

**STOPANSKA BANKA AD - Skopje**

**DRAFT Audited Financial Statements  
For the year ended December 31, 2018**

**CONTENTS**

	<b>Page</b>
Responsibility for the financial statements	
Audit opinion	
Income Statement	1
Statement of comprehensive income	2
Balance sheet	3 – 4
Statement of changes in equity and reserves	5 – 6
Cash flow statement	7 – 9
Notes to the financial statements	10 - 136

## RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of STOPANSKA BANKA AD - Skopje (the “Bank”) is responsible for ensuring that the financial statements are prepared for each financial year in accordance with the Methodology for recording and evaluating the accounting items provided by the Central Bank and for preparing the financial statements in accordance with the accounting standards applied in the country, which give a true and fair view of the state of affairs and results of the Bank for the year.

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

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

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

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos

Mrs. Milica Chaparovska - Jovanovska

Chief Executive Officer  
Chairman of the Board of Directors

Chief Retail Officer  
Member of the Board of Directors

Mr. Toni Stojanovski

Orce Naumovski

Chief Risk Officer,  
Member of the Board of Directors

Chartered Accountant



## **Independent auditor's report - DRAFT**

*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 balance sheet as of 31 December 2018 and the income statement, statement of comprehensive income, statement of changes in equity and reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Standards on auditing applicable in Republic of North 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.

PricewaterhouseCoopers Revizija doo, 8<sup>th</sup> September 16, Hyperium Business Center, 2<sup>nd</sup> floor, 1000 Skopje, Republic of North Macedonia, VAT No. MK4030008022586, T: +389 (02)31 40 900/901, F: +389 (02) 31 16 525, [www.pwc.com/mk](http://www.pwc.com/mk)

This version of our report and accompanying financial statements is a translation from the original, which was prepared in Macedonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the regulations of the National Bank of the Republic of North Macedonia.

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

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

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

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by the Management of the Bank in accordance with article 384 of the Company Law is consistent in all material respects with the financial information presented in the Annual Accounts and audited Financial Statements of the Bank, as of and for the year ended 31 December 2018.

Dragan Davitkov  
General Manager

Sime Jovanovski  
Certified Auditor

PRICEWATERHOUSECOOPERS REVIZIJA DOO - Skopje

Skopje, 12 April 2019

**INCOME STATEMENT**  
**for the period from January 1, 2018 to December 31, 2018**  
**(In thousands of Denars)**

	Notes	31 December 2018	31 December 2017
Interest income		4,509,860	4,430,735
Interest expense		(682,760)	(753,373)
<b>Net interest income (expenditures)</b>	<b>6</b>	<b>3,827,100</b>	<b>3,677,362</b>
Fee and commission income		1,109,890	1,076,297
Fee and commission expense		(105,731)	(94,462)
<b>Net fee and commission income (expenditures)</b>	<b>7</b>	<b>1,004,159</b>	<b>981,835</b>
Trading income, net	8	1,940	1,426
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	105,173	107,673
Other operating income	11	560,537	480,824
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(531,646)	(882,078)
Impairment losses on non-financial assets, net	13	117,038	(110,306)
Personnel expenses	14	(869,802)	(801,066)
Depreciation and amortization	15	(137,831)	(136,776)
Other operating expenses	16	(1,008,587)	(1,035,162)
Share in the loss of associated companies	24	-	-
<b>Profit before tax</b>		<b>3,068,081</b>	<b>2,283,732</b>
Income tax	17	(321,735)	(239,612)
<b>Net profit for the year</b>		<b>2,746,346</b>	<b>2,044,120</b>
<b>Earnings per share</b>	<b>41</b>		
Basic earnings per share (in MKD)		157.30	117.07
Diluted earnings per share (in MKD)		157.30	117.07

The accompanying notes from page 10 to 136  
are an integral part of these financial statements.

The financial statements were approved by the Banks's Board of Directors on April 19, 2019 and adopted  
by the Bank's Supervisory Board on April 19, 2019.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos  
Chief Executive Officer  
Chairman of the Board of Directors

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

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

Orce Naumovski  
Chartered Accountant

**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**for the period from January 1, 2018 to December 31, 2018**  
**(In thousands of Denars)**

	<b>Note</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
<b>Profit / (loss) for the financial year</b>		2,746,346	2,044,120
<b>Other profit/ (losses) for the financial year (before taxation)</b>			
<b>Other profit/ (losses) in the period not shown in the Income Statement (before taxation)</b>			
Revaluation reserve for equity assets available-for- sale		-	-
- unrealized net changes in fair value of equity assets available for sale		2,624	512
- realized net-profit/(losses) from equity assets available for sale, reclassified in the			
Other reserves		-	-
Changes in the bank's creditworthiness, for financial liabilities that are measured at fair value		-	-
Income tax from other gains / (losses) not shown in the Income Statement	17	-	-
<b>Total other gains / (losses) in the period not shown in the Income Statement</b>		2,624	512
<b>Other gains / (losses) in the period which are or could reclassified in the Income Statement (before taxation)</b>			
Revaluation reserve for debt assets available-for- sale			
- unrealized net changes in fair value of debt assets available for sale		8,475	-
- realized net-profit/(losses) from equity assets available for sale, reclassified in the			
Income Statement		-	-
- additional impairment losses of debt assets available for sale		-	-
- Release of impairment losses of debt assets available for sale		-	-
Revaluation reserve for assets taken on the basis of outstanding claims			
- revaluation reserve recognized during the period		15,056	129,382
- reduction in the revaluation reserve reclassified in the Income Statement		(138,267)	(468)
Reserves for cash flow risk protection instruments			
- unrealized net changes in fair value of cash flow risk protection instruments		-	-
- realized net-profit/(losses) from cash flow risk protection instruments, reclassified			
in the Income Statement		-	-
Reserve for instruments to protect against the risk of net investments in foreign operations		-	-
Reserve of foreign exchange differences from investment in foreign operations		-	-
Share in other gains / (losses) of affiliated companies not shown in the Income Statement	24	-	-
Other gains / (losses) not shown in the Income Statement		(3,325)	2,378
Income tax from other gains / (losses) which are or could reclassified in the Income Statement	17	-	-
<b>Total other gains / (losses) in the period which are or could reclassified in the Income Statement</b>		<b>(118,061)</b>	<b>131,292</b>
<b>Total other gains / (losses) in the period</b>		<b>(115,437)</b>	<b>131,804</b>
<b>Comprehensive income /(loss) for the financial year</b>		<b>2,630,909</b>	<b>2,175,924</b>

The accompanying notes from page 10 to 136  
are an integral part of these financial statements.

The financial statements were approved by the Bank's Board of Directors on April 19, 2019 and adopted by the Bank's Supervisory Board on April 19, 2019.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos  
Chief Executive Officer  
Chairman of the Board of Directors

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

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

Orce Naumovski  
Chartered Accountant

## BALANCE SHEET

As at December 31, 2018  
(In thousands of Denars)

	<u>Notes</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>ASSETS</b>			
Cash and cash equivalents	18	19,296,328	17,901,316
Trading financial assets	19	5,616	3,676
Financial assets at fair value through Income Statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	197,089	159,539
Loans to customers	22.2	63,664,180	60,657,198
Investments in securities	23	5,869,943	6,230,521
Investments in associates	24	-	-
Income tax receivable (current)	30.1	-	6,899
Other receivables	25	454,474	178,479
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	68,969	201,412
Intangible assets	28	101,084	104,663
Property and equipment	29	883,904	907,473
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
<b>Total assets</b>		<b><u>90,541,587</u></b>	<b><u>86,351,176</u></b>
<b>LIABILITIES</b>			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through Income Statement determined as such at initial recognition	33	-	-
Derivative obligations held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	159,504	82,470
Deposits from customers	34.2	76,002,374	70,880,438
Issued debt securities	35	-	-
Borrowings	36	296,455	409,410
Subordinated debt	37	-	-
Special reserve and provisions	38	128,364	132,048
Income tax payable (current)	30.1	95,126	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	930,114	1,213,031
Liabilities directly related to disposal group of assets	31	-	-
<b>Total liabilities</b>		<b><u>77,611,937</u></b>	<b><u>72,717,397</u></b>



**BALANCE SHEET (continued)****As at December 31, 2018****(In thousands of Denars)**

	<u>Notes</u>	<u>31 December 2018</u>	<u>31 December 2017</u>
<b>EQUITY AND RESERVES</b>			
Subscribed capital	40	3,511,242	3,511,242
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves	40	84,683	200,120
Other reserves	40	831,373	831,373
Retained earnings		8,502,352	9,091,044
<b>Total equity and reserves</b>		<b>12,929,650</b>	<b>13,633,779</b>
<b>Total liabilities and equity and reserves</b>		<b>90,541,587</b>	<b>86,351,176</b>
		-	-
Contingent liabilities	42	14,191,047	14,321,606
Contingent assets	42	-	-

The accompanying notes from page 10 to 136  
are an integral part of these financial statements.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

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Chief Executive Officer  
Chairman of the Board of Directors

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

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

Orce Naumovski  
Chartered Accountant

# STOPANSKA BANKA AD – Skopje

## STATEMENT OF CHANGES IN EQUITY AND RESERVES for the period from January 1, 2018 to December 31, 2018 (In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings		(Accumul	Total
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on outstandings claims	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	ated losses)	equity and reserves
As at January 1, 2017 (previous period)	3,511,242	-	-	-	(25,874)	100,597	-	-	(6,407)	830,290	-	1,083	3,338,715	5,925,652	-	13,675,298
Correcion in initial balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at January 1, 2017 corrected	3,511,242	-	-	-	(25,874)	100,597	-	-	(6,407)	830,290	-	1,083	3,338,715	5,925,652	-	13,675,298
Comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	2,044,120	-	-	2,044,120
Profit /(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income /(loss) in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale <i>debt securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-unrealized changes in the fair value, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-realized changes in the fair value, net reclassified in Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-additional impairment on debt securities available-for-sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-impairment relise of debt securities available-for-sale <i>equity securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-unrealized changes in the fair value, net	-	-	-	-	512	-	-	-	-	-	-	-	-	-	-	512
-realized changes in the fair value, net reclassified in Other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in bank's creditworthiness for financial liabilities measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-foreclosed assets	-	-	-	-	-	128,914	-	-	2,378	-	-	-	-	-	-	131,292
<b>Total unrealized profit /(loss) recognized in the equity</b>	-	-	-	-	512	128,914	-	-	2,378	-	-	-	-	-	-	131,804
<b>Total comprehensive profit /(loss) for the financial year</b>	-	-	-	-	512	128,914	-	-	2,378	-	-	-	2,044,120	-	-	2,175,924
<b>Transactions with shareholders, recognized in the equity and reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(2,217,443)	-	-	(2,217,443)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Transactions with shareholders, recognized in the equity and reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	(2,217,443)	-	-	(2,217,443)
<b>On December 31, 2017</b>	3,511,242	-	-	-	(25,362)	229,511	-	-	(4,029)	830,290	-	1,083	3,165,392	5,925,652	-	13,633,779

