STOPANSKA BANKA AD – Skopje

Financial Statements
Year Ended December 31, 2017 and
Independent Auditors' Report

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos

Chief Executive Officer,

Chairman of the Board of Directors

Стопанска банка А.Д.
СКОПЈЕ
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СКОПЈЕ

Mrs. Milica Chaparovska – Jovanovska

Chief Retail Officer,

Member of the Board of Directors

Mr. Toni Stojanovski

Chief Risk Officer,

Member of the Board of Directors

Mr. Theodoulos Skordis

Chief Corporate Officer,

Member of the Board of Directors

Independent auditor's 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 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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 International Financial Reporting Standards.

PricewaterhouseCoopers Revizija d.o.o.

PricewaterhouseCoopers Revizija d.o.o.

Skopje, 1 August 2018

STOPANSKA BANKA AD – Skopje

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2017
(In thousands of Denars)

	Notes	2017	2016 restated
Interest income		4,316,953	4,351,441
Interest expense		(753,373)	(889,519)
Net interest income	6	3,563,580	3,461,922
Fee and commission income		1,076,297	1,052,579
Fee and commission expense		(105,938)	(109,711)
Net fee and commission income	7	970,359	942,868
Trading income, net	8	1,426	66,350
Foreign exchange gains, net	9	107,673	114,899
Other operating income	10	126,123	78,271
(Impairment)/reversal, net	11	(56,350)	41,852
Personnel expenses	12	(803,335)	(797,524)
Depreciation and amortization	13	(137,887)	(126,300)
Other operating expenses	14	(1,021,562)	(1,014,819)
Profit before tax		2,750,027	2,767,519
Income tax expense	15	(273,349)	(280,256)
Profit for the year		2,476,678	2,487,263
Other comprehensive income			
Profit on available-for-sale financial assets, net	30	512	(315)
Total of items that may be reclassified subsequently to profit or loss		512	(315)
Service & interest (cost)/income related to defined benefits obligation	30	2,378	(117)
Total of items that will not be reclassified subsequently to profit or loss		2,378	(117)
Other comprehensive income for the year, net of tax		2,890	(432)
Total comprehensive income for the year		2,479,568	2,486,831
Profit attributable to:			
Owners of the Bank		2,476,678	2,487,263
Total comprehensive income attributable to:			
Owners of the Bank		2,479,568	2,486,831
Earnings per share	32		
Basic (in Denars)		141.8	142.5
Diluted (in Denars)		141.8	142.5

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

The financial statements have been approved by the management of the Bank on July 10 2018 and accepted by the Bank's Supervisory Board.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

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

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

Стопанска Банка А.Д. СКОПЈЕ 01 СКОПЈЕ

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

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

STATEMENT OF FINANCIAL POSITION
At December 31, 2017
(In thousands of Denars)

	Notes	31 December 2017	31 December 2016 restated	1 January 2016 restated
ASSETS				
Cash and balances with the central bank	16	17,901,761	17,569,468	16,897,661
Financial assets at fair value through profit and loss	17	3,676	2,251	329,981
Available-for-sale financial assets	18	6,230,521	8,351,655	10,488,640
Placement with, and loans to banks	19	159,539	178,315	172,202
Loans to customers	20	62,340,975	60,047,332	56,988,064
Other assets	21	636,684	498,851	496,018
Income tax receivable		6,898	-	-
Investment property	22	62,273	70,601	75,909
Intangible assets	23	141,521	140,933	117,897
Property and equipment	24	844,436	888,138	850,497
Total assets		88,328,284	87,747,544	86,416,869
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from banks	25	82,470	1,742,752	731,949
Deposits from customers	26	70,880,438	68,291,877	67,103,738
Loans payable	27	409,410	557,727	745,597
Other liabilities	29	1,213,031	1,650,802	1,942,151
Income tax payable		-	61,410	76,451
Deferred tax liabilities	15.1	203,365	169,628	153,302
Provisions	30	75,506	71,409	172,405
Total liabilities		72,864,220	72,545,605	70,925,593
EQUITY				
Share capital	31	3,511,242	3,511,242	3,511,242
Reserves	31	838.007	835.117	835.549
Retained earnings		11,114,815	10,855,580	11,144,485
Total equity		15,464,064	15,201,939	15,491,276
Total liabilities and equity		88,328,284	87,747,544	86,416,869
Commitments and contingencies	34	14,378,148	13,819,937	11,589,008

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2017
(In thousands of Denars)

	Share capital	Revaluation reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2016 previously issued	3,511,242	4,176	830,290	1,083	11,297,787	15,644,578
Correction (Note 3.23)	-	-	-	-	(153,302)	(153,302)
Balance, January 1, 2016 restated	3,511,242	4,176	830,290	1,083	11,144,485	15,491,276
Other comprehensive income for the year, net of tax	-	(432)	-	-	-	(432)
Profit for the year - restated	-	-	-	-	2,487,263	2,487,263
Total comprehensive income – restated	3,511,242	3,744	830,290	1,083	13,631,748	17,978,107
Dividend distribution	-	-	-	-	(2,776,168)	(2,776,168)
Balance, December 31, 2016 restated	3,511,242	3,744	830,290	1,083	10,855,580	15,201,939
Balance, January 1, 2017	3,511,242	3,744	830,290	1,083	10,855,580	15,201,939
Other comprehensive income for the year, net of tax	-	2,890	-	-	-	2,890
Profit for the year	-	-	-	-	2,476,678	2,476,678
Total comprehensive income	3,511,242	6,634	830,290	1,083	13,332,258	17,681,507
Dividend distribution	-	-	-	-	(2,217,443)	(2,217,443)
Balance, December 31, 2017	3,511,242	6,634	830,290	1,083	11,114,815	15,464,064

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2017
(In thousands of Denars)

	2017	2016
Profit before tax	2,750,027	2,767,519
Adjustments for:		
Depreciation of property and equipment	90,233	83,922
Depreciation of investment property	2,436	2,578
Amortization of intangible assets	45,218	39,800
Gain on sale of property and equipment, net	(23,951)	(849)
Gain on sale of foreclosure assets, net	(13,868)	(9,337)
Interest income	(4,316,953)	(4,351,441)
Interest expense	753,373	889,519
Net trading income	(1,426)	(66,350)
Impairment losses on financial assets, net	21,411	(90,338)
Impairment losses on non-financial assets	34,939	48,486
Provision for employee benefits, net	3,429	1,527
Provision for litigation, net	9,144	(15,156)
Interest receipts	4,322,385	4,363,911
Interest paid	(785,778)	(938,129)
Operating profit before changes in operating assets and liabilities:	2,890,619	2,725,662
(Increase)/decrease of operating assets:		
Financial assets through profit and loss	-	327,730
Due from banks	18,776	(6,113)
Loans to customers	(2,321,741)	(3,055,449)
Mandatory reserves and restricted deposits according NBRM regulations	127,143	(78,664)
Other receivables	(166,332)	(48,708)
Increase/(decrease) of operating liabilities:		
Deposits from banks	(1,660,282)	1,010,803
Deposits from customers	2,575,202	1,240,940
Other liabilities	(454,440)	(190,353)
Net cash flows generated from operating activities before income tax	1,008,945	1,925,848
Income tax paid	(246,509)	(278,971)
Net cash flows generated from operating activities	762,436	1,646,877

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STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2017
(In thousands of Denars)

	2017	2016
Cash flows from investing activities		
Acquisition of property and equipment	(70,655)	(122,166)
Acquisition of intangible assets	(33,795)	(62,528)
Investments in securities	(5,998,787)	(9,642,476)
Inflows from sale of investments in securities	8,107,654	11,695,010
Proceeds from sale of property and equipment	4,767	1,144
Proceeds from sale of investment property	2,483	2,744
Dividend received	5,723	5,022
Net cash flows generated from investing activities	2,017,390	1,876,750
Cash flows from financing activities		
Repayment of loan payables	(148,317)	(621,763)
Increase in loan payables	-	437,000
Dividends paid	(2,226,939)	(2,746,054)
Net cash flows used in financing activities	(2,375,256)	(2,930,817)
Net increase/(decrease) of cash and cash equivalents	404,570	592,810
Cash and cash equivalents, beginning of the year	14,629,257	14,036,447
Cash and cash equivalents at the end of the year	15,033,827	14,629,257

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

1. GENERAL INFORMATION

STOPANSKA BANKA AD – Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the RM with a network of 66 branches (2016: 66 branches).

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

The Bank may perform the following activities:

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

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2016: 94.64%) shareholding in the Bank and represents its ultimate parent company.

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

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

The Bank's financial statements for the year ended December 31, 2017 have been approved by the management of the Bank on July, 10 2018, and accepted by the Bank's Supervisory Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the International Accounting Standards Board (the "IASB").
The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

The comparatives have been restated to correct a prior period (see Note 3.23).

(b) Basis of measurement

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

(c) Functional and reporting currency

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

(d) Use of estimates and judgments

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

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

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

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

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

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

- ***Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017).*** The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains.
- **Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)** The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The reconciliation is presented in Note 28.

