payments	1,291	1,291	-	-
<b>31 December 2016 (previous year)</b>				
Net present value of minimum lease payments	3,191	3,191	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 45. LEASES (continued)

## A. Lessor (continued)

## A.2 Irrevocable operating lease receivables (continued)

	In thousands of Denars						
	Land	Buildings	Means of transporta tion	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of the property given under operating lease:							
31 December 2017	-	26,185	-	-	-	-	26,185
31 December 2016	-	29,807	-	-	-	-	29,807
<b>Total</b>							

Agreed lease receivables are related to part of the property taken over for recovery of arrears and a smaller part of own property which the Bank in the past period used for their own needs but is no longer used and it is rented to third parties. Lease agreements contain a clause for reconsideration of the agreed price of the rent according to the market conditions, in case the lessee has exercised its right to renew the lease. Future lease incomes are approximate to the level of current rental income.

## B. LEASEE

## B.1 Financial lease liabilities

	In thousands of Denars			
	Total financial lease liabilities	Maturity period for financial lease liabilities		
	up to 1 year	from 1 to 5 years	over 5 years	
Balance as at 31 December 2017 (current year)	-	-	-	-
Balance as at 31 December 2016 (previous year)	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 45. LEASES (continued)

## B, Lease (continued))

## B.1 Financial lease liabilities (continued)

	In thousands of Denars						Total
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	
Value of the property taken under financial lease:							
<b>Cost</b>							
Balance as at 1 January 2016	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2016</b>	-	-	-	-	-	-	-
Balance as at 1 January 2017	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	-	-	-	-	-	-	-
<b>Accumulated depreciation and impairment</b>							
Balance as at 1 January 2016	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2016</b>	-	-	-	-	-	-	-
Balance as at 1 January 2017	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	-	-	-	-	-	-	-
<b>Current carrying amount</b>							
na 1 January 2016	-	-	-	-	-	-	-
<b>On 31 December 2016</b>	-	-	-	-	-	-	-
<b>On 31 December 2017</b>	-	-	-	-	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

## 45. LEASES (continued)

## B. Lease (continued)

## B.2 Irrevocable operating lease liabilities (continued)

	In thousands of Denars			
	Total operational lease liabilities	Maturity period for operational lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2017 (current year)	-	-	-	-
Balance as at 31 December 2016 (previous year)	-	-	-	-

## 46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2017	previous year 2016
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-
	In thousands of Denars	
	current year 2017	previous year 2016
	number of options for shares	number of options for shares
	weighted average price of options for shares	weighted average price of options for shares
<b>Balance as at 1 January</b>	-	-
Changes during the year:		
options given to the members of Supervisory Board	-	-
options given to the members of Board of Directors	-	-
other given options	-	-
forfeited options	-	-
options with expired deadline	-	-
<b>Balance as at 31 December</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2017**

**47. TAXATION RISK**

Financial statements and accounting records of the Bank are subject to tax audit by the tax authorities for a period of 5 years subsequent to the reported tax year, and may impose additional tax liabilities. According to the estimates of the Bank's management they are not aware of any additional conditions that may cause potentially materially significant liabilities on this basis,

**48. EVENTS AFTER THE DATE OF THE BALANCE SHEET**

After the date of the balance sheet there are no events that require adjustments to the financial statements or appropriate disclosure.

**49. EXCHANGE RATES**

Official exchange rates used in the conversion of the balance sheet items denominated in foreign currency are as follows:

	<u>2017</u>	<b>In MKD</b> <u>2016</u>
1 USD	51.2722	58.3258
1 EUR	61.4907	61.4812