# STOPANSKA BANKA AD – Skopje

## STATEMENT OF CHANGES IN EQUITY AND RESERVES for the period from January 1, 2018 to December 31, 2018 (In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on outstandings claims	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2017 / January 1, 2018 (current period)	3,511,242	-	-	-	(25,362)	229,511	-	-	(4,029)	830,290	-	1,083	3,165,392	5,925,652	-	13,633,779
Correcion in initial balance	-	-	-	-	-	-	-	-	-	-	-	-	(17,603)	-	-	(17,603)
As at January 1, 2018 corrected	3,511,242	-	-	-	(25,362)	229,511	-	-	(4,029)	830,290	-	1,083	3,147,789	5,925,652	-	13,616,176
Comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	2,746,346	-	-	2,746,346
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income/(loss) in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>debt securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-unrealized changes in the fair value, net	-	-	-	-	8,475	-	-	-	-	-	-	-	-	-	-	8,475
-realized changes in the fair value, net reclassified in Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-additional impairment on debt securities available-for-sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-impairment relise of debt securities available-for-sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>equity securities</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-unrealized changes in the fair value, net	-	-	-	-	2,624	-	-	-	-	-	-	-	-	-	-	2,624
-realized changes in the fair value, net reclassified in Other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in bank's creditworthiness for financial liabilities measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-foreclosed assets	-	-	-	-	-	(123,211)	-	-	(3,325)	-	-	-	-	-	-	(126,536)
<b>Total unrealized profit/(loss) recognized in the equity</b>	-	-	-	-	11,099	(123,211)	-	-	(3,325)	-	-	-	-	-	-	(115,437)
<b>Total comprehensive profit/(loss) for the financial year</b>	-	-	-	-	11,099	(123,211)	-	-	(3,325)	-	-	-	2,746,346	-	-	2,630,909
<b>Transactions with shareholders, recognized in the equity and reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(3,317,435)	-	-	(3,317,435)
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-distribution of accumulated earnings	-	-	-	-	-	-	-	-	-	-	-	-	(1,104,948)	1,104,948	-	-
<b>Transactions with shareholders, recognized in the equity and reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	(4,422,383)	1,104,948	-	(3,317,435)
<b>On December 31, 2018</b>	<b>3,511,242</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14,263)</b>	<b>106,300</b>	<b>-</b>	<b>-</b>	<b>(7,354)</b>	<b>830,290</b>	<b>-</b>	<b>1,083</b>	<b>1,471,752</b>	<b>7,030,600</b>	<b>-</b>	<b>12,929,650</b>

The accompanying notes from page 10 to 136 are an integral part of these financial statements.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos  
Chief Executive Officer  
Chairman of the Board of Directors

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

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

Orce Naumovski  
Chartered Accountant



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## STATEMENT OF CASH FLOW

for the period from January 1, 2018 to December 31, 2018

(In thousands of Denars)

	Note	31 December 2018	31 December 2017
<b>Cash flow generated from operating activities</b>			
<b>Profit before taxation</b>		3,068,081	2,283,732
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	35,400	34,761
- property and equipment	15/29	102,431	102,015
Capital gain on sale of:			
- intangible assets		-	-
- property and equipment	11	(13)	(19,659)
- assets acquired through foreclosures	11	(90,242)	(47,612)
Capital loss on sale of:			
- intangible assets		-	-
- property and equipment		-	2
- assets acquired through foreclosures	16	-	-
Interest income	6	(4,509,860)	(4,430,735)
Interest expense	6	682,760	753,373
Net trading expense / (income)	8	(1,940)	(1,426)
Impairment losses of financial assets, on a net basis			
- Additional impairment losses	12	1,406,769	1,491,208
- Release of impairment losses	12	(875,122)	(559,064)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	21,229	110,774
- Release of impairment loss		(138,267)	(468)
Special reserves:			
- additional provisions	38	3,767	37,966
- release of provisions	38	(3,531)	(76,795)
Dividend income		(5,399)	(5,723)
Share in profit/(loss) of associates			
Other adjustments	11	44,128	(95,161)
Interest received		4,508,970	4,447,224
Interest paid		(695,205)	(741,518)
<b>Operating profit before changes in operating assets</b>		<b>3,553,896</b>	<b>3,282,894</b>
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		(1,940)	(1,425)
Derivative assets held for risk management		-	-
Due from banks and financial institutions		(37,550)	18,777
Loans to customers		(2,475,336)	(2,934,351)
Pledged assets		-	-
Assets acquired through foreclosure proceedings		112,354	(9,476)
Reserve requirements in foreign currency		(192,318)	127,143
Obligatory deposit with Central Bank in accordance with special legislative		(236,541)	-
Other receivables		(1,550,588)	(30,902)
Deferred tax assets		-	-
Non-current assets held for sale and disposal group		-	-
<i>Increase/(decrease) of operating liabilities:</i>			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks and financial institutions		77,034	(1,660,282)
Deposits from customers		5,121,936	2,588,561
Other liabilities		(282,918)	(437,765)
Liabilities directly related to group of assets for disposal		-	-
<b>Net cash flows (used in)/ generated from operating activities before tax</b>		<b>4,088,029</b>	<b>943,174</b>
(Paid)/Received on income tax		(219,711)	(246,509)
<b>Net cash flows (used in)/ generated from operating activities</b>		<b>3,868,318</b>	<b>696,665</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## STATEMENT OF CASH FLOW (continued)

for the period from January 1, 2018 to December 31, 2018

(In thousands of Denars)

	31 December 2018	31 December 2017
<u>Note</u>		
<b>Cash flows from investing activities</b>		
(Investments in securities)	(5,817,564)	(5,998,787)
Inflows from sale of investments in securities	6,255,710	8,107,654
(Outflows for investments in subsidiaries and affiliates)	-	-
Inflows from sale of investments in subsidiaries and affiliates	-	-
(Acquisition of intangible assets)	(31,821)	(33,795)
Inflows from sale of intangible assets	-	-
(Acquisition of property and equipment)	(92,328)	(70,655)
Inflows from sale of property and equipment	10,461	7,205
(Outflows for non-current assets held for sale)	-	-
Inflows from non-current assets held for sale	-	-
(Other outflows from investing activities)	-	-
Other inflows from investing activities	228,521	67,271
<b>Net cash flows from investing activities</b>	<b>552,979</b>	<b>2,078,893</b>
<b>Cash flows from financing activities</b>		
(Repayment of issued debt securities)	-	-
Inflows from issued debt securities	-	-
(Repayment of loan payables)	(150,814)	(148,492)
Increase in loan payables	-	-
(Repayment of issued subordinated debt)	-	-
Inflows from issued subordinated debt	-	-
Inflows from issued shares/equity instruments within the period	5,399	5,723
Acquisition of treasury shares)	-	-
Disposal of treasury shares	-	-
(Paid dividends)	(3,309,730)	(2,226,939)
(Other outflows from financing activities)	-	-
Other inflows from financing activities	-	-
<b>Net cash flows from financing activities</b>	<b>(3,455,145)</b>	<b>(2,369,708)</b>
Effects from allowance for impairment of cash and cash equivalents	-	-
Effects from foreign exchange gains/losses of cash and cash equivalents	-	-
<b>Net-increase/(decrease) of cash and cash equivalents</b>	<b>966,152</b>	<b>405,850</b>
Cash and cash equivalents as at January 1	15,033,382	14,627,532
<b>Cash and cash equivalents as at December 31</b>	<b>15,999,534</b>	<b>15,033,382</b>

The accompanying notes from page 10 to 136  
are an integral part of these financial statements.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos  
Chief Executive Officer  
Chairman of the Board of Directors

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

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

Orce Naumovski  
Chartered Accountant

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## INTRODUCTION

## a) General Information

STOPANSKA BANKA AD - Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the RM with 66 branches (2017: 66 branches).

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

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

The Bank is controlled by National Bank of Greece, headquartered in Greece, which owns 94.64% (2017:94.64%) of the capital of the Bank and represents its ultimate parent company.

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

<u>Code of the security</u>	<u>ISIN number</u>
STB (common share)	MKSTBS101014
STBP (preferred share)	MKSTBS120014

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2018****INTRODUCTION (continued)****a) General Information (continued)**

The financial statements of the Bank for the period ended December 31, 2018 were approved by the Bank's Board of Directors on April 19, 2019 and adopted by the Bank's Supervisory Board on April 19, 2019.

**b) Basis of preparation of the financial statements****Accounting standards for preparation of the financial statements**

The financial statements of the Bank have been prepared in accordance with the Company Law, Law on Banks, the bylaws issued by the Central Bank (hereinafter referred to as "Central Bank"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter referred to as "Methodology") ("Official Gazette of RM" no. 83/2017) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no. 83/2017), as prescribed by the Central Bank, applicable since January 1, 2018.

In accordance with the requirements of the Methodology for its initial application, as well as first application of new classification requirements, the Bank has carried out a reassessment of financial assets and financial liabilities as at 31 December 2017 and 1 January 2018. The impact of the initial application is also presented in the table in Note 1.B.1.

Within the Methodology, the liability for calculating the impairment for credit risk is prescribed by the Bank, which is obliged to determine, evaluate and recognize allowance for impairment/impairment for expected credit losses of financial assets in accordance with the Decision on the methodology for credit risk management as prescribed by the Central Bank.

In August 2018, the Central Bank amended and supplemented, and subsequently published a new Decision on the methodology for credit risk management („Official Gazette of the RM “ No. 149/18). This Decision shall come into force as of July 1, 2019.

Due to the different periods in which the Methodology and the Decision on the methodology for credit risk management started (January 1, 2018 and July 1, 2019 respectively), the Bank in these financial statements did not apply the Decision, except in part for the securities. The impact from reassessment i.e. valuation and measurement of the securities is immaterial. The effect, was recorded by the Bank as a correction of the initial balance on 1 January 2018 of the retained earnings / accumulated loss.

**Presentation of financial statements**

The accompanying financial statements of the Bank have been presented in accordance with the prescribed form and contents of the balance sheet schemes prescribed in the Decision on the types and contents of banks' financial statements ("Official Gazette of RM"no. 83/17), (hereinafter referred to as "Decision").