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

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

- ***Annual Improvements to IFRSs 2014-2016 cycle - amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017)***. The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

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

(f) *New Standards and amendments effective after 2017*

At the date of authorization of these financial statements the following new standards and amendments to existing standards were in issue:

- ***IFRS 9 "Financial Instruments" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018)***. As of 1 January 2018, IFRS 9 "Financial Instruments" replaced International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial instruments and impairment of financial assets. Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

(f) New Standards and amendments effective after 2017 (Continued)

Timely and accurate implementation of the above presented IFRS9 requirements were ensured by a coordinated project on NBG Group level that included two work streams- Classification and Measurement and Impairment work stream. A designated project team from the Bank, coordinated by the NBG based project office was responsible for acquiring the necessary know-how, executing the required business model and SPPI assessments and implementation of a new centrally designed impairment calculation methodology and system.

Within the Classification and Measurement phase, the SB project team has performed an assessment on the business model of its financial assets and the 'SPPI' (Solely Payments of Principal and Interest) assessment in order to evaluate the origination of the contractual cash flow of the financial asset.

In line with the expectations, Stopanska Banka assessed that the adequate Business Model for the Loan portfolio is **"Held to collect contractual cash flows"**. The Bank has not had any practice of collecting by selling parts of the Loan portfolio but always by regular collection of contractual payments over the Loan's maturity.

The portfolio of Debt Securities classified as AFS was assessed for reclassification into two business models:

- **Held to collect contractual cash flow-** State debt securities in local currency and under foreign currency clause, issued by the Ministry of Finance.
- **Held to collect and sell-** Central Bank bills at maturity of 28-35 days, in local currency.

For the purpose of performing the SPPI test on the existing portfolio of the Bank, the portfolio of the Bank was initially split into product types for which same contractual terms apply.

The Retail segment of Stopanska Banka AD Skopje is composed of standardized products for which the main contractual terms are mostly standardized and fixed.

The SPPI test on the corporate portfolio was performed with a use of an SPPI questionnaire provided by NBG IFRS 9 project office. For the filling of the SPPI questionnaire the implementation team assessed specific contract features with the loan beneficiary, in order to respond to the relevant SPPI test questions.

The SPPI test analysis showed no significant loans which would fail the SPPI test. This was in line with the Bank's strategy to offer standardized type of products.

Based on the received information and guidance by NBG Group, the project team also performed the SPPI test on all debt securities. The analyzed debt securities passed the SPPI test.

For the Impairment work stream, during 2017, the project team performed the following:

- Developed methodology and models for calculation of risk parameters according to the IFRS9 requirements, in cooperation with an external consultant;
- Implemented the impairment calculation software Predicta, developed on NBG Group level,that includes the staging process and the collective impairment calculation according to the IFRS9 requirements.

The first parallel run of the Predicta was performed at the end of Q3 of 2017, and the software is live since December 2017.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

(f) New Standards and amendments effective after 2017 (Continued)

The adoption of IFRS 9 on 1 January 2018, is expected not to have a significant impact on the Banks's shareholders' equity due to changes in impairment requirements and due to classification and measurement.

The IFRS 9 impact estimates are based on the accounting policies, assumptions and judgements of the Bank, as determined to date, which will be finalized during the preparation of the financial statements for the year ending 31 December 2018. Consequently, the aforementioned estimates remain subject to change in 2018. The final impact upon transition to IFRS 9 will be included in the 2018 Annual Financial Report.

- ***IFRS 15*, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.
- **IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases.** All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.
- ***IFRS 17 "Insurance Contracts"(issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021).*** IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds.
- ***Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).*** The amendments do not change the underlying principles of the Standard but clarify how those principles should be applied.
- ***Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018)***. IFRS 1 was amended and some of the short-term exemptions from IFRSs in respect of disclosures about financial instruments, employee benefits and investment entities were removed, after those short-term exemptions have served their intended purpose. The amendments to IAS 28 clarify that an entity has an investment-by-investment choice for measuring investees at fair value in accordance with IAS 28 by a venture capital organisation, or a mutual fund, unit trust or similar entities including investment linked insurance funds.

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

(f) New Standards and amendments effective after 2017 (Continued)

- **IFRIC 22 - Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).** The interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate. to use on initial recognition of the related asset, expense or income (or part thereof) on the derecognition of a non-monetary asset or non-monetary liability arising from an advance consideration in a foreign currency.

- **Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).** The amendments clarify the requirements on transfers to, or from, investment property in respect of properties under construction.

- **IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).**IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

- **Prepayment Features with Negative Compensation - Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).** The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument.

- **Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (issued on 12 October 2017 and effective for annual periods beginnig on or after 1 January 2019).**The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares.

- **Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).**The narrow scope amendments impact four standards

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank is currently assessing the impact of the adoption of these standards and amendments to existing standards in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

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

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

3.2 Fee and commission income

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

3.3 Dividend income

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

3.4 Foreign exchange translation

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

3.5 Financial assets

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

Financial assets at fair value through profit and loss

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

Loans originated by the Bank

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

Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Impairment losses on loans and advances

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

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

Renegotiated loans

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

Derecognition of financial assets

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

3.6 Financial liabilities

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

Deposits from banks and other financial institutions and customers

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

Financial liabilities through profit and loss

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

Loans payable

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

Other payables

Other payables are stated at their nominal amounts.

Derecognition of financial liabilities

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

3.7 Property and equipment

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

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

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

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

3.9 Impairment of tangible and intangible assets

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

3.10 Investment property

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

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

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

3.11 Assets acquired through foreclosure proceedings

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

3.12 Cash and balances with the central bank

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

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

3.14 Provisions

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

Employment benefits

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

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

3.15 Income tax

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

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

3.16 Leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

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

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

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

3.18 Offsetting

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

3.19 Financial guarantee contracts

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

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

3.20 Related party transactions

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

3.21 Earnings per share

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

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

Fair value of financial instruments

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

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

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

Allowance for loan losses

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

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

Useful lives of tangible and intangible assets

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

Actuarial assumptions in respect of defined benefit plan

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Risk related to the Greek crisis and the European debt crisis

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

Despite risks and challenges in 2017, STOPANSKA BANKA AD – Skopje remained well-capitalized, highly liquid, and funded by domestic deposits. The Bank has no exposure to any foreign European government debt nor significant placements or significant financial commitments with its Parent company. The recent stress test, according Central Bank regulation, performed under strict criteria demonstrated that the Bank is adequately capitalized and sufficiently liquid, and the management believes that any eventual withdrawal of the deposits by the Parent or by other related parties would not affect significantly the liquidity of STOPANSKA BANKA AD – Skopje. The strong capital base with a capital adequacy ratio of 15.42%, as disclosed in Note 4.6, enables the Bank to face any reasonably foreseeable adversity. Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

3.23 Correction in accounting of deferred tax liabilities

The Bank in 2016 did not recognized deferred tax liabilities on the taxable temporary differences relating to the loans and advances, foreclosed collateral, provision for off balance sheet items and Placement with, and loans to banks which was not in accordance with IAS 12 – Income tax. The correction of this was performed in accordance with IAS 8 by restating each of the affected financial statement line items for the prior period as follows:

Statement of financial position (extract)

	31 December 2015 previously issued	Increase/ (Decrease)	1 January 2016 restated
Deferred tax liabilities	-	153,302	153,302
Retained earnings	11,297,787	(153,302)	11,144,485
Total equity	15,644,578	(153,302)	15,491,276

	31 December 2016 previously issued	Increase/ (Decrease)	31 December 2016 restated
Deferred tax liabilities	-	169,628	169,628
Retained earnings	11,025,208	(169,628)	10,855,580
Total equity	15,371,567	(169,628)	15,201,939

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Correction in accounting of deferred tax liabilities (Continued)

Statement of comprehensive income (extract)

	12 months ended 31 December 2016 previously issued	Increase/ (Decrease)	12 months ended 31 December 2016 restated
Income tax expense	(263,930)	16,326	(280,256)
Profit for the year	2,503,589	(16,326)	2,487,263
Total comprehensive income for the year	2,503,158	(16,326)	2,486,832
Earnings per share – Basic	143.4	(0.9)	142.5
Earnings per share – Diluted	143.4	(0.9)	142.5

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.1 Financial risk management (Continued)

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

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

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

4.2 Credit risk

4.2.1 Credit risk measurement, limits and mitigation policies

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

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies

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

The classification is made according to the following criteria:

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

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

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

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

	In thousands of Denars	
	31 December 2017	**31 December 2016**
Credit risk exposure relating to on balance sheet assets		
Cash and balances with the central bank	17,901,761	17,569,468
Financial assets through profit and loss	3,676	2,251
Available-for-sale financial assets	6,230,521	8,351,655
Placement with, and loans to banks	159,539	178,315
Loans to customers	62,340,975	60,047,332
Other receivables (less foreclosure assets)	181,143	118,364
	86,817,615	86,267,385
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	2,526,408	3,127,037
Standby letters of credits	29,840	74,105
Commitments to extend credits	11,844,578	10,647,511
Other off-balance sheet commitments	2,578	1,077
Gross exposure	14,403,404	13,849,730
Less: Provision for off-balance sheet items	(25,256)	(29,793)
	14,378,148	13,819,937
Total credit risk exposure	101,195,763	100,087,322

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

Loans to customers are summarized below:

	Neither past due nor impaired	Past due but not impaired	Individually Impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2017								
Cards	3,516,972	611,262	7,963	4,136,197	(7,405)	(230,845)	(238,250)	3,897,947
Consumer	23,183,301	6,348,757	201,879	29,733,937	(130,801)	(1,532,454)	(1,663,255)	28,070,682
Mortgage	8,142,209	1,275,948	150,103	9,568,260	(41,213)	(19,735)	(60,948)	9,507,312
Small business Loans	2,067,559	677,759	359,403	3,104,721	(118,202)	(119)	(118,321)	2,986,400
Corporate Loans	13,701,899	1,779,605	5,417,716	20,899,220	(2,948,119)	(72,467)	(3,020,586)	17,878,634
Total	50,611,940	10,693,331	6,137,064	67,442,335	(3,245,740)	(1,855,620)	(5,101,360)	62,340,975

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

The breakdown of the neither past due nor impaired is provided based on the risk classification defined by the NBRM and it can be noted that the vast majority (or 98.1%) of the exposures belonging to this category is classified in risk category A. This risk category indicate that the exposures are current on their obligations, have stable financial performance and have no indications of any issues that would eventually compromise the ability of the client for regular repayment. The risk categories B and C are a result of delinquencies in the period prior to the assessment date, or early identification of financial weaknesses that still do not have an impact on the repayment ability.

In thousands of Denars

	31 December 2017		31 December 2016	
Risk Category	**Neither past due nor impaired**	**%**	**Neither past due nor impaired**	**%**
A	49,645,217	98.1%	47,488,457	98.6%
B	910,804	1.8%	636,800	1.3%
C	55,919	0.1%	15,133	0.0%
	50,611,940	100.0%	48,140,390	100.0%

b) Loans to customers past due but not impaired

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2017								
Cards	342,039	25,521	8,361	14,952	31,785	188,604	-	611,262
Consumer	3,882,649	399,421	167,709	145,813	195,797	1,557,368	-	6,348,757
Mortgage	932,927	123,742	82,650	25,597	26,444	84,588	-	1,275,948
Small-business loans	677,759	-	-	-	-	-	-	677,759
Corporate loans	1,779,605	-	-	-	-	-	-	1,779,605
Total	7,614,979	548,684	258,720	186,362	254,026	1,830,560	-	10,693,331

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

c) Loans to customers impaired

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2017								
Cards	-	417	16	208	1,015	6,307	-	7,963
Consumer	597	36,946	12,946	12,845	1,915	136,628	-	201,877
Mortgage	7,065	75,768	10,069	-	-	57,201	-	150,103
Small-business loans	12,372	144,717	75,186	20,651	14,340	12,532	79,605	359,403
Corporate loans	104,569	187,033	684,488	1,013,407	144,654	354,331	2,929,236	5,417,718
Total	124,603	444,881	782,705	1,047,111	161,924	566,999	3,008,841	6,137,064

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2016								
Cards	-	945	149	851	1,521	7,801	-	11,267
Consumer	1,575	28,085	34,224	9,148	1,777	174,725	-	249,534
Mortgage	635	96,890	28,726	-	-	57,736	-	183,987
Small-business Loans	9,546	122,545	63,790	29,597	7,160	9,430	93,352	335,420
Corporate loans	374,773	901,538	1,306,187	269,740	56,895	432,150	3,098,342	6,439,625
Total	386,529	1,150,003	1,433,076	309,336	67,353	681,842	3,191,694	7,219,833

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

	2017	2016
Cash and cash equivalents or restricted accounts held in Bank	1,043,352	938,952
Movable property	147,305	221,645
Residential property	30,345,291	28,820,982
Other real estate	1,834,224	2,085,929
Total	33,370,172	32,067,508

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

	2017	2016
Cash and cash equivalents or restricted accounts held in Bank	1,075,914	1,075,606
Financial and corporate guarantees	9,619,903	9,487,018
Movable property	17,844,588	17,365,401
Real estate	30,777,371	29,783,068
Total	59,317,776	57,711,093

d) Renegotiated loans to customers

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

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

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

During 2017 the Bank has renegotiated loans at a total amount of Denar 594,404 thousand (2016: Denar 923,655 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.5 Cash and balances with the central bank, available-for-sale financial assets and placement with, and loans to banks

Cash and balances with the central bank are classified as neither past due nor impaired. Issuer of the treasury bills is the Central Bank of the RM. S&P assigned to the RM sovereign foreign and local currency long term ratings of BB+ and short term ratings of B-, with stable outlook. Accounts and deposits with foreign banks are placed in the banks that have S&P bank or sovereign rating from AAA to A- in amount of Denar 1,619,982 thousands (2016: Denar 1,341,200 thousands) rating from BBB+ to B- in amount of Denar 17,926 thousands (2016: Denar 299,838 thousands) and only deposits in NBG have CCC+ rating, in amount of Denar 988 thousands (2016: Denar 3,824 thousands). Time deposits up to three months are also in first class banks with S&P bank or sovereign rating from AAA to A-.

Available-for-sale financial assets consists of debt securities issued by the Government of the RM classified as neither past due nor impaired, with S&P BB+/B- rating, while equity securities are individually impaired.

Placement with, and loans to banks in amount of Denar 150,815 thousands (2016: Denar 169,039 thousands) classified as neither past due nor impaired, has S&P bank or sovereign rating from AAA to A- and the part of loans in foreign banks in net amount of Denar 8,724 thousand (2016: Denar 9,276 thousands) are individually impaired.

4.2.6 Foreclosed assets

During 2017, the Bank conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Bank sold 17 assets (2016: 8 assets) at a total value of Denar 38,472 thousand (2016: Denar 68,770 thousand), whereas it foreclosed 8 facilities (2016: 7 facilities) at a total value of Denar 145,125 (2016: Denar 100,606 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.7 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2017 and 2016. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and balances with the central bank		Financial assets through profit and loss		Available-for-sale financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Geographical region														
RM	13,823,483	13,640,680	-	-	6,230,490	8,351,624	-	-	62,340,975	60,047,332	181,143	118,364	82,576,091	82,158,000
EU member countries	4,078,278	3,928,788	-	-	31	31	38,182	168,588	-	-	-	-	4,116,491	4,097,407
Europe (other)	-	-	3,676	2,251	-	-	8,775	9,561	-	-	-	-	12,451	11,812
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	115	166	-	-	-	-	115	166
Other	-	-	-	-	-	-	112,467	-	-	-	-	-	112,467	-
Total	17,901,761	17,569,468	3,676	2,251	6,230,521	8,351,655	159,539	178,315	62,340,975	60,047,332	181,143	118,364	86,817,615	86,267,385

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector

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

	Cash and balances with the central bank		Financial assets through profit and loss		Available- for-sale financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Industry														
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	527,895	732,386	-	20	527,895	732,406
Mining and quarrying	-	-	-	-	-	-	-	-	354,837	254,646	-	-	354,837	254,646
Manufacturing	-	-	-	-	-	-	-	-	7,576,566	7,379,446	42,615	6,773	7,619,181	7,386,219
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	2,321,254	1,842,674	-	-	2,321,254	1,842,674
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	23,306	30,683	-	12	23,306	30,695
Construction	-	-	-	-	-	-	-	-	1,505,971	1,541,778	20,672	492	1,526,643	1,542,270
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	1,618	1,106	-	-	5,372,494	6,973,608	13,862	1,239	5,387,974	6,975,953
Transportation and storage	-	-	-	-	-	-	-	-	955,485	914,860	329	176	955,814	915,036
Accommodation and food service activities	-	-	-	-	-	-	-	-	478,620	638,651	27	57	478,647	638,708
Information and communication	-	-	-	-	-	-	-	-	165,950	184,356	51	18	166,001	184,374
Financial and insurance activities	17,901,761	17,569,468	3,676	2,251	75,818	75,818	159,539	178,315	30,884	5,640	22,575	20,472	18,194,253	17,851,964
Real estate activities	-	-	-	-	-	-	-	-	764,031	594,700	-	-	764,031	594,700
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	312,821	260,757	99	29	312,920	260,786
Administrative and support service activities	-	-	-	-	-	-	-	-	320,224	104,495	-	-	320,224	104,495
Public administration and defence; compulsory social security	-	-	-	-	6,153,085	8,274,731	-	-	-	-	-	-	6,153,085	8,274,731
Education	-	-	-	-	-	-	-	-	8,889	44,272	-	-	8,889	44,272
Human health and social work activities	-	-	-	-	-	-	-	-	56,700	49,590	-	30	56,700	49,620
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	52,631	51,957	-	6	52,631	51,963
Other service activities	-	-	-	-	-	-	-	-	36,475	15,080	9	6	36,484	15,086
Individuals	-	-	-	-	-	-	-	-	41,475,942	38,427,753	80,904	89,034	41,556,846	38,516,787
Total	17,901,761	17,569,468	3,676	2,251	6,230,521	8,351,655	159,539	178,315	62,340,975	60,047,332	181,143	118,364	86,817,615	86,267,385

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector (Continued)