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2018****INTRODUCTION (continued)****b) Basis of preparation of the financial statements(continued)****Presentation of financial statements (continued)**

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

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

The presentation of the financial statements in conformity with the accounting standards applied in the country requires the Bank management to make the best possible estimates and reasonable assumptions that affects the presented values of assets and liabilities, as well as the revenues and expenses arising within the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for estimation of the carrying amounts of assets and liabilities for which no other data is available. Actual results may differ from these estimates.

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2018****INTRODUCTION (continued)****c) Significant accounting policies (continued)****Interest income and expense (continued)**

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

**Fee and commission income**

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis over the period of service rendering. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized using the effective interest rate method.

**Dividend income**

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

**Foreign exchange translation**

Transactions denominated in foreign currencies have been translated into Denars at exchange rates set by the Central Bank at dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the end of reporting period using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the profit and loss in the period in which they occur.

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

**Financial assets**

The Bank recognizes the financial assets and liabilities in books just if it is a party to the contractual provisions of the instrument. Financial assets are recognized and derecognized on the trade date where the purchase or sale of an investment is under a contract which terms require delivery of the investment within the agreed timeframe. Financial assets are initially recognized at fair value, which is the transaction price of the instrument. The classification depends on the nature and the purposes of the financial assets and is determined at the time of initial recognition. The classification of financial assets depends on the bank business model and characteristics of the agreed cash flows. In the Bank are determined three business models: HTC (hold to collect) comprises the financial assets that are measured at amortized cost, HTCS (held to collect and sale) comprises the financial assets that are measured at fair value through other comprehensive income and HFT (held for trading) comprises the assets that are measured at fair value through Income statement.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Securities held-for-trading**

Securities held-for-trading, which comprise bonds issued in local currency by the Ministry of Finance and equity securities issued by banks, are securities included in a portfolio in which a pattern of short-term profit making exists. Securities held-for-trading are covered by business model (HFT) and respectively to the model on these instruments initially are recognized at fair value, and transaction cost are not included in the amount that are initially measured. These securities are held by the Bank with intention to trade and receive gains from changes in fair value of the security. This is a residual category i.e. the Bank classifies in this category also all those financial assets which did not meet the criteria of other two categories described below. These instruments are subsequently measured at their fair value, without reducing the transaction costs, through the income statement on the basis of their market price, for trading assets as net trading income, and financial assets at fair value through profit or loss determined as such upon initial recognition as net income from other financial instruments recorded at fair value. Foreign exchange gains or losses are recognized in the income statement as net income / expense from exchange differences. Interest, if realized during the held-for-trading securities, is recorded as interest income. Gains or losses incurred when disposal or writing off an asset are recorded as other income / expenses. The disposal of securities held-for-trading is recognized on the trading date, which is the date when the Bank is obliged to buy or sell the asset.

**Available-for-sale financial assets**

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recognized at fair value without reducing the transaction costs which could occur when selling and disposal, and subsequently measured at fair value, based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments.

The Bank classifies assets in this category if they meet following criteria:

- bank held financial assets with intention of collect contractual cash flows and/or for sale
- the criteria for only collection of principal and interest (SPPI) is met

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are equal to the difference between amortized cost and fair value and are recognized in equity and reserve in position revaluation reserves. In the debt securities through derecognized when the assets will be sold or matured, cumulative nonrealized gain or loss previously recognized in equity are included in the net profit or loss for the period in the position of revenue/ expense. In the equity securities through their derecognized the amount of the revaluation reserves the Bank will rewriting to the Accumulated / Retained earnings.

However, interest calculated using the effective interest rate method, as well as contingent impairment losses and foreign exchange gains and losses are recognized in the profit and loss.

**INTRODUCTION (continued)****c) Significant accounting policies (continued)****Held-to-maturity financial assets**

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

The Bank classifies assets in this category if they meet following criteria:

- bank held financial assets with intention of collect contractual cash flows
- the criteria for only collection of principal and interest (SPPI) is met

The Bank classifies in this category also cash and cash equivalents, claims from customers, claims from leases, claims for fees and commissions, and all other financial assets which are exposed to credit risk according to Decision for credit risk, and for which criteria SPPI is not applicable. For these assets SPPI criteria is not required to be met.

Gains or losses on exchange differences are recognized in the income statement as net income / exchange rate differentials. Gains or losses incurred when selling or writing off an asset are recorded as other income / expenses. Gains and losses when the asset is impaired or derecognised are recognized through the Income Statement.

**Loans originated by the Bank**

Loans are classified in accordance with business model HTC (held to collect) and are measured at amortized cost with the application of effective interest rate method. The classification is made in accordance with the banks business model and the characteristics of the related cash flows. Two criteria are satisfied for classification and measurement of loans at amortized costs:

- bank is managing the assets to receive the contractual cash flow the financial assets passes the contractual cash flow test SPPI
- Solely Payments of Principal and Interest

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

**Impairment of financial assets**

The Bank assesses at each end of reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less from revaluation reserves and are recognized in Income Statement in position - impairment. Impairment is not calculated to equity securities. Impairment losses recognized in the profit and loss on equity instruments are not reversed through the profit and loss. If, in a subsequent period, the fair value of a debt instrument

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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, as impairment loss, , the impairment loss are annulled. The amount of release will be included in impairment loss, net. The rest of the amount of the new fair value are recognized in revaluation reserves.

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 and are recognized in the Income statement.

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

Allowances for impairment and uncollectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A “claim” means a loan, a commitment such as a letter of credit, guarantee or commitment to increase the credit limit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items it is presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the profit and loss.

The allowances for impairment and uncollectability of loans and advances and for other active on-balance sheet and off-balance sheet items, are determined in accordance with the regulations prescribed by the Central Bank ruling on each end of reporting period, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet items into groups on the basis of the degree (size) of the risk and assess the amount of potential impairment losses which are calculated by applying objective and subjective metrics, as of December 31, 2018 and December 31, 2017 by applying the following percentages:

<u>Risk category</u>	<u>Percentage</u>
A	0.01%-5%
B	5%-20%
C	20%-45%
D	45%-70%
E	70%-100%

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

- Separate loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and uncollectability are measured and determined for the difference between the carrying value of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by effective loan interest rate.
- If there is objective proof of uncollectability in the loan portfolio that may not be identified on a specific basis, the allowances for impairment and uncollectability are determined at level of risk for the overall loan portfolio. These losses are determined at historical principle for the loan classification of customers and express the current economic environment of the customers.
- Losses on impairment and uncollectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing, since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and uncollectability are reviewed and tested at least once a quarter, and any further changes in the amount and timing of expected future cash flows in comparison with previous assessments result in changes in allowances for losses on impairment and uncollectability recorded as credit or debit of impairment losses in the profit and loss.

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

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

**Derecognition of financial assets**

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

**Financial liabilities**

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

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

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

**Loans payable**

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

**Other payables**

Other payables are stated at their nominal amounts.

**Derivative financial instruments**

The derivative financial instruments include contractual agreements subject to exchange rate fluctuations and are initially and subsequently valued at fair value. These contracts are not qualified for hedging accounting in accordance with the specific criteria of IFRS 9 – "Financial instruments: recognition and measurement" and are accordingly treated as derivative instruments held for trading, i.e. gains and losses are recognized in net trading income.

**INTRODUCTION (continued)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**c) Significant accounting policies (continued)**

**Derecognition of financial liabilities**

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

**Property and equipment**

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the profit and loss as an expense as incurred. Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates are as follows:

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

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss.

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

**Intangible assets**

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

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



## **INTRODUCTION (continued)**

### **c) Significant accounting policies (continued)**

#### **Assets acquired through foreclosure proceedings**

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in foreclosed assets. Initially, these assets are measured at the initial carrying amount i.e. lower value than cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified appraiser on the date of asset foreclosure. For all assets undertaken after April 6, 2013 the Bank recorded at initial recognition and impairment of at least 20% of the lower of cost and estimated value of the foreclosed asset. If the impairment of loan that is paid by foreclosing assets is higher than 20% of the initial value of the foreclosed asset, the difference is recognized in the revaluation reserves of the Bank.

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

When asset is sold, the amount of impairment recognised in revaluation reserve is release and the same is recognised in the Income Statement in position Impairment losses on financial assets, net

#### **Cash and cash equivalents**

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

#### **Managed funds**

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

#### **Provisions**

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****INTRODUCTION (continued)****c) Significant accounting policies (continued)****Employment benefits**

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

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay its employees a termiep severance upon retirement in the amount of two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of previously recognized assets (there are currently no previous assets recognized), together with adjustments for unrecognized actuarial gains or losses less past service costs which are not recognized yet. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method.

**Income tax**

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the Balance Sheet date.

**Leases**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****INTRODUCTION (continued)****d) Critical accounting judgments and estimates**

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

**Fair value of financial instruments**

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

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

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

**Allowance for loan losses**

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the Income Statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**INTRODUCTION (continued)**

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

**Useful lifetime of tangible and intangible assets**

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

**Actuarial assumptions in respect of defined benefit plan**

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

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

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

**f) Compliance with legislation**

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

In January 2017, the Central Bank Report was delivered on conducted on-site supervision within the period from 20 November 2017 to 22 December 2017 regarding implementation of regulations related to foreign exchange operations. The delivered Supervision Report did not contain any findings, but only recommendations that were successfully removed and implemented in the Bank operations.

- Within the period from 5 February to 14 March 2018, Central Bank conducted on-site supervision regarding the assessment of the Bank's system of corporate governance, IT risk management, money laundering risk, as well as evaluation of the credit risk measurement system. The delivered report from the conducted supervision was delivered in May 2018. With the delivered report from supervisory was determined findings and recommendations for which the Bank prepared an Action Plan for their elimination.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**INTRODUCTION (continued)**

**g) Risk management disclosure**

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

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

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

The IncomeTax Law changed and entered into force on January 1, 2019, for the fiscal year 2019. Mainly the changes relate to the category unrecognized tax expenditures, a change in tax treatment of depreciation and a change in the transfer pricing. The Bank is currently assessing the impact of the changes in the Income Tax Law.

### *A Clasification of the financial assets and liabilities*

31.12.2018 (current period)

- Cash and cash equivalents
- Trading assets
- Financial assets at fair value through the Income Statement determined as such at initial recognition
- Derivative assets held for risk management
- Loans and receivables from banks
- Loans and receivables from other customers
- Investments in securities
- Other receivables

### *Financial liabilities*

- Trading liabilities
- Financial liabilities at fair value through the Income Statement determined as such at initial recognition
- Derivative liabilities held for risk management
- Deposits from banks
- Deposits from customers
- Issued debt securities
- Loans payable
- Subordinated liabilities and hybrid instruments
- Other liabilities

at fair value through the Income Statement		at fair value through other comprehensive income		at amortized cost	Total
for trading	at fair value as such at initial recognition	debt instruments	equity instruments		
-	-	4,956,713	-	14,339,615	19,296,328
-	-	-	5,616	-	5,616
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	197,089	197,089
-	-	-	-	63,664,180	63,664,180
-	-	-	80,059	5,789,883	5,869,943
-	-	-	-	454,474	454,474
-	-	<b>4,956,713</b>	<b>85,675</b>	<b>84,445,241</b>	<b>89,487,629</b>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	159,504	159,504
-	-	-	-	76,002,374	76,002,374
-	-	-	-	-	-
-	-	-	-	296,455	296,455
-	-	-	-	-	-
-	-	-	-	930,114	930,114
-	-	-	-	<b>77,388,447</b>	<b>77,388,447</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

*A Classification of the financial assets and liabilities (continued)*

**In thousands of Denars**

	at fair value through the Income Statement		at fair value through other comprehensive income		at amortized cost	Total
	for trading	at fair value as such at initial recognition	debt instruments	equity instruments		
<b>31.12.2017 (previous year)</b>						
<b><i>Financial assets</i></b>						
Cash and cash equivalents	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-
Financial assets at fair value through the Income Statement determined as such at initial recognition	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	-	-	-
Loans and receivables from other customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
<b><i>Total financial assets</i></b>	-	-	-	-	-	-
<b><i>Financial liabilities</i></b>						
Trading liabilities	-	-	-	-	-	-
Financial liabilities at fair value through the Income Statement determined as such at initial recognition	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Issued debt securities	-	-	-	-	-	-
Loans payable	-	-	-	-	-	-
Subordinated liabilities and hybrid instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
<b><i>Total financial liabilities</i></b>	-	-	-	-	-	-

In accordance with Decision on the types and the content of the banks, this table is not fulfilled.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

*A.a. Classification of the financial assets and liabilities, according to Methodology before January 1, 2018*

**In thousands of Denars**

	for trading	at fair value as such at initial recognition	held to maturity	loans and placements	available for sale	other claims and liabilities at amortized cost	<b>Total</b>
<b>31.12.2017 (previous year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	-	-	-	-	5,128,841	12,772,475	17,901,316
Trading assets	3,676	-	-	-	-	-	3,676
Financial assets at fair value through the Income Statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	159,539	-	-	159,539
Loans and receivables from other customers	-	-	-	60,657,198	-	-	60,657,198
Investments in securities	-	-	-	-	-	-	-
- measured at fair value	-	-	-	-	6,230,521	-	6,230,521
- measured at amortized cost	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	178,479	178,479
<b>Total financial assets</b>	<b>3,676</b>	<b>-</b>	<b>-</b>	<b>60,816,737</b>	<b>11,359,362</b>	<b>12,950,954</b>	<b>85,130,729</b>
<b>Financial liabilities</b>							
Trading liabilities							
Financial liabilities at fair value through the Income Statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	-	-	-	-	-	82,470	82,470
Deposits from customers	-	-	-	-	-	70,880,438	70,880,438
Issued debt securities	-	-	-	-	-	-	-
Loans payable	-	-	-	-	-	409,410	409,410
Subordinated liabilities and hybrid instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	1,213,031	1,213,031
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>72,585,349</b>	<b>72,585,349</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

**B. Classification of the financial assets and liabilities, on January 1, 2018**

**B.1. Comparison of the classification of the final and the initial accounting value of the financial assets and financial liabilities of 31.12.2017 and 1.1.2018**

**Financial assets**

Cash and cash equivalents

Trading assets

debt securities

equity instruments

trading derivatives

Financial assets at fair value through the Income Statement determined as such at initial recognition

debt securities

equity instruments

loans and receivables from banks

loans and receivables from other customers

Derivative assets held for risk management

Loans and receivables from banks

Loans and receivables from other customers

Investments in securities

debt securities

- measured at fair value through other comprehensive income

- measured at amortized cost

equity instruments

- measured at fair value through other comprehensive income

Other receivables

**Total financial assets**

classification (descriptively indicate the category of financial instrument)		carrying amount	
previously category (as at 31.12.2017)	new category (as at 1.1.2018)	final carrying amount 31.12.2017	Initial carrying amount 1.1.2018
<i>Description</i>		<i>In thousands of Denars</i>	
Cash and cash equivalents at amortized cost	Cash and cash equivalents at amortized cost	12,772,475	12,772,475
Debt securities (treasury bills) which are measured at fair value through other comprehensive income	Treasury bills held to maturity (held to collect)	5,128,841	5,123,110
at fair value through the Income Statement	at fair value through the Income Statement	3,676	3,676
		-	-
		-	-
		-	-
		-	-
		-	-
		-	-
Financial assets at amortized cost	Financial assets at amortized cost	159,539	159,539
Financial assets at amortized cost	Financial assets at amortized cost	60,657,198	60,657,198
Government bills available for sale with maturity deadline over 3 months		6,153,085	-
	Government bills held for sale with maturity deadline over 3 months (held to collect)	-	6,141,213
Equity securities obtained by force of law	Equity securities obtained by force of law	77,436	77,436
Financial assets at amortized cost	Financial assets at amortized cost	178,479	178,479
		<b>85,130,729</b>	<b>85,113,126</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

**B. Classification of the financial assets and liabilities , on January 1, 2018 (continued)**

**B.1. Comparison of the classification and the final and the initial accounting value of the financial assets and financial liabilities of 31.12.2017 and 1.1.2018 (continued)**

		<b>In thousands of Denars</b>	
clasification (descriptively indicate the category of financial instrument)		carryng amount	
previously category (as at 31.12.2017)	new category (as at 1.1.2018)	final carryng amount 31.12.2017	Initial carryng amount 1.1.2018
<b>Financial liabilities</b>			
Trading liabilities			
<i>deposits from banks</i>		-	-
<i>deposits from customers</i>		-	-
<i>issued debt securities</i>		-	-
<i>other liabilities</i>		-	-
<i>trading derivatives</i>		-	-
Financial liabilities at fair value through the Income Statement determined as such at initial recognition		-	-
<i>deposits from banks</i>		-	-
<i>deposits from customers</i>		-	-
<i>issued debt securities</i>		-	-
<i>subordinated liabilities</i>		-	-
<i>other liabilities</i>		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks	Financial liabilities at amortized cost	82,470	82,470
Deposits from customers	Financial liabilities at amortized cost	70,880,438	70,880,438
Issued debt securities		-	-
Loans payable	Financial liabilities at amortized cost	409,410	409,410
Subordinated liabilities and hybrid instruments		-	-
Other liabilities	Financial liabilities at amortized cost	1,213,031	1,213,031
<b>Total financial liabilities</b>		<b>72,585,349</b>	<b>72,585,349</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

**B.2. Adjustment of the final and the initial carrying value of financial assets and financial liabilities 31.12.2017 and 1.1.2018**

	In thousands of Denars		
	final carryng amount 31.12.2017	effect of the initial application of the Methodology as at 1.1.2018	Initial carrying amount 1.1.2018
<b>Financial assets</b>			
<i>at amortized cost</i>			
Cash and cash equivalents	17,901,316	(5,731)	17,895,585
Loans and receivables from banks	159,539	-	159,539
Loans and receivables from other customers	60,657,198	-	60,657,198
Investments in securities	-	-	-
<i>debt instruments</i>	-	-	-
- reclassified in assets held-to-maturity	-	-	-
- reclassified in assets available-for-sale	-	-	-
- reclassified in trading assets	-	-	-
Other receivables	178,479	-	178,479
<b>Total financial assets at amortized cost</b>	<b>78,896,532</b>	<b>(5,731)</b>	<b>78,890,801</b>
<i>at fair value through other comprehensive income</i>			
Investments in securities			
<i>debt instruments</i>		-	
- reclassified in assets held-to-maturity	6,153,085		6,153,085
- reclassified in assets available-for-sale	-	(11,872)	(11,872)
- reclassified in trading assets	-	-	-
<i>equity intruments</i>		-	
- reclassified in assets available-for-sale	77,436	-	77,436
- reclassified in trading assets	-	-	-
<b>Total financial assets at fair value through other comprehensive income</b>	<b>6,230,521</b>	<b>(11,872)</b>	<b>6,218,649</b>
<i>at fair value through the Income Statement</i>			
Trading assets	-	-	-
<i>debt instruments</i>			
- reclassified in assets held-to-maturity	-	-	-
- reclassified in assets available-for-sale	-	-	-
- reclassified in trading assets	3,676	-	3,676
<i>equity intruments</i>			
- reclassified in assets available-for-sale	-	-	-
- reclassified in trading assets	-	-	-
<i>trading derivatives</i>			
Financial assets at fair value through the Income Statement determined as such at initial recognition	-	-	-
Derivative assets held for risk management	-	-	-
<b>Total financial assets at fair value through the Income Statement</b>	<b>3,676</b>	<b>-</b>	<b>3,676</b>
<b>Total financial assets</b>	<b>85,130,729</b>	<b>(17,603)</b>	<b>85,113,126</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**1. Classification of the financial assets and liabilities (continued)**

**B.2. Adjustment of the final and the initial carrying value of financial assets and financial liabilities 31.12.2017 and 1.1.2018 (continued)**

	In thousands of Denars		
	final carryng amount 31.12.2017	effect of the initial application of the Methodology as at 1.1.2018	Initial carrying amount 1.1.2018
<b>Financial liabilities</b>			
<b><i>at amortized cost</i></b>			
Deposists from banks	82,470	-	82,470
Deposits from customers	70,880,438	-	70,880,438
Issued debt securities	-	-	-
- reclassified in trading liabilities	-	-	-
- reclassified in liabilities at fair value through the Income Statement	-	-	-
Loans payable	409,410	-	409,410
- reclassified in trading liabilities	-	-	-
- reclassified in liabilities at fair value through the Income Statement	-	-	-
Subordinated liabilities and hybrid instruments	-	-	-
- reclassified in trading liabilities	-	-	-
- reclassified in liabilities at fair value through the Income Statement	-	-	-
Other liabilities	1,213,031	-	1,213,031
<b><i>Total financial liabilities at amortized cost</i></b>	<b>72,585,349</b>	<b>-</b>	<b>72,585,349</b>
<b><i>at fair value through the Income Statement</i></b>			
Trading liabilities			
- reclassified in liabilities at fair value through the Income Statement	-	-	-
- reclassified in liabilities at amortized cost	-	-	-
Financial liabilities at fair value through the Income Statement, determined as such at initial recognition	-	-	-
- reclassified in trading liabilities	-	-	-
- reclassified in liabilities at amortized cost	-	-	-
Derivative liabilities held for risk management	-	-	-
<b><i>Total financial liabilities at fair value through the Income Statement</i></b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total financial liabilities</b>	<b>72,585,349</b>	<b>-</b>	<b>72,585,349</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****2. RISK MANAGEMENT**

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

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

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

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk strategy, ascertaining the Bank's risk definitions, profile and aspirations, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors, Executive and Senior Management. These include the approval of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as other critical support functions, fall into this category.
- Operational (business line) level which involves management of risks at the point of direct performance of the Bank's activities. The relevant activities are performed by individuals who undertake risk on behalf of the organization. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant policies, procedures and guidelines defined by the management.