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

	In thousands of Denars	
	2017	**2016**
Industry		
Non-residents	-	30
Agriculture, forestry and fishing	67,292	110,950
Mining and quarrying	19,036	69,128
Manufacturing	1,129,017	944,921
Electricity, gas, steam and air conditioning supply	329,833	370,903
Water supply; sewerage, waste management and remediation activities	6,311	13,847
Construction	2,020,841	2,135,533
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,197,369	1,368,969
Transportation and storage	377,266	464,892
Accommodation and food service activities	40,367	25,619
Information and communication	75,669	70,161
Financial and insurance activities	167,111	57,297
Real estate activities	4,901	16,166
Professional, scientific and technical activities	90,643	127,660
Administrative and support service activities	140,910	72,980
Education	24,574	24,917
Human health and social work activities	5,287	5,228
Arts, entertainment and recreation	50,609	51,480
Other service activities	4,796	8,251
Individuals	7,626,316	7,881,005
Total	14,378,148	13,819,937

4.3 Market risk

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2017 and 2016:

In thousands of Denars
December 31, 2017

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and balances with the central bank	4,037,782	1,487,538	1,843,254	7,368,574	10,533,187	17,901,761
Financial assets through profit and loss	3,676	-	-	3,676	-	3,676
Available-for-sale financial assets	1,367,980	-	-	1,367,980	4,862,541	6,230,521
Placement with, and loans to banks	4,630	152,519	2,390	159,539	-	159,539
Loans to customers	21,970,164	436,846	-	22,407,010	39,933,965	62,340,975
Other receivables	1,068	414	133	1,615	179,528	181,143
Total assets	27,385,300	2,077,317	1,845,777	31,308,394	55,509,221	86,817,615
LIABILITIES						
Deposits from banks	58,374	734	23,355	82,463	7	82,470
Deposits from customers	25,044,017	1,983,655	1,815,397	28,843,069	42,037,369	70,880,438
Loans payable	254,119	-	-	254,119	155,291	409,410
Other liabilities	109,473	181	55	109,709	1,103,322	1,213,031
Total liabilities	25,465,983	1,984,570	1,838,807	29,289,360	43,295,989	72,585,349
Net currency gap:	1,919,317	92,747	6,970	2,019,034	12,213,232	14,232,266

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2016

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

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

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

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

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2017 and 2016.

In thousands of Denars

December 31, 2017

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-interest bearing	Total
ASSETS									
Cash and balances with the central bank	9,195,966	-	-	-	-	-	9,195,966	8,705,795	17,901,761
Financial assets through profit and loss	-	-	-	-	-	-	-	3,676	3,676
Available-for-sale financial assets	414,167	1,018,043	4,215,947	500,000	-	-	6,148,157	82,364	6,230,521
Placement with, and loans to banks	112,467	-	-	-	-	-	112,467	47,072	159,539
Loans to customers	43,886,873	1,372,956	5,225,748	1,916,852	2,711,819	4,772,851	59,887,099	2,453,876	62,340,975
Other receivables	-	-	-	-	-	-	-	181,143	181,143
Total assets	53,609,473	2,390,999	9,441,695	2,416,852	2,711,819	4,772,851	75,343,689	11,473,926	86,817,615
LIABILITIES									
Deposits from banks	82,470	-	-	-	-	-	82,470	-	82,470
Deposits from customers	40,714,835	5,636,074	18,103,604	5,360,473	585,887	130,705	70,531,578	348,860	70,880,438
Loans payable	36,676	-	77,389	80,746	64,176	279	259,266	150,144	409,410
Other liabilities	-	-	-	-	-	-	-	1,213,031	1,213,031
Total liabilities	40,833,981	5,636,074	18,180,993	5,441,219	650,063	130,984	70,873,314	1,712,035	72,585,349
Net interest gap:	12,775,492	(3,245,075)	(8,739,298)	(3,024,367)	2,061,756	4,641,867	4,470,375	9,761,891	14,232,266

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

In thousands of Denars

December 31, 2016

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-interest bearing	Total
ASSETS									
Cash and balances with the central bank	11,116,915	-	-	-	-	-	11,116,915	6,452,553	17,569,468
Financial assets through profit and loss	-	-	-	-	-	-	-	2,251	2,251
Available-for-sale financial assets	299,592	2,540,252	4,918,765	500,000	-	-	8,258,609	93,046	8,351,655
Placement with, and loans to banks	-	-	-	-	-	126,236	126,236	52,079	178,315
Loans to customers	3,258,668	20,737,981	18,752,577	4,610,975	5,821,360	5,243,767	58,425,328	1,622,004	60,047,332
Other receivables	-	-	-	-	-	-	-	118,364	118,364
Total assets	14,675,175	23,278,233	23,671,342	5,110,975	5,821,360	5,370,003	77,927,088	8,340,297	86,267,385
LIABILITIES									
Deposits from banks	1,742,752	-	-	-	-	-	1,742,752	-	1,742,752
Deposits from customers	26,952,833	17,503,458	18,206,347	4,597,326	692,139	91,168	68,043,271	248,606	68,291,877
Loans payable	48,686	-	105,673	107,738	132,614	12,566	407,277	150,450	557,727
Other liabilities	-	-	-	-	-	-	-	1,650,802	1,650,802
Total liabilities	28,744,271	17,503,458	18,312,020	4,705,064	824,753	103,734	70,193,300	2,049,858	72,243,158
Net interest gap:	(14,069,096)	5,774,775	5,359,322	405,911	4,996,607	5,266,269	7,733,788	6,290,439	14,024,227

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

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

4.4.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2017

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and balances with the central bank	17,901,761	-	-	-	-	-	17,901,761
Financial assets through profit and loss	3,676	-	-	-	-	-	3,676
Available-for-sale financial assets	416,296	1,018,043	4,218,747	500,000	-	77,435	6,230,521
Placement with, and loans to banks	1,026	-	-	-	-	158,513	159,539
Loans to customers	3,677,260	3,319,134	15,331,390	9,084,135	13,902,856	17,026,200	62,340,975
Other receivables	181,143	-	-	-	-	-	181,143
Total assets	22,181,162	4,337,177	19,550,137	9,584,135	13,902,856	17,262,148	86,817,615
LIABILITIES AND EQUITY							
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	37,421	-	77,388	80,747	64,176	149,678	409,410
Other liabilities	1,122,053	-	-	-	-	90,978	1,213,031
Total liabilities and equity	34,327,002	6,205,900	21,283,280	8,030,119	2,299,159	439,889	72,585,349
Net liquidity gap	(12,145,840)	(1,868,723)	(1,733,143)	1,554,016	11,603,697	16,822,259	14,232,266

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2016

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

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2017 and 2016, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 62,700,389 thousand (2016: Denar 59,931,530 thousand) which helps the maturity non-reconciliation to be overcome.

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2017

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	82,472	-	-	-	-	-	-	-	-	82,472
Deposits from customers	29,681,918	3,554,318	6,281,750	21,502,198	8,090,685	1,620,744	357,381	342,427	220,820	71,652,241
Loans payable	3,483	37,850	-	78,877	82,191	31,565	21,176	12,357	146,396	413,895
Other liabilities	1,118,770	-	-	-	-	-	-	-	94,261	1,213,031
Total	30,886,643	3,592,168	6,281,750	21,581,075	8,172,876	1,652,309	378,557	354,784	461,477	73,361,639

In thousands of Denars
December 31, 2016

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	116,083	1,626,688	-	-	-	-	-	-	-	1,742,771
Deposits from customers	26,229,053	3,376,583	6,510,710	22,192,180	7,919,733	2,097,937	343,886	312,684	174,221	69,156,987
Loans payable	3,783	50,542	-	108,403	109,999	82,178	31,560	21,174	158,447	566,086
Other liabilities	1,617,652	-	-	-	-	-	-	-	94,560	1,712,212
Total	27,966,571	5,053,813	6,510,710	22,300,583	8,029,732	2,180,115	375,446	333,858	427,228	73,178,056

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2017

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	3,257,516	-	-	1,648,641	942,011	-	-	-	5,996,410	11,844,578
Financial guarantees and LCs	-	58,384	209,398	1,096,244	348,584	660,763	93,611	13,255	76,009	2,556,248
Total	3,257,516	58,384	209,398	2,744,885	1,290,595	660,763	93,611	13,255	6,072,419	14,400,826

In thousands of Denars
December 31, 2016

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	2,414,483	-	-	1,619,909	531,322	-	-	-	6,081,797	10,647,511
Financial guarantees and LCs	-	156,050	288,864	1,502,680	331,352	696,326	71,512	77,016	77,342	3,201,142
Total	2,414,483	156,050	288,864	3,122,589	862,674	696,326	71,512	77,016	6,159,139	13,848,653

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		**Fair value**	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Financial assets				
Cash and balances with the central bank	17,901,761	17,569,468	17,901,761	17,569,468
Financial assets through profit and loss	3,676	2,251	3,676	2,251
Available-for-sale financial Assets	6,230,521	8,351,655	6,230,521	8,351,655
Placement with, and loans to Banks	159,539	178,315	159,539	178,315
Loans to customers	62,340,975	60,047,332	62,340,975	60,047,332
Other receivables (less foreclosure assets)	181,143	118,364	181,143	118,364
	86,817,615	86,267,385	86,817,615	86,267,385
Financial liabilities				
Deposits from banks	82,470	1,742,752	82,470	1,742,752
Deposits from customers	70,880,438	68,291,877	70,880,438	68,291,877
Loans payable	409,410	557,727	409,410	557,727
Other liabilities	1,213,031	1,650,802	1,213,031	1,650,802
	72,585,349	72,243,158	72,585,349	72,243,158

Cash and balances with the central bank

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

Financial assets through profit and loss

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

Available-for-sale financial assets

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

Placement with, and loans to banks

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

Loans to customers

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

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

Deposits from banks

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

Financial liabilities through profit and loss

Fair value as determined by inputs derived from market prices.