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

**2.1 Credit risk**

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

**2. RISK MANAGEMENT (continued)****2.1 Credit risk (continued)****2.1.1 Credit risk measurement, limits and mitigation policies**

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and impairment for potential losses, commitments and contingencies and it is mainly based on reports and analysis prepared by relevant organization units of the Bank. The 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 internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of corporative clients to which the Bank is exposed to is reviewed at least on semi-annual basis. The Bank has implemented a system of early warning signals for the purpose of identifying timely possible downward trends in the client's creditworthiness and for mitigating the credit risk.

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

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

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits regarding an individual borrower, related parties, exposure to Bank internal persons, and large exposures, exposures by business sectors as well as other internal limits are set in the Risk Strategy, as well as in the Policies and Procedures regulating the credit risk management. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted which are subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

**2.1.2 Impairment and provisioning policies**

The impairment losses are identified losses of the Bank credit portfolio that incurred until the end of the reporting period and for which there is objective evidence of impairment. The Bank calculates the impairment provision after making the classification of credit exposure in the appropriate risk category.

The classification is made according to the following criteria:

- client's creditworthiness;
- client's regularity in settling the liabilities and
- collateral quality.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

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

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

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

Calculated impairment provision in 2018 moves within the following limits:

- 0.01-5% of credit risk exposure classified into A risk category;
- 5-20% of credit risk exposure classified into B risk category;
- 20-45% of credit risk exposure classified into C risk category;
- 45-70% of credit risk exposure classified into D risk category;
- 70-100% of credit risk exposure classified into E risk category.

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
I. Carrying amount of exposures for which an allowance for impairment/special reserve has been allocated																		
<i>Carrying amount of separate significant exposures before the allowance for impairment and special reserve on an individual basis</i>																		
A risk category	197,089	159,539	58,196,870	56,080,941	5,802,691	6,223,970	-	-	9,672,239	9,206,786	2,778	3,189	31,833	26,596	4,863,656	5,205,990	78,767,156	76,907,011
B risk category	-	-	3,063,303	2,731,823	-	7,355	-	-	-	-	66	42	1,162	217	66,359	98,434	3,130,890	2,837,871
C risk category	-	-	1,692,831	964,100	-	-	-	-	-	-	986	686	1,077	1,999	10,789	14,706	1,705,683	981,491
D risk category	-	-	369,969	1,142,359	-	-	-	-	1,106	988	3,054	7,553	3,988	29,988	105,662	124,162	483,779	1,305,050
E risk category	9,510	16,366	2,218,324	2,663,714	-	96,279	-	-	-	-	25,425	25,170	15,724	18,796	-	-	2,268,983	2,820,325
	206,599	175,905	65,541,297	63,582,937	5,802,691	6,327,604	-	-	9,673,345	9,207,774	32,309	36,640	53,784	77,596	5,046,466	5,443,292	86,356,491	84,851,748
(Allowance for impairment and special reserve on an individual basis)	(9,510)	(16,366)	(3,175,403)	(3,584,751)	(12,808)	(97,083)	-	-	(1,709)	(445)	(27,117)	(28,535)	(17,518)	(33,410)	(65,984)	(77,588)	(3,310,049)	(3,838,178)
<b>Carrying amount of separate significant exposures less the allowance for impairment and special reserve on an individual basis</b>	<b>197,089</b>	<b>159,539</b>	<b>62,365,894</b>	<b>59,998,186</b>	<b>5,789,883</b>	<b>6,230,521</b>	<b>-</b>	<b>-</b>	<b>9,671,636</b>	<b>9,207,329</b>	<b>5,192</b>	<b>8,105</b>	<b>36,266</b>	<b>44,186</b>	<b>4,980,482</b>	<b>5,365,704</b>	<b>83,046,442</b>	<b>81,013,570</b>



NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
Carrying amount of exposures assessed on a group basis before the allowance for impairment and the special reserve on a group basis																		
- separate insignificant exposures (small loans portfolio)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- separate significant exposures not impaired on a separate basis	-	-	1,310,537	665,457	-	-	-	-	-	-	-	-	-	210	5,275,871	5,462,428	6,586,408	6,128,095
(Allowance for impairment and special reserve on a group basis)	-	-	(12,251)	(6,445)	-	-	-	-	-	-	-	-	-	-	(13,509)	(4,210)	(25,760)	(10,655)
Carrying amount of exposures assessed on a group basis less the allowance for impairment and special reserve on a group basis	-	-	1,298,286	659,012	-	-	-	-	-	-	-	-	-	210	5,262,362	5,458,218	6,560,648	6,117,440

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
II. Carrying amount of exposures for which there has been no allowance for impairment/special reserve allocated																		
mature receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Maturity structure of mature receivables for which no allowance for impairment has been allocated</i>																		
up to 30 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of mature receivables for which no allowance for impairment has been allocated</i>																		
non-mature receivables																		
Restructured receiv.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of non-mature receivable for which no allowance for impairment has been allocated</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
Total carrying amount of receivables with credit risk before the allowance for impairment and the special reserve	206,599	175,905	66,851,834	64,248,394	5,802,691	6,327,604	-	-	9,673,345	9,207,774	32,309	36,640	53,784	77,596	10,322,337	10,905,720	92,942,899	90,979,633
(Total allowance for impairment and special reserve)	(9,510)	(16,366)	(3,187,654)	(3,591,196)	(12,808)	(97,083)	-	-	(1,709)	(445)	(27,117)	(28,535)	(17,518)	(33,410)	(79,493)	(81,798)	(3,335,809)	(3,848,833)
Total carrying amount of receivables with credit risk less the allowance for impairment and special reserve	197,089	159,539	63,664,180	60,657,198	5,789,883	6,230,521	-	-	9,671,636	9,207,329	5,192	8,105	36,266	44,186	10,242,844	10,823,922	89,607,090	87,130,800

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
<i>Value of collateral of the credit exposure assessed for impairment on an individual basis</i>																
First-class collateral instruments:																
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	2,408,271	1,904,025	-	-	-	-	-	-	-	-	108,558	227,553	2,516,829	2,131,578
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	1,845,932	1,844,721	-	-	-	-	-	-	-	-	-	-	1,845,932	1,844,721
bank guarantees	-	-	1,034,566	504,264	-	-	-	-	-	-	-	-	190,834	187,251	1,225,400	691,515
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	2,781,913	6,714,723	-	-	-	-	-	-	-	-	342,033	368,944	3,123,946	7,083,667
Guarantees from individuals	-	-	575,293	563,317	-	-	-	-	-	-	-	-	730	104,534	576,023	667,851
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	38,227,764	33,500,497	-	-	-	-	-	-	-	-	225,547	238,157	38,453,311	33,738,654
commercial property	-	-	25,737,925	25,388,391	-	-	-	-	-	-	-	-	1,775,006	2,174,610	27,512,931	27,563,001
Pledge over movables	-	-	12,894,889	13,583,554	-	-	-	-	-	-	-	-	5,329,931	4,393,981	18,224,820	17,977,535
Other types of security	-	-	1,663,537	1,712,829	-	-	-	-	-	-	-	-	88,518	145,987	1,752,055	1,858,816
<b>Total value of collateral of credit exposure assessed for impairment on an individual basis</b>	-	-	<b>87,170,090</b>	<b>85,716,321</b>	-	-	-	-	-	-	-	-	<b>8,061,157</b>	<b>7,841,017</b>	<b>95,231,247</b>	<b>93,557,338</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017	As at 31.12.2018	As at 31.12.2017
<i>Value of collateral of the credit exposure assessed for impairment on a group basis</i>																
First-class collateral instruments:																
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
commercial property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledge over movables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other types of security	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total value of collateral of credit exposure assessed for impairment on a group basis</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

**C. Concentration of credit risk by industries and activities**

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Non-residents	-	-	-	-	-	-	-	-	-	-	1,073	988	-	-	-	-	1,073	988
Agriculture, Forestry and Fishing	-	-	583,591	482,165	-	-	-	-	-	-	48	82	59	-	34,362	31,568	618,060	513,815
Mining and quarrying	-	-	173,730	346,717	-	-	-	-	-	-	2	-	-	-	15,276	4,544	189,008	351,261
Food industry	-	-	3,069,664	2,732,099	-	-	-	-	-	-	69	176	792	1,237	63,398	64,442	3,133,923	2,797,954
Textile industry and clothing and footwear production	-	-	521,409	562,149	-	-	-	-	-	-	28	34	11	44	56,421	51,079	577,869	613,306
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	784,659	686,903	-	-	-	-	-	-	17	18	20,479	418	36,127	31,140	841,282	718,479
Production of metals, machinery, tools and equipment	-	-	2,262,087	2,687,595	-	-	-	-	-	-	24	2,340	-	15,989	155,092	89,776	2,417,203	2,795,700
Other manufacturing industries	-	-	117,175	102,770	-	-	-	-	-	-	4	2	9	-	2,257	4,577	119,445	107,349
Electricity, gas, steam and air conditioning supply	-	-	1,857,631	2,310,420	-	-	-	-	-	-	-	-	387	-	305,549	305,057	2,163,567	2,615,477
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	8,913	22,735	-	-	-	-	-	-	-	-	3	-	3	996	8,919	23,731
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1,629,758	1,478,644	-	-	-	-	-	-	145	110	30	13,475	921,087	1,579,909	2,551,020	3,072,138
Transportation and storage	-	-	5,865,856	5,533,736	-	1,618	-	-	-	-	498	560	7,397	12,733	630,360	596,513	6,504,111	6,145,160
Facilities for accommodation and food service activities	-	-	848,041	945,405	-	-	-	-	-	-	51	66	257	329	172,299	141,908	1,020,648	1,087,708
Information and Communications	-	-	785,509	468,872	-	-	-	-	-	-	5	9	244	27	18,371	19,112	804,129	488,020
Financial and insurance activities	-	-	113,914	115,984	-	-	-	-	-	-	11	5	148	22	14,347	6,102	128,420	122,113
	197,089	159,539	106,372	30,884	0	75,818	-	-	4,714,923	4,078,488	1,781	1,580	1	-	118,193	118,855	5,138,359	4,465,164

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Activities related to real estate	-	-	586,759	760,390	-	-	-	-	-	-	-	-	33	-	607	1,500	587,399	761,890
Professional, scientific and technical activities	-	-	426,054	316,343	-	-	-	-	-	-	23	61	71	63	156,776	89,002	582,924	405,469
Administrative and support service activities	-	-	26,098	30,399	-	-	-	-	-	-	3	4	-	-	15,057	4,053	41,158	34,456
Public administration and defence, compulsory social security	-	-		2,102	5,789,883	6,153,085	-	-	4,956,713	5,128,841	-	-	-	-	-	-	10,746,596	11,284,028
Education	-	-	2,832	8,848	-	-	-	-	-	-	-	-	-	-	1,446	13,489	4,278	22,337
Activities of Health and Social Care	-	-	66,339	55,903	-	-	-	-	-	-	-	4	-	-	2,539	2,677	68,878	58,584
Arts, entertainment and recreation	-	-	38,144	50,824	-	-	-	-	-	-	4	1	70	-	36,759	36,489	74,977	87,314
Other service activities	-	-	2,981	2,037	-	-	-	-	-	-	1	-	-	58	611	-	3,593	2,095
Activities of households as employers; activities of households that produce goods and perform a diverse range of services for own needs	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extraterritorial organizations and bodies	-	-			-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	43,786,664	40,923,272	-	-	-	-	-	-	1,405	2,065	6,275	-	7,485,907	7,631,135	51,280,251	48,556,472
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>197,089</b>	<b>159,539</b>	<b>63,664,180</b>	<b>60,657,196</b>	<b>5,789,883</b>	<b>6,230,521</b>	<b>-</b>	<b>-</b>	<b>9,671,636</b>	<b>9,207,329</b>	<b>5,192</b>	<b>8,105</b>	<b>36,266</b>	<b>44,395</b>	<b>10,242,844</b>	<b>10,823,923</b>	<b>89,607,090</b>	<b>87,131,008</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2018

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

D. Concentration of credit risk by geographical location

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at	As at
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
<i>Geographical location</i>																		
RM	-	-	63,664,180	60,657,198	5,789,883	6,230,521	-	-	4,957,559	5,129,496	5,192	8,105	36,266	44,396	10,242,844	10,823,922	84,695,924	82,893,638
EU member countries	197,089	159,539	-	-	-	-	-	-	4,714,077	4,077,833	-	-	-	-	-	-	4,911,166	4,237,372
Europe (other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (more than 10% of total credit risk exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>197,089</b>	<b>159,539</b>	<b>63,664,180</b>	<b>60,657,198</b>	<b>5,789,883</b>	<b>6,230,521</b>	<b>-</b>	<b>-</b>	<b>9,671,636</b>	<b>9,207,329</b>	<b>5,192</b>	<b>8,105</b>	<b>36,266</b>	<b>44,396</b>	<b>10,242,844</b>	<b>10,823,922</b>	<b>89,607,090</b>	<b>87,131,010</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****2. RISK MANAGEMENT (continued)****2.2 Liquidity risk**

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

**2.2.1 Liquidity risk management process**

The Bank's liquidity risk management process encompasses:

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

The process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to funding the cash outflows. During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 2. RISK MANAGEMENT (continued)

## 2.2 Liquidity risk (continued)

## 2.2.1 Liquidity risk management process (continued)

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

In thousands of Denars

December 31, 2018

	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	19,296,328	-	-	-	-	-	19,296,328
Trading assets	5,616	-	-	-	-	-	5,616
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	1,770	-	-	-	-	195,319	197,089
Loans to customers	2,020,234	3,472,807	15,547,734	9,327,596	15,229,433	18,066,376	63,664,180
Investment securities	25,687	1,827,815	2,801,805	1,134,577	-	80,059	5,869,943
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-
Other receivables	454,474	-	-	-	-	-	454,474
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>21,804,109</b>	<b>5,300,622</b>	<b>18,349,539</b>	<b>10,462,173</b>	<b>15,229,433</b>	<b>18,341,754</b>	<b>89,487,630</b>
<b>FINANCIAL LIABILITIES</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	159,504	-	-	-	-	-	159,504
Deposits from customers	38,026,760	5,967,226	21,667,167	7,633,602	2,529,337	178,282	76,002,374
Loans payable	1,503	23,762	57,332	30,976	33,483	149,399	296,455
Subordinated debt	-	-	-	-	-	-	-
Income tax liabilities (current)	95,126	-	-	-	-	-	95,126
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	839,136	-	-	-	-	90,978	930,114
<b>Total financial liabilities</b>	<b>39,122,029</b>	<b>5,990,988</b>	<b>21,724,499</b>	<b>7,664,578</b>	<b>2,562,820</b>	<b>418,659</b>	<b>77,483,573</b>
<b>Off balance items</b>							
Off balance assets	-	1,141	-	-	-	-	1,141
Off balance liabilities	11,837,166	416,621	820,515	906,140	195,940	94,158	14,270,540
<b>Net liquidity gap</b>	<b>(29,155,086)</b>	<b>(1,105,846)</b>	<b>(4,195,475)</b>	<b>1,891,455</b>	<b>12,470,673</b>	<b>17,828,937</b>	<b>(2,265,342)</b>

Bank's assets and liabilities are classified according to their relevant maturities, 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, Moj cash, 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 66,100,781 thousand (2017: Denar 62,700,389 thousand) which helps the maturity non-reconciliation to be overcome.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 2. RISK MANAGEMENT (continued)

## 2.2 Liquidity risk (continued)

## 2.2.1 Liquidity risk management process (continued)

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

In thousands of Denars

December 31, 2017

	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	17,901,316	-	-	-	-	-	17,901,316
Trading assets	3,676	-	-	-	-	-	3,676
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	1,025	-	-	-	-	158,513	159,538
Loans to customers	1,993,483	3,319,134	15,331,390	9,084,135	13,902,856	17,026,200	60,657,198
Investment securities	416,296	1,018,043	4,218,747	500,000	-	77,435	6,230,521
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	6,899	-	-	-	-	-	6,899
Other receivables	178,479	-	-	-	-	-	178,479
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>20,501,174</b>	<b>4,337,177</b>	<b>19,550,137</b>	<b>9,584,135</b>	<b>13,902,856</b>	<b>17,262,149</b>	<b>85,137,628</b>
<b>FINANCIAL LIABILITIES</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	82,470	-	-	-	-	-	82,470
Deposits from customers	33,085,058	6,205,900	21,205,892	7,949,372	2,234,983	199,233	70,880,438
Loans payable	37,420	-	77,388	80,747	64,176	149,679	409,410
Subordinated debt	-	-	-	-	-	-	-
Income tax liabilities (current)	-	-	-	-	-	-	-
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,122,053	-	-	-	-	90,978	1,213,031
<b>Total financial liabilities</b>	<b>34,327,001</b>	<b>6,205,900</b>	<b>21,283,280</b>	<b>8,030,119</b>	<b>2,299,159</b>	<b>439,889</b>	<b>72,585,348</b>
<b>Off balance items</b>							
Off balance assets	-	9,957	-	-	-	-	9,957
Off balance liabilities	11,884,186	227,896	1,096,004	351,681	767,628	76,008	14,403,403
<b>Net liquidity gap</b>	<b>(25,710,013)</b>	<b>(2,086,662)</b>	<b>(2,829,147)</b>	<b>1,202,335</b>	<b>10,836,069</b>	<b>16,746,251</b>	<b>(1,841,167)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.2 Liquidity risk (continued)**

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

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

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2018 and 31 December 2017, except for loans and receivables from other clients and unutilized limits – potential credit exposure where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, Moj Cash, allowed overdrafts etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet receivables under these products, i.e. the amount of utilization of funds under the approved limits.

**2.3 Market risk**

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

**Foreign exchange risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2018 and 2017.

**Risk from changes in interest rates**

The Bank is exposed to effects arising from movements at level of interest rates in the market that affect its financial position and cash flows. Taking into consideration the fact that the trading portfolio of the Bank is inconsiderable and refers mainly to government securities, the interest rate risk exposure is assessed from the aspect of Bank's portfolio of activities. The risk from change in interest rates in the Banking Book is the current or possible risk for profit (net interest income) and/or capital that arises from negative movements in interest rates, which affect the positions in the Bank's portfolio of activities. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholders value. Nonetheless, excessive risk from change in interest rates may represent a significant threat to the profit and capital base of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## Risk from changes in interest rates (continued)

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

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2018 and 2017.