Deposits from customers

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

Loans payable (including subordinated debt)

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

Other liabilities

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

Fair value hierarchy

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

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

				In thousands of Denars December 31, 2017
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	3,676	3,676	-	-
Available-for-sale financial assets				
Debt securities issued by the Government	6,153,085	-	6,153,085	-
Equity securities	77,436	-	53,029	24,407
Total	6,234,197	3,676	6,206,114	24,407

				In thousands of Denars December 31, 2016
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Financial assets through profit and loss	2,251	2,251	-	-
Available-for-sale financial assets				
Debt securities issued by the Government	8,274,731	-	8,274,731	-
Equity securities	76,924	-	52,517	24,407
Total	8,353,906	2,251	8,327,248	24,407

Level 3 financial instruments at December 31, 2017 include available-for sale non-marketable private equity investments where prices are determined by the price of the most recent investments, based on which it is not practical to quote a range of key unobservable inputs.

Reconciliation of the fair value measurement in level 3 is not presented since there was no movement during 2017.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 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 additionally 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.

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. Capital to cover the operational risk is also calculated according standardized approach. The calculation of the capital for currency risk is to the net amount of aggregate foreign currency position taking into consideration the impairment. The Bank is not obliged to determine and dispose of the capital required for covering the market risks.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended December 31, 2017 and 2016 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

	In thousands of Denars December 31, 2017
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	6,757,024
Accumulated other comprehensive income	200,121
Deductions from Tier 1 capital	-
Total qualifying Tier 1 capital	10,468,387
Tier 2 capital	
Cumulative non-voting shares	90,978
Revaluation reserves	-
Total qualifying Tier 2 capital	90,978
Total regulatory capital	10,559,365
Credit risk-weighted assets	
On-balance sheet	55,039,759
Off-balance sheet	4,681,561
Total credit risk-weighted assets	59,721,320
FX risk-weighted assets	1,031,708
Operational risk-weighted assets	7,731,117
Risk-weighted assets	68,484,145
Capital adequacy ratio	15.42%

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

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

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

		In thousands of Denars	
December 31, 2017		**Change in exchange rate**	
	Total	**10%**	**-10%**
ASSETS			
Cash and balances with the central bank	17,901,761	736,857	(736,857)
Financial assets through profit and loss	3,676	368	(368)
Available-for-sale financial assets	6,230,521	136,798	(136,798)
Placement with, and loans to banks	159,539	15,954	(15,954)
Loans to customers	62,340,975	2,240,701	(2,240,701)
Other receivables	181,143	162	(162)
Total assets	86,817,615	3,130,840	(3,130,840)
LIABILITIES			
Deposits from banks	82,470	8,246	(8,246)
Deposits from customers	70,880,438	2,884,307	(2,884,307)
Loans payable	409,410	25,412	(25,412)
Other liabilities	1,213,031	10,971	(10,971)
Total liabilities	72,585,349	2,928,936	(2,928,936)
Net currency gap:	14,232,266	201,904	(201,904)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

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

At December 31, 2017, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 201,904 thousand higher (2016: Denar 194,495 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 201,904 thousand lower (2016: Denar 194,495 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

			In thousands of Denars December 31, 2017
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and balances with the central bank	17,901,761	183,919	(183,919)
Financial assets through profit and loss	3,676	-	-
Available-for-sale financial assets	6,230,521	122,963	(122,963)
Placement with, and loans to banks	159,539	2,249	(2,249)
Loans to customers	62,340,975	1,197,742	(1,197,742)
Other receivables	181,143	-	-
Total assets	86,817,615	1,506,873	(1,506,873)
LIABILITIES			
Deposits from banks	82,470	1,649	(1,649)
Deposits from customers	70,880,438	1,410,632	(1,410,632)
Loans payable	409,410	5,185	(5,185)
Other liabilities	1,213,031	-	-
Total liabilities	72,585,349	1,417,466	(1,417,466)
Net interest gap:	14,232,266	89,407	(89,407)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

In thousands of Denars
December 31, 2016

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

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

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2017, profit for the year would have been Denar 89,407 thousand (2016: 154,676 Denar thousand higher) higher. Conversely, if the interest rates had been 200 b.p lower with all other variables held constant, profit for the year would have been Denar 89,407 thousand (2016: Denar 154,676 thousand lower) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

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

Corporate banking

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

Investment banking

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

Other

This segment includes all other insignificant operating activities.

Unallocated

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

5.1 Operating segments

In thousands of Denars
December 31,2017

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	2,331,331	1,251,496	-	(19,247)	-	3,563,580
Net fee and commission income	515,852	454,479	-	28	-	970,359
Net trading income	-	-	1,426	-	-	1,426
Other operating income	365,114	(566,334)	5,723	-	429,293	233,796
Total income	3,212,297	1,139,641	7,149	(19,219)	429,293	4,769,161
Profit before tax	2,494,110	(220,306)	7,149	(32,930)	502,004	2,750,027
Income tax expense	-	-	-	-	(273,349)	(273,349)
Net profit for the year						2,476,678
Total assets	40,752,283	41,346,738	6,229,263	-	-	88,328,284
Total liabilities	55,842,909	17,018,027	3,284	-	-	72,864,220
Impairment of financial assets, net	78,693	(86,393)	-	(13,711)	-	(21,411)
Impairment of non-financial assets	(1,126)	(109,648)	-	-	75,835	(34,939)
Depreciation and amortization	-	(136,776)	-	-	(1,111)	(137,887)
Property and equipment purchases	(35,088)	(16,758)	-	-	(524)	(52,370)
Other expenses	(795,754)	(1,027,130)	-	-	(2,013)	(1,824,897)

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
December 31,2016

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	2,053,272	1,408,492	-	158	-	3,461,922
Net fee and commission income	488,672	454,196	-	-	-	942,868
Net trading income	-	-	64,998	1,352	-	66,350
Other operating income	(88,308)	4,032	5,022	-	272,424	193,170
Total income	2,453,636	1,866,720	70,020	1,510	272,424	4,664,310
Profit before tax	2,030,505	299,659	70,020	(7,913)	375,248	2,767,519
Income tax expense					(280,256)	(280,256)
Net profit for the year						2,487,263
Total assets	37,769,457	41,640,303	8,337,784	-	-	87,747,544
Total liabilities	53,744,635	18,800,970	-	-	-	72,545,605
Impairment of financial assets, net	454,312	(354,714)	-	(9,260)	-	90,338
Impairment of non-financial assets	(28,748)	(125,274)	-	-	105,536	(48,486)
Depreciation and amortization	(54,387)	(69,050)	-	(163)	(2,700)	(126,300)
Property and equipment purchases	(81,851)	(39,093)	-	-	(1,222)	(122,166)
Other expenses	(794,308)	(1,018,023)	-	-	(12)	(1,812,343)

5.2 Geographical areas

In thousands of Denars
December 31,2017

	RM	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	4,057,882	154,224	1,786	125,976	429,293	4,769,161
Total assets	84,367,383	2,166,304	25,084	1,769,513	-	88,328,284

In thousands of Denars
December 31, 2016

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

6. INTEREST INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31, 2017	2016
Interest income:		
Cash and balances with the central bank	184,633	183,587
Placement with, and loans to banks	29,013	19,821
Loans to customers	3,943,763	3,896,246
Investment securities	151,003	245,562
Other receivables	8,541	6,225
	4,316,953	4,351,441
Interest expense:		
Deposits from banks and financial institutions	29	2,589
Deposits from customers	745,684	875,902
Loans payable	5,386	7,033
Other liabilities	2,274	3,995
	753,373	889,519
Net interest income	3,563,580	3,461,922

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

In thousands of Denars

	Year ended December 31, 2017		Year ended December 31, 2016	
	Income	**Expense**	**Income**	**Expense**
Enterprises	1,011,115	79,941	1,049,286	87,650
State	151,162	2,248	245,748	2,256
Not-for-profit institutions	61	2,683	118	3,229
Banks	29,747	3,174	19,842	8,259
Other non-banking financial entities	189,110	53,506	186,692	55,312
Households	2,935,730	599,170	2,849,714	719,513
Non-residents	28	12,651	41	13,300
	4,316,953	753,373	4,351,441	889,519
Net interest income	3,563,580		3,461,922	

7. FEE AND COMMISSION INCOME AND EXPENSE

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

	Year ended December 31, 2017		In thousands of Denars Year ended December 31, 2016	
	Income	**Expense**	**Income**	**Expense**
Loans provided	124,359	-	116,991	-
Domestic payment operations	306,856	64,258	320,486	72,135
Foreign payment operations	90,768	22,928	89,951	20,475
Letters of credit and guaranties	46,649	-	56,000	-
Brokerage	2,056	410	1,758	384
Assets administering	474	-	383	-
Credit cards	385,119	11,473	350,678	8,694
Consumer credit	36,581	-	40,687	-
Mortgage credit	-	3	-	53
Deposits	1,204	-	1,115	-
Safe box	8,345	-	8,533	-
Third party collection	6,629	-	9,541	-
Other	67,257	6,866	56,456	7,970
	1,076,297	105,938	1,052,579	109,711
Net fee and commission income	970,359		942,868	