## Operational risk

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

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

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

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
<b>December 31, 2018</b>				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2018)		11,981,568	73,607,134	16,28%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	(64,753)	11,916,814	73,674,404	16,17%
Denar to appreciate by 10% in relation of all other F/X	64,753	12,046,321	73,539,863	16,38%
Denar to depreciate by 20% in relation of all other F/X	(129,506)	11,852,061	73,741,675	16,07%
Denar to appreciate by 20% in relation of all other F/X	129,506	12,111,074	73,472,593	16,48%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	(518,993)	11,462,574	73,607,134	15,57%
Decreasing of interest rates by 200 b.p.	(361,803)	11,619,764	73,607,134	15,79%
Increasing of interest rates by 400 b.p.	(1,037,987)	10,943,581	73,607,134	14,87%
Decreasing of interest rates by 400 b.p.	(723,607)	11,257,961	73,607,134	15,29%

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

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

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

	<b>Profit/loss</b>	<b>Own funds</b>	<b>Risk weighted assets</b>	<b>Capital adequacy ratio</b>
<b>December 31, 2017</b>				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2017)		10,559,365	68,484,145	15.42%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	98,448	10,657,813	68,587,316	15.54%
Denar to appreciate by 10% in relation of all other F/X	(98,448)	10,460,917	68,380,975	15.30%
Denar to depreciate by 20% in relation of all other F/X	196,896	10,756,261	68,690,487	15.66%
Denar to appreciate by 20% in relation of all other F/X	(196,896)	10,362,469	68,277,804	15.18%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	(405,696)	10,153,669	68,484,145	14.83%
Decreasing of interest rates by 200 b.p.	(544,790)	10,014,575	68,484,145	14.62%
Increasing of interest rates by 400 b.p.	(811,392)	9,747,973	68,484,145	14.23%
Decreasing of interest rates by 400 b.p.	(1,089,581)	9,469,784	68,484,145	13.83%

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

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

The table presents analysis of assets and liabilities sensitivity to market risk changes as at December 31, 2018 and 2017.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

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

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

	2018				In thousands of Denars 2017			
	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)
Amount exposed to risk at interest- bearing instruments								
Amount exposed to risk at instruments in foreign currency	-	-	-	-	-	-	-	-
Amount exposed to risk at equity instruments	-	-	-	-	-	-	-	-
Amount (effects on netting)	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

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

**A Interest rate sensitivity analysis**

	Currency	31.12.2018	31.12.2017
NET WEIGHTED POSITION FOR CURRENCY EUR (FKS+VKS+PKS)	EUR	(137,128)	(69,525)
NET WEIGHTED POSITION FOR CURRENCY MKD (FKS+VKS+PKS)	MKD	211,819	118,695
NET WEIGHTED POSITION FOR CURRENCY MKDclEUR (FKS+VKS+PKS)	MKDclEUR	374,532	655,762
NET WEIGHTED POSITION FOR other CURRENCIES (FKS+VKS+PKS)	Other	(11,043)	(11,361)
<b>TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK’S ACTIVITY PORTFOLIO</b>		<b>438,180</b>	<b>693,571</b>
OWN FUNDS		11,981,568	10,559,365
<b>TOTAL WEIGHTED VALUE / OWN FUNDS</b>		<b>3.66%</b>	<b>6.57%</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

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

**B. Analysis of reconciliation of interest rates**

In thousands of Denars December 31, 2018	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
<b>ASSETS</b>							
Cash and cash equivalents	9,142,613	-	-	-	-	-	9,142,613
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and receivables from banks	147,072	-	-	-	-	-	147,072
Loans and receivables from other customers	38,244,448	2,004,913	6,968,050	8,843,670	6,734,692	352,864	63,148,637
Investments in securities	22,554	1,829,319	2,801,428	1,140,540	-	-	5,793,841
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
<b>Total interest-sensitive financial assets</b>	<b>47,556,687</b>	<b>3,834,232</b>	<b>9,769,478</b>	<b>9,984,210</b>	<b>6,734,692</b>	<b>352,864</b>	<b>78,232,163</b>
<b>LIABILITIES</b>							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	145,712	-	-	-	-	-	145,712
Deposits of other customers	46,095,580	5,088,941	19,259,481	4,648,350	457,180	86,611	75,636,143
Issued debt securities	-	-	-	-	-	-	-
Loans payable	23,760	-	57,332	30,977	33,483	-	145,552
Subordinated liabilities and hybrid instruments	-	-	-	-	-	-	-
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
<b>Total interest-sensitive financial liabilities</b>	<b>46,265,052</b>	<b>5,088,941</b>	<b>19,316,813</b>	<b>4,679,327</b>	<b>490,663</b>	<b>86,611</b>	<b>75,927,407</b>
<b>Net - balance position</b>							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
<b>Net positions - off-balance sheet position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net-position</b>	<b>1,291,635</b>	<b>(1,254,709)</b>	<b>(9,547,335)</b>	<b>5,304,883</b>	<b>6,244,029</b>	<b>266,253</b>	<b>2,304,756</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.3 Currency risk**

In thousands of Denars December 31, 2018					
	MKD	EUR	USD	Other currency	Total
<b>MONETARY ASSETS</b>					
Cash and cash equivalents	11,034,704	4,213,931	2,047,474	2,000,219	19,296,328
Trading assets	-	5,616	-	-	5,616
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	4,630	190,187	2,272	197,089
Placement with and loans to customers	43,862,839	19,776,681	24,660	-	63,664,180
Investment securities	4,152,585	1,717,358	-	-	5,869,943
Investments in affiliated companies	-	-	-	-	-
Income tax receivables (current)	-	-	-	-	-
Other receivables	451,147	1,872	206	1,249	454,474
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
<b>Total monetary assets</b>	<b>59,501,275</b>	<b>25,720,088</b>	<b>2,262,527</b>	<b>2,003,740</b>	<b>89,487,630</b>
<b>MONETARY LIABILITIES</b>					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	3	16,391	109,801	33,309	159,504
Deposits from customers	45,714,897	26,189,030	2,144,735	1,953,712	76,002,374
Issued Debt Securities	-	-	-	-	-
Borrowings	150,591	145,864	-	-	296,455
Subordinated debt	-	-	-	-	-
Income tax payable (current)	95,126	-	-	-	95,126
Deferred tax liabilities	-	-	-	-	-
Other liabilities	825,247	104,792	27	48	930,114
<b>Total monetary liabilities</b>	<b>46,785,864</b>	<b>26,456,077</b>	<b>2,254,563</b>	<b>1,987,069</b>	<b>77,483,573</b>
<b>Net – position</b>	<b>12,715,411</b>	<b>(735,989)</b>	<b>7,964</b>	<b>16,671</b>	<b>12,004,057</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.3 Currency risk**

	<b>In thousands of Denars</b>				
	<b>December 31, 2017</b>				
	<b>MKD</b>	<b>EUR</b>	<b>USD</b>	<b>Other currency</b>	<b>Total</b>
<b>MONETARY ASSETS</b>					
Cash and cash equivalents	10,531,956	4,037,782	1,487,538	1,844,040	17,901,316
Trading assets	-	3,676	-	-	3,676
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	4,630	152,519	2,390	159,539
Placement with and loans to customers	39,287,428	21,068,053	301,717	-	60,657,198
Investment securities	4,862,541	1,367,980	-	-	6,230,521
Investments in affiliated companies	-	-	-	-	-
Income tax receivables (current)	6,899	-	-	-	6,899
Other receivables	177,891	41	414	133	178,479
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
<b>Total monetary assets</b>	<b>54,866,715</b>	<b>26,482,162</b>	<b>1,942,188</b>	<b>1,846,563</b>	<b>85,137,628</b>
<b>MONETARY LIABILITIES</b>					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	6	58,374	735	23,355	82,470
Deposits from customers	42,037,370	25,044,016	1,983,655	1,815,397	70,880,438
Issued Debt Securities	-	-	-	-	-
Borrowings	155,291	254,119	-	-	409,410
Subordinated debt	-	-	-	-	-
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	1,103,324	109,471	181	55	1,213,031
<b>Total monetary liabilities</b>	<b>43,295,991</b>	<b>25,465,980</b>	<b>1,984,571</b>	<b>1,838,807</b>	<b>72,585,349</b>
<b>Net – position</b>	<b>11,570,724</b>	<b>1,016,182</b>	<b>(42,383)</b>	<b>7,756</b>	<b>12,552,279</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**3. CAPITAL ADEQUACY**

**Capital management**

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

- to comply with the capital requirements set by the Central Bank;
- 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 the Central Bank 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, an 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 consist 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, the Central Bank determines additional capital of 5% and the Bank is obliged to maintain capital adequacy rate of at least 12%.

The Bank is obliged to maintain capital buffers prescribed by the Law on banks, namely capital conservation buffer of 2.5% and sistemically important banks buffer of 1.5%.

The Bank is complied with the prescribed capital adequacy rates as at 31.12.2018.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****3. CAPITAL ADEQUACY (continued)**

The Bank is calculating the capital adequacy rate in accordance with the Decision on the methodology for determining the capital adequacy of the Central Bank, 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 was amended and is made to the net amount of aggregate foreign currency position taking into consideration of the calculation of the impairment. Furthermore, as was previously the case, in accordance with the new regulations, the Bank is not obliged to determine and dispose of the capital required for covering the market risks.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 3. CAPITAL ADEQUACY (continued)

## Own assets

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of the Central Bank on December 31, 2018 and 2017.

	In thousand Denars	
	2018	2017
<b>Own funds</b>	<b>11,981,568</b>	<b>10,559,365</b>
<b>Tier 1 capital</b>	<b>11,890,590</b>	<b>10,468,387</b>
<b>Common Equity Tier 1 capital (CET)</b>	<b>11,890,590</b>	<b>10,468,387</b>
<i>Positions in CET</i>	11,890,590	10,468,387
Capital instruments of CET	3,511,242	3,511,242
Premium of capital instruments of CET	-	-
Mandatory general reserve (general reserve fund)	831,373	831,373
Retained undistributed profit	7,030,600	5,925,651
(-) Accumulated loss from previous years	-	-
Current profit or year-end profit	432,691	-
Accumulated other profit loss	84,684	200,120
<i>(-) Deductions of CET</i>	-	-
(-) Loss at the year-end or current loss	-	-
(-) Intangible assets	-	-
(-) Deferred tax assets that rely on the bank's future profit	-	-
(-) Investments in own capital instruments of CET	-	-
(-) Direct investments in own capital instruments of CET	-	-
(-) Indirect investments in own capital instruments of CET	-	-
(-) Synthetic investments in own capital instruments of CET	-	-
(-) Investments in own capital instruments of CET for which the bank has contractual obligations for purchasing	-	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, with investments in the bank	-	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, the bank has no significant investment	-	-
(-) Direct, indirect and synthetic investments in capital instruments of CET of persons from the financial sector, with significant investments in the bank	-	-
(-) Amount of deduction items of AT exceeding the total AT amount	-	-
(-) Amount of exceeded limits for investment in non-financial institutions	-	-
(-) Tax costs	-	-
(-) Difference between the required and conducted impairment/ special reserve	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 3. CAPITAL ADEQUACY (continued)