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

	Year ended December 31, 2017		In thousands of Denars Year ended December 31, 2016	
	Income	**Expense**	**Income**	**Expense**
Enterprises	505,887	6,160	517,361	6,162
State	3,741	-	1,854	-
Not-for-profit institutions	49	-	65	-
Banks	23,787	63,282	21,812	62,451
Other non-banking financial entities	-	25,020	-	32,351
Households	515,608	11,476	486,993	8,747
Non-residents	27,225	-	24,494	-
	1,076,297	105,938	1,052,579	109,711
Net fee and commission income	970,359		942,868	

8. TRADING INCOME, NET

	In thousands of Denars Year ended December 31, 2017	2016
Financial assets through profit and loss:		
Net gain/(loss) on fair valuation of debt securities	-	163
Net gain on sales and fair valuation of equity securities	1,426	64,876
Income from trading securities -equity shares (dividend)	-	1,311
	1,426	66,350

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2017	2016
Realized exchange gains, net	93,201	143,167
Unrealized exchange losses, net	14,472	(28,268)
	107,673	114,899

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2017	2016
Early withdrawal of deposits and operations with non-residents	38,730	29,063
Gain on sale of property and equipment and foreclosed assets	37,819	10,186
Court claims collections	27,764	13,810
Dividend from available-for-sale investments	5,723	5,022
Income from mediation at mortgage insurance	1,896	1,657
Rental income	1,291	3,192
Income from collected damage from insurance companies	562	712
Other	12,338	14,629
	126,123	78,271

11. IMPAIRMENT REVERSAL, NET

	In thousands of Denars Year ended December 31, 2017	2016
(Impairment)/Reversal of impairment loss on financial assets, net	(21,411)	90,338
Impairment loss on non-financial assets	(34,939)	(48,486)
	(56,350)	41,852

Impairment/Reversal of impairment loss on financial assets, net

In thousands of Denars

	December 31,2017			December 31, 2016		
	Charge	**Release**	**Net**	**Charge**	**Release**	**Net**
Placement with, and loans to banks (Note 19)	102	(7,671)	(7,569)	916	(654)	262
Loans to customers (Note 20)	700,636	(677,971)	22,665	1,014,243	(1,024,117)	(9,874)
Other assets(Note 21)	13,900	(3,046)	10,854	7,081	(440)	6,641
Available-for-sale financial assets (Note 18)	-	-	-	-	-	-
Off-balance sheet items (Note 29)	4,919	(9,457)	(4,538)	9,866	(97,233)	(87,367)
	719,557	(698,145)	21,412	1,032,106	(1,122,444)	(90,338)

Accrued Interest income on impaired financial assets as at December 31, 2017 amount to nil (2016: Denar nil).

Impairment loss on non-financial asset

	In thousands of Denars Year ended December 31, 2017	2016
Investment property (Note 22)	796	-
Assets acquired through foreclosure procedures (Note 21a)	34,143	48,486
	34,939	48,486

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2017	2016
Wages and salaries	460,485	456,466
Social security cost	217,836	217,917
Other staff costs	121,585	119,942
Pension costs based on defined benefit plans, net	3,429	3,199
	803,335	797,524
Average number of employees during the period	1,037	1,047
Number of permanent employees at the end of the year	1,047	1,052

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2017	2016
Depreciation of property and equipment (Note 24)	90,233	83,922
Amortization of intangible assets (Note 23)	45,218	39,800
Depreciation of investment property (Note 22)	2,436	2,578
	137,887	126,300

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2017	2016
Insurance premiums for deposits	246,731	263,497
Credit cards costs	191,293	146,859
Administrative and marketing costs	106,707	127,150
Telecommunication and postage costs	70,563	77,110
Maintenance and other related expenses	70,045	68,315
Materials	66,234	73,627
Rent	54,661	57,430
Service fee (Legal fees, audit fees)	52,590	51,088
Collection costs	44,505	40,131
Insurance premiums for property and employees	11,945	11,137
Travel expenses	4,058	6,313
Court claims	2,721	2,339
Other taxes and contributions	1,317	1,422
Other service costs	75,716	72,052
Other expenses	22,476	16,349
	1,021,562	1,014,819

15. INCOME TAX EXPENSE

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

	In thousands of Denars Year ended December 31, 2017	2016
Current income tax expense	239,612	263,930
Deferred income tax expense	33,737	16,326
	273,349	280,256

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

	In thousands of Denars Year ended December 31, 2017	2016
Profit before tax	2.750.027	2,767,519
Income tax at the statutory income tax rate of 10%	275,003	276,752
Tax on expenses not allowed for tax purposes	11,811	14,060
Other	(13,465)	(10,556)
At effective rate of 8.71% (2016: 9.54%)	273,349	280,256

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

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

15.1 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Recognized deferred income tax (assets)/liabilities are attributable to the following items

In thousands of Denars

	31 December 2017			31 December 2016		
	Deferred tax assets	**Deferred tax liabilities**	**Net basis**	**Deferred tax assets**	**Deferred tax liabilities**	**Net basis**
Placement with, and loans to banks	-	45	45	-	173	173
Loans and advances to customers	-	168,644	168,644	-	136,313	136,313
Foreclosed collateral	-	29,022	29,022	-	22,935	22,935
Provisions - Off-balance sheet items	-	5,654	5,654	-	10,207	10,207
Total recognized deferred tax assets / liabilities	**-**	**203,365**	**203,365**	**-**	**169,628**	**169,628**

Movement in temporary differences during the year are as follows:

In thousands of Denars

	2017			2016		
	1 January	**Recognised in income**	**31 December**	**1 January**	**Recognised in income**	**31 December**
Placement with, and loans to banks	173	(128)	45	143	30	173
Loans and advances to customers	136,313	32,331	168,644	140,810	(4,497)	136,313
Foreclosed collateral	22,935	6,087	29,022	12,170	10,765	22,935
Provisions - Off-balance sheet items	10,207	(4,553)	5,654	179	10,028	10,207
	169,628	**33,737**	**203,365**	**153,302**	**16,326**	**169,628**

The temporary differences relate to different carrying amount of the above presented items in accordance with statutory requirements.

16. CASH AND BALANCES WITH THE CENTRAL BANK

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Cash on hand	1,143,282	1,249,952
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	4,724,032	4,688,961
Accounts and deposits with foreign banks	1,638,896	1,644,862
Accounts and deposits with domestic banks	90	609
Treasury bills which can be traded on the secondary market	5,128,841	4,803,007
Time deposits up to three months	2,398,378	2,241,516
Other short-term highly liquid assets	308	350
Included in Statement of Cash Flows	15,033,827	14,629,257
Mandatory reserves in foreign currency	2,770,408	2,897,551
Restricted deposits	97,526	42,660
	17,901,761	17,569,468

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 4,724,032 thousand (2016: Denar 4,688,961 thousand) represent mandatory reserves in Denars. These reserves are non-interest bearing.

Treasury bills which can be traded on the secondary market in the amount of Denar 5,128,841 thousand (2016: Denar 4,803,007 thousand) represent bills issued by the Central Bank with a maturity of 28 - 35 days. Interest rate is 3.25% p.a. (2016: 3.75% p.a.).

Mandatory reserves in foreign currency represent non-interest bearing (2016: non-interest bearing) mandatory deposit with NBRM amounting to Denar 2,770,408 thousand (2016: Denar 2,897,551 thousand) calculated as an average amount of deposits in foreign currencies during the last calendar month.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Equity securities issued by banks	3,676	2,251
	3,676	2,251

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

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Debt securities issued by the Government	6,153,085	8,274,731
Equity securities issued by banks	3,476	3,476
Equity securities issued by other entities	375,096	377,538
	6,531,657	8,655,745
Less: Allowance for impairment	(301,136)	(304,090)
	6,230,521	8,351,655

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Balance at the beginning of the year	304,090	317,896
Addition for the year (Note 11)	-	-
Foreign exchange effects	(2,954)	(13,806)
	301,136	304,090

Debt securities issued by the Government in the amount of Denar 6,153,085 thousand include the amount of Denar 5,148,157 thousand (2016: Denar 6,908,609 thousand) relating to eligible bills issued by the Ministry of Finance of the RM which can be traded on the secondary market with a maturity from six months up to one year and fixed interest rate from 1.45% p.a. to 2.10% % p.a. (2016: from 2.20% p.a. to 2.60% % p.a.). As well as amount of Denar 1,004,928 thousand (2016: Denar 1,366,122 thousand) which relate to continued coupon government bonds issued by the state of RM with maturity from October 2016 till October 2019 and fixed interest rate from 2.20% p.a. to 2.80% p.a.(2016: from 2.20% p.a. to 2.80% p.a.) being repayable in annual coupons.

19. PLACEMENTS WITH, AND LOANS TO BANKS

	Year ended December 31, 2017		Year ended December 31, 2016	In thousands of Denars
	Short-term	**Long-term**	**Short-term**	**Long-term**
Loans to domestic banks			-	-
Loans to foreign banks	25,089	-	33,210	-
Other placements due from foreign banks	-	149,790	-	168,522
Interest receivable	1,025	-	517	-
	26,114	149,790	33,727	168,522
Less: Allowance for impairment	(16,365)	-	(23,934)	-
	9,749	149,790	9,793	168,522
	159,539		178,315	

The movement in the provision for impairment is as follows:

	December 31, 2017	December 31, 2016
		In thousands of Denars
Balance at the beginning of the year	23,934	23,879
Charge for the year (Note 11)	102	916
Release (Note 11)	(7,671)	(654)
Write off	-	(207)
Balance at the end of the year	16,365	23,934

Part of the loans to foreign banks amounting to Denar 19,071 thousand (2016: Denar 21,284 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 25).

Other placement due from foreign banks relate to restricted accounts of Denar 149,790 thousand (2016: Denar 168,522 thousand) which represent deposits held with United Overseas Bank Limited Singapore and HSBC Bank PLC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Bank's daily operations.

20. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

In thousands of Denars

	Year ended December 31, 2017 Short-term	Year ended December 31, 2017 Long-term	Year ended December 31, 2016 Short-term	Year ended December 31, 2016 Long-term
Non-financial entities				
principal amount	12,665,489	11,224,066	13,980,944	10,817,658
interest receivable	62,194	-	77,542	-
State				
principal amount	1,094	112	1,456	323
interest receivable	1	-	1	-
Not-for-profit organizations				
principal amount	3	609	12	1,435
interest receivable	3	0	4	-
Households				
principal amount:				
- housing loans	316,815	9,229,547	318,946	8,977,505
- consumer loans	1,880,123	22,867,022	1,664,818	19,818,448
- auto loans	55,318	53,141	57,079	62,841
- credit cards	483,668	6,566,448	494,146	6,910,522
- other loans	183,220	1,724,288	173,429	1,721,884
interest receivable	128,105	0	118,189	-
Non-residents, except banks				
principal amount	972	96	841	978
interest receivable	1	-	-	-
Current maturity	10,690,032	(10,690,032)	10,311,506	(10,311,506)
	26,467,038	40,975,297	27,198,913	38,000,088
Total gross loans	67,442,335		65,199,001	
Provision for impairment	(5,101,360)		(5,151,669)	
	62,340,975		60,047,332	

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

Movement in allowance for impairment is as follows:

In thousands of Denars

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	5,151,669	5,086,076
Charge for the year (Note 11)	700,636	1,014,243
Release (Note 11)	(677,971)	(1,024,117)
Recoveries	297,911	299,224
Write off	(370,885)	(223,757)
Balance at the end of the year	5,101,360	5,151,669

20. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Agriculture and forestry	527,895	732,386
Mining and quarrying	354,837	254,646
Manufacturing	7,576,566	7,379,446
Electricity, gas, steam and air conditioning supply	2,321,254	1,842,674
Water supply; sewerage, waste management and remediation activities	23,306	30,683
Construction	1,505,971	1,541,778
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,372,494	6,973,608
Transportation and storage	955,485	914,860
Accommodation and food service activities	478,620	638,651
Information and communication	165,950	184,356
Financial and insurance activities	30,884	5,640
Real estate activities	764,031	594,700
Professional, scientific and technical activities	312,821	260,757
Administrative and support service activities	320,224	104,495
Education	8,889	44,272
Human health and social work activities	56,700	49,590
Arts, entertainment and recreation	52,631	51,957
Other service activities	36,475	15,080
Individuals	41,475,942	38,427,753
	62,340,975	60,047,332

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Cash and cash equivalents or restricted accounts held in Bank	1,364,319	1,312,896
Government guarantees	1,090,063	1,257,570
Bank guarantees	502,227	15,585
Corporate guarantees	335,029	547,337
Property	26,674,387	26,050,067
Equipment and other movable assets	1,709,465	1,710,006
Other securities	3,899,142	1,593,439
Non-secured	26,766,343	27,560,432
	62,340,975	60,047,332

d) Risks and uncertainties

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

20. LOANS TO CUSTOMERS (Continued)

d) Risks and uncertainties (Continued)

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

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. Over the past years, when domestic and international economies faced financial and political crises, including the years 2017 and 2016, when the domestic political crisis was more pronounced, the Bank did not faced any liquidity problems as a result of its stability, capital strength, high liquidity and established mechanisms of managing the relevant risks.

The potential impact of the financial crises could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All of the above is focusing to protect and develop current and future customer/depositor base and achievements of the Bank's goals and objectives for 2018 and beyond.

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

21. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Foreclosed collateral		
Land	18,755	13,015
Buildings	858,493	787,747
Other	35,790	4,701
	913,038	805,463
Less: Allowance for impairment	(457,497)	(424,976)
	455,541	380,487

The movement in the allowance for impairment in non-current assets held for sale is as follows:

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Balance at the beginning of the year	424,976	376,490
Charge for the year (Note 11)	34,143	48,486
Disposals	(1,622)	-
Balance at the end of the year	457,497	424,976

b) Other receivables and prepaid expenses

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Trade receivables	73,206	17,210
Prepaid expenses	29,826	19,893
Receivables for commission and fees	10,072	5,572
Advances to suppliers	2,098	3,206
Advances for property and equipment	-	3
Short term settlements of operations with credit cards	-	1,326
Receivables upon payments on credit cards	51,838	52,470
Stock of material, plastic cards, coins and numismatic collection	41,707	39,619
Treasury shortage	7,604	9,652
Other receivables	19,981	14,761
	236,332	163,712
Less: Allowance for impairment	(55,189)	(45,348)
	181,143	118,364

21. OTHER ASSETS (Continued)

b) Other receivables and prepaid expenses

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

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Balance at the beginning of the year	45,348	38,622
Charge for the year (Note 11)	13,900	7,081
Release (Note 11)	(3,046)	(440)
Write off	(1,013)	85
Balance at the end of the year	55,189	45,348

22. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2016	190,367
Transfer from assets acquired through foreclosure procedure	14
Disposals	(6,071)
Balance at December 31, 2016	184,310
Balance at January 1, 2017	184,310
Transfer from assets acquired through foreclosure procedure	186
Disposals	(18,207)
Balance at December 31, 2017	166,289
Accumulated depreciation	
Balance at January 1, 2016	13,887
Charge for the year	2,578
Disposals	(3,327)
Balance at December 31, 2016	13,138
Balance at January 1, 2017	13,138
Charge for the year	2,436
Disposals	(12,925)
Balance at December 31, 2017	2,649
Impairment	
Balance at January 1, 2016	100,571
Charge for the year (Note 11)	-
Balance at December 31, 2016	100,571
Balance at January 1, 2017	100,571
Charge for the year (Note 11)	796
Balance at December 31, 2017	101,367
Carrying amount	
Balance at December 31, 2016	70,601
Balance at December 31, 2017	62,273

As of December 31, 2017, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

23. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold improvements	Other intangibles	Total
Cost				
Balance at January 1, 2016	658,856	152,970	4,721	816,547
Additions	49,567	12,961	-	62,528
Transfer (Note 24)	2,902	308	(2,902)	308
Balance at December 31, 2016	711,325	166,239	1,819	879,383
Balance at January 1, 2017	711,325	166,239	1,819	879,383
Additions	26,856	10,940	6,939	44,735
Disposals	-	(27,547)	-	(27,547)
Transfer (Note 24)	-	1,103	-	1,103
Balance at December 31, 2017	738,181	150,735	8,758	897,674
Accumulated amortization				
Balance at January 1, 2016	576,868	121,782	-	698,650
Charge for the year	30,646	9,154	-	39,800
Balance at December 31, 2016	607,514	130,936	-	738,450
Balance at January 1, 2017	607,514	130,936	-	738,450
Charge for the year	34,761	10,457	-	45,218
Disposal	-	(27,515)	-	(27,515)
Balance at December 31, 2017	642,275	113,878	-	756,153
Carrying amount				
Balance at December 31, 2016	103,811	35,303	1,819	140,933
Balance at December 31, 2017	95,906	36,857	8,758	141,521

24. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	Total
Cost				
Balance at January 1, 2016	1,193,115	1,261,421	2,507	2,457,043
Additions	25,296	88,157	8,713	122,166
Transfer (Note 23)	369	-	(677)	(308)
Disposals	(775)	(102)	-	(877)
Balance at December 31, 2016	1,218,005	1,349,476	10,543	2,578,024
Balance at January 1, 2017	1,218,005	1,349,476	10,543	2,578,024
Additions	30,590	20,774	1,006	52,370
Transfer (Note 23)	8,482	-	(9,585)	(1,103)
Disposals	(10,507)	(377,929)	-	(388,436)
Balance at December 31, 2017	1,246,570	992,321	1,964	2,240,855
Accumulated depreciation				
Balance at January 1, 2016	503,074	1,103,472	-	1,606,546
Charge for the year	29,765	54,157	-	83,922
Disposals	(480)	(102)	-	(582)
Balance at December 31, 2016	532,359	1,157,527	-	1,689,886
Balance at January 1, 2017	532,359	1,157,527	-	1,689,886
Charge for the year	30,341	59,892	-	90,233
Disposals	(6,689)	(377,011)	-	(383,700)
Balance at December 31, 2017	556,011	840,408	-	1,396,419
Carrying amount				
Balance at December 31, 2016	685,646	191,949	10,543	888,138
Balance at December 31, 2017	690,559	151,913	1,964	844,436

The Bank's buildings as of December 31, 2017 include property with a net carrying amount of Denar 4,334 thousand (2016: Denar 8,356 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2017 and 2016 the Bank's property and equipment are free of any pledges and mortgages.

25. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2017		December 31, 2016	
	Up to one year	Over one year	Up to one year	Over one year
Current accounts				
domestic banks	55,728	-	88,506	-
foreign banks	7,671	-	1,632,962	-
	63,399	-	1,721,468	-
Time deposits				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
	-	-	-	-
Restricted deposits				
domestic banks	-	-	-	-
foreign banks	19,071	-	21,284	-
	19,071	-	21,284	-
Interest payable on deposits				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
	-	-	-	-
Total deposits from banks	82,470		1,742,752	

The restricted deposits held with foreign banks amounting to Denar 19,071 thousand (2016: Denar 21,284 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 19).

26. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2017		December 31, 2016	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	9,182,182	-	8,823,207	-
Sight 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	-
Time deposits	5,000	-	-	-
Restricted deposits	72	-	72	-
Interest payable on deposits	-	-	-	-
	60,819	-	49,025	-
Not-for-profit organizations				
Current accounts	494,339	-	475,528	-
Sight deposits	-	-	-	-
Time deposits	158,631	19,580	185,124	22,655
Restricted deposits	3,283	410	9,588	409
Interest payable on deposits	970	-	1,012	-
	657,223	19,990	671,252	23,064
Financial institutions, except banks				
Current accounts	54,482	-	57,605	-
Sight deposits	-	-	-	-
Time deposits	176,500	1,842,408	137,700	1,548,304
Restricted deposits	154	357	583	34,506
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	-
Sight 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
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	-
Sight deposits	1,298	-	47	-
Time deposits	163,699	207,841	205,694	234,585
Restricted deposits	27,680	19	28,138	18
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)
	60,527,193	10,353,245	57,767,001	10,524,876
Total deposits from customers	70,880,438		68,291,877	

27. LOANS PAYABLE

In thousands of Denars

	December 31, 2017 Up to one year	December 31, 2017 Over one year	December 31, 2016 Up to one year	December 31, 2016 Over one year
Domestic sources:				
Agency for assets management				
- long-term loan in amount of Denar 149,398 thousand (2016: Denar 149,398 thousand) is payable in January 2020 on a once off basis. Related fees for these loans are 1.5% p.a. annually.	203	149,398	203	149,398
Agency for undeveloped regions				
- Matured in 2016, interest rate of 3.9% p.a. annually (2016: 3.9% p.a.).	5,690	-	10,689	-
MBPR				
- Matures in 2019 and interest rate is equal to 1.0% p.a. annually (2016: 1% p.a.)	542	253,577	848	396,589
	6,435	402,975	11,740	545,987
Current maturity of long-term loans	106,679	(106,679)	143,893	(143,893)
	113,114	296,296	155,633	402,094
Total loans payable	409,410		557,727	

28. FINANCIAL LIABILITIES RECONCILIATION

The table below sets out an analysis of our debt and the movements in our debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

In thousands of Denars

	Liabilities from financing activities Loan payable	Total
Net debt at 31 December 2016	557,727	557,727
Cash flows	(148,317)	(148,317)
Foreign exchange adjustments	-	-
Other non-cash movements	-	-
Net debt at 31 December 2017	409,410	409,410

29. OTHER LIABILITIES

	In thousands of Denars December 31, 2017	December 31, 2016
Unallocated cash receipts due to depositors and others	733,672	1,128,519
Accrued expenses	158,595	162,629
Deferred revenue	99,848	69,299
Preference shares	90,978	90,978
Premature repayment of loans and other liabilities	68,358	119,855
Overpaid fees of credit cards	24,063	36,164
Obligations to merchants for outstanding payments on credit cards	23,219	23,667
Trade payables	8,786	12,974
Dividends payable for preferred shares	3,284	3,583
Claimed transactions with VISA cards	2,099	2,989
Fee and commissions liabilities	132	149
Custodian accounts (Note 33b)	(3)	(4)
	1,213,031	1,650,802

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

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

As of December 31, 2017, the Bank allocated an amount of Denar 2,274 thousand as a dividend to the holders of these shares for the year 2017 (2016: Denar 2,502 thousand).

30. PROVISIONS

In thousands of Denars

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

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2017	29,793	9,560	32,056	71,409
Additions	4,919	9,369	3,429	17,717
Used	-	(225)	-	(225)
Release	(9,457)	-	(3,938)	(13,395)
Balance at December 31, 2017	25,255	18,704	31,547	75,506

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

The principal actuarial assumptions used were as follows:

	2017	2016
Interest rate	3.90%	3.90%
Average salary increase	4.00%	4.50%
Inflation rate	2.00%	2.50%

Mortality rate:

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

31. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2017 and 2016 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2017 and 2016 officially announced and accepted by the Central Securities Depository of the RM is as follows:

	December 31, 2017		December 31, 2016	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

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

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Profits on available for sale financial assets, net	512	(315)
Service & interest income/(cost) related to defined benefits obligation	2,378	(117)
Other comprehensive income	2,890	(432)
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	2,889	(432)

c) Statutory reserve

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

d) Special fund

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

32. EARNINGS PER SHARE

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

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

	December 31, 2017	December 31, 2016
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	2,476,678	2,487,263
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	141.8	142.5
Diluted earnings per share (in Denars)	141.8	142.5

33. RELATED PARTY TRANSACTIONS

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

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

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2017				
Assets				
Current accounts	988	-	-	988
Loans	-	4,868	-	4,868
	988	4,868	-	5,856
Liabilities				
Deposits	6	43,592	-	43,598
Other liabilities	37,724	-	5	37,729
	37,730	43,592	5	81,327
December 31, 2016				
Assets				
Current accounts	3,823	5,374	805	10,002
Loans	-	8,516	-	8,516
	3,823	13,890	805	18,518
Liabilities				
Deposits	1,626,669	31,440	1,331	1,659,440
Other liabilities	16,163	-	2	16,165
	1,642,832	31,440	1,333	1,675,605

33. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2017				
Income				
Interest income	3	331	-	334
Fee and commission income	-	36	18	54
	-	21	-	21
	3	388	18	409
Expenses				
Interest expense	36	802	198	1,036
Fee and commission expense	-	-	22	22
Other expenses	60,117	28,316	-	88,433
	60,153	29,118	220	89,491
December 31, 2016				
Income				
Interest income	-	598	4	602
Fee and commission income	-	39	20	59
	-	637	24	661
Expenses				
Interest expense	-	661	305	966
Fee and commission expense	-	-	22	22
Other expenses	53,471	28,327	-	81,798
	53,471	28,988	327	82,786

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

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

In thousands of Denars

	December 31, 2017	December 31, 2016
Short-term compensation and benefits	28,309	28,312
	28,309	28,312

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

34. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars December 31, 2017	December 31, 2016
Payment guarantees:		
in Denars	697,671	938,171
in foreign currency	262,845	426,766
in Denars with foreign currency clause	227,880	405,765
Performance guarantees:		
in Denars	420,973	411,484
in foreign currency	54,375	42,540
in Denars with foreign currency clause	628,269	603,145
Letters of credit in foreign currency	24,066	62,026
Cash covered letter of credit	5,774	12,079
Cash covered letter of guarantees	234,394	299,166
Unused current account overdrafts	5,848,169	4,565,714
Credit cards commitments	5,996,410	6,081,797
Other	2,577	1,077
	14,403,403	13,849,730
Less: provision for off-balance sheet items (Note 30)	(25,255)	(29,793)
	14,378,148	13,819,937

b) Managed funds

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

In thousands of Denars

	December 31, 2017			December 31, 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans in Denars	274,635	274,528	107	271,074	271,074	-
Loans in foreign currency	291,011	291,011	-	274,618	274,618	-
Other receivables in Denars	1,066,293	1,066,301	(8)	1,040,989	1,040,989	-
Other receivables in foreign currency	581,599	581,698	(99)	419,977	419,977	-
Custodian accounts (Note 30)	35,512	35,515	(3)	48,958	48,962	(4)
	2,249,050	2,249,053	(3)	2,055,616	2,055,620	(4)

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

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2017 the provision for legal proceedings filed against the Bank amounted to Denar 18,704 thousand (2016: Denar 9,560 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations. During 2017, the Bank has allocated additional provisions for impairment losses upon litigation in the amount of Denar 9,369 thousand (2016: Denar 2,206 thousand).

34. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 1,291 thousand (2016: Denar 3,191 thousand).

The Bank as lessee

The payment for operating lease was recognized within other operating expenses and relate to business premises. Lease contracts are up to one year and have a clause stipulating a 30-days'notice period. Rental expense paid by the Bank amounting to Denar 54,661 thousand (2016: Denar 57,430 thousand).

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

35. TAXATION RISK

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

36. EVENTS AFTER THE REPORTING PERIOD

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

37. EXCHANGE RATES

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

		In Denars
	2017	**2016**
1 USD	51.2722	58.3258
1 EUR	61.4907	61.4812