## Own assets (continued)

In thousand Denars

	2018	2017
<i>Regulatory reconciliations of CET</i>	-	-
(-) Increase of CET arising from securitization positions	-	-
(-) Profit or (+) loss from cash-flow risk protection	-	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-	-
<i>Positions as result of consolidation</i>	-	-
Non-controlling (minority) participation acknowledged in CET at consolidated basis	-	-
Other	-	-
<i>Other positions of CET</i>	-	-
<b>Additional Tier capital (AT)</b>	-	-
<i>Positions in AT</i>	-	-
Capital instruments of AT	-	-
Premium of capital instruments of AT	-	-
(-) <i>Deductions of AT</i>	-	-
(-) Investments in own capital instruments of AT	-	-
(-) Direct investments in own capital instruments of AT	-	-
(-) Indirect investments in own capital instruments of AT	-	-
(-) Synthetic investments in own capital instruments of AT	-	-
(-) Investments in own capital instruments of AT for which the bank has contractual obligations for purchasing	-	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, with investments in the bank	-	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, the bank has no significant investment	-	-
(-) Direct, indirect and synthetic investments in capital instruments of AT of persons from the financial sector, with significant investments in the bank	-	-
(-) Amount of deduction items of AT exceeding the total AT amount	-	-
(-) Tax costs	-	-
<i>Regulatory reconciliations of AT</i>	-	-
(-) Increase of AT arising from securitization positions	-	-
(-) Profit or (+) loss from cash-flow risk protection	-	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-	-
<i>Positions as result of consolidation</i>	-	-
Acceptable additional Tier 1 capital recognized in AT on consolidated basis	-	-
Other	-	-
<i>Other positions of AT</i>	-	-



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**3. CAPITAL ADEQUACY (continued)**

**Own assets (continued)**

	<b>In thousand Denars</b>	
	<b>2018</b>	<b>2017</b>
<b>Tier 2 capital (T2)</b>	<b>90,978</b>	<b>90,978</b>
<i>Positions in T2</i>	<b>90,978</b>	<b>90,978</b>
Capital instruments in T2	90,978	90,978
Subordinated loans	-	-
Premium of capital instruments in T2	-	-
<i>(-) Deductions of T2</i>	<b>-</b>	<b>-</b>
(-) Investments in own capital instruments of T2	-	-
(-) Direct investments in own capital instruments of T2	-	-
(-) Indirect investments in own capital instruments of T2	-	-
(-) Synthetic investments in own capital instruments of T2	-	-
(-) Investments in own capital instruments of T2 for which the bank has contractual obligations for purchasing	-	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, with investments in the bank	-	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, the bank has no significant investment	-	-
(-) Direct, indirect and synthetic investments in capital instruments of T2 of persons from the financial sector, with significant investments in the bank	-	-
<i>Regulatory reconciliations of T2</i>	<b>-</b>	<b>-</b>
(-) Increase of T2 arising from securitization positions	-	-
(-) Profit or (+) loss from cash-flow risk protection	-	-
(-) Profit or (+) loss from liabilities of the bank measures by fair value	-	-
(-) Profit or (+) loss related to liabilities based on derivatives, measured by fair value	-	-
<i>Positions as result of consolidation</i>	<b>-</b>	<b>-</b>
Acceptable additional capital recognized in T2 on consolidated basis	-	-
Other	-	-
<i>Other positions of T2</i>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**3. CAPITAL ADEQUACY (continued)**

**Capital adequacy ratio**

The table below gives an overview of the Report of the rate of capital adequacy (Form CA) prepared in accordance with the Guidelines for implementation of the Decision on the methodology for determining the capital adequacy according to the applicable prescribed regulations from Central Bank as at December 31, 2018 and 31.12.2017.

	<b>In thousands of Denars</b>	
	<b>2018</b>	<b>2017</b>
<b>Credit risk weighted assets</b>		
Capital required for covering the credit risk	5,195,276	4,777,706
Credit risk weighted assets by applying standardized approach	64,940,945	59,721,320
<b>Currency risk weighted assets</b>		
Aggregate foreign currency position	672,704	1,031,708
Net position in gold	-	-
Capital required for covering the currency risk	53,816	82,537
Currency risk weighted assets	672,704	1,031,708
<b>Operational risk weighted assets</b>		
Capital required for covering the operational risk by applying the basic indicator approach	-	-
Capital required for covering the operational risk by applying the standardized approach	639,479	618,489
Operational risk weighted assets	7,993,485	7,731,117
<b>Other risk weighted assets</b>		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the positional risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity instruments	-	-
Capital required for covering the general risk of investments in equity instruments	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
Other risk weighted assets	-	-
<b>Risk weighted assets</b>	<b>73,607,134</b>	<b>68,484,145</b>
Capital required for covering the risks	5,888,571	5,478,732
<b>Own assets</b>	<b>11,981,568</b>	<b>10,559,365</b>
<b>Capital adequacy ratio</b>	<b>16.28%</b>	<b>15.42%</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**4. SEGMENT REPORTING**

**A. Operating segments**

**In thousands of Denars**  
**December 31, 2018**

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>All other significant operating segments</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income /(expense)	914,335	2,806,238	106,527	-	-	3,827,100
Net fees and commissions income / (expense)	556,326	447,832	1	-	-	1,004,159
Net trading income	-	-	1,940	-	-	1,940
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	236,174	387,463	5,408	36,665	-	665,710
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>1,706,835</b>	<b>3,641,533</b>	<b>113,876</b>	<b>36,665</b>	<b>-</b>	<b>5,498,909</b>
Allowance for impairment of financial assets, on net basis	38,484	(584,396)	(936)	15,202	-	(531,646)
Impairment loss of non-financial assets, on net-basis	-	117,038	-	-	-	117,038
Depreciation	-	(137,831)	-	-	-	(137,831)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(870,684)	(650,826)	-	(323,901)	(32,978)	(1,878,389)
<b>Total expenses by segments</b>	<b>(832,200)</b>	<b>(1,256,015)</b>	<b>(936)</b>	<b>(308,699)</b>	<b>(32,978)</b>	<b>(2,430,828)</b>
Financial result by segment	874,635	2,385,518	112,940	(272,034)	(32,978)	3,068,081
Income tax	-	-	-	-	-	(321,735)
<b>Profit/(loss) for the period</b>	<b>874,635</b>	<b>2,385,518</b>	<b>112,940</b>	<b>(272,034)</b>	<b>(32,978)</b>	<b>2,746,346</b>
Total assets by segment	42,138,235	42,524,926	5,878,426	-	-	90,541,587
Unallocated assets per segment	-	-	-	-	-	-
<b>Total assets</b>						<b>90,541,587</b>
Total liabilities by segment	(60,107,626)	(17,502,252)	(2,059)	-	-	(77,611,937)
Unallocated liabilities by segment	-	-	-	-	-	-
<b>Total liabilities</b>						<b>(77,611,937)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**4. SEGMENT REPORTING (continued)**

**A. Operating segments (continued)**

**In thousands of Denars**  
**December 31, 2017**

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investme nt banking</b>	<b>All other significant operating segments</b>	<b>Unalloca ted</b>	<b>Total</b>
Net interest income /(expense)	2,447,967	1,248,642	-	(19,247)	-	3,677,362
Net fees and commissions income / (expense)	527,328	454,479	-	28	-	981,835
Net trading income	-	-	1,426	-	-	1,426
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	257,047	316,668	-	14,782	-	588,497
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>3,232,342</b>	<b>2,019,789</b>	<b>1,426</b>	<b>(4,437)</b>	<b>-</b>	<b>5,249,120</b>
Allowance for impairment of financial assets, on net basis	33,761	(902,128)	-	(13,711)	-	(882,078)
Impairment loss of non-financial assets, on net-basis	(1,126)	(109,180)	-	-	-	(110,306)
Depreciation	-	(136,776)	-	-	-	(136,776)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(800,155)	(465,885)	(12)	(275,316)	(294,860)	(1,836,228)
<b>Total expenses by segments</b>	<b>(767,520)</b>	<b>(1,613,969)</b>	<b>(12)</b>	<b>(289,027)</b>	<b>(294,860)</b>	<b>(2,965,388)</b>
Financial result by segment	2,489,201	381,441	1,414	(293,464)	(294,860)	2,283,732
Income tax	-	-	-	-	-	(239,612)
<b>Profit/(loss) for the financial year</b>	<b>2,489,201</b>	<b>381,441</b>	<b>1,414</b>	<b>(293,464)</b>	<b>(294,860)</b>	<b>2,044,120</b>
Total assets by segment	40,752,283	39,369,624	6,229,268	-	-	86,351,175
Unallocated assets per segment	-	-	-	-	-	-
<b>Total assets</b>						<b>86,351,175</b>
Total liabilities by segment	55,741,226	16,972,887	3,284	-	-	72,717,397
Unallocated liabilities by segment	-	-	-	-	-	-
<b>Total liabilities</b>						<b>72,717,397</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**4. SEGMENT REPORTING (continued)**

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

	In thousands of Denars					
	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	Total
<b>Current 2018</b>						
Customer 1						
Income	1,242	94,155	-	-	-	95,397
(Expenses)	(11,454)	(28,469)	-	-	-	(39,923)
Customer 2						
Income	1,113	66,712	-	-	-	67,825
(Expenses)	(8,101)	(26,401)	-	-	-	(34,502)
Customer 3						
Income	1,016	64,357	-	-	-	65,373
(Expenses)	(6,637)	(25,640)	-	-	-	(32,277)
Customer 4						
Income	952	63,561	-	-	-	64,513
(Expenses)	(6,571)	(25,126)	-	-	-	(31,697)
Customer 5						
Income	916	37,707	-	-	-	38,623
(Expenses)	(5,914)	(22,217)	-	-	-	(28,131)
<b>Total by segment</b>	<b>(33,438)</b>	<b>198,639</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>165,201</b>
<b>Previous 2017</b>						
Customer 1						
Income	1,727	92,615	-	-	-	94,342
(Expenses)	(14,184)	(39,170)	-	-	-	(53,354)
Customer 2						
Income	1,331	84,907	-	-	-	86,238
(Expenses)	(11,050)	(31,228)	-	-	-	(42,278)
Customer 3						
Income	1,150	77,812	-	-	-	78,962
(Expenses)	(8,094)	(23,942)	-	-	-	(32,036)
Customer 4						
Income	1,062	58,887	-	-	-	59,949
(Expenses)	(7,615)	(22,430)	-	-	-	(30,045)
Customer 5						
Income	986	55,228	-	-	-	56,214
(Expenses)	(6,437)	(21,220)	-	-	-	(27,657)
<b>Total by segment</b>	<b>(41,124)</b>	<b>231,459</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>190,335</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**4. SEGMENT REPORTING (continued)**

**C. Geographic areas**

In thousands of Denars

	<b>RM</b>	<b>Member countries of European Union</b>	<b>Europe (other)</b>	<b>Member- countries of OECD (without European Member- countries of OECD)</b>	<b>Other</b>	<b>Unallocat ed</b>	<b>Total</b>
<b>Current year, 2018</b>							
Total income	6,095,434	164,745	2,214	142,045	-	-	<b>6,404,438</b>
Total assets	<u>87,306,546</u>	<u>1,161,594</u>	<u>31,829</u>	<u>2,041,618</u>	<u>-</u>	<u>-</u>	<u><b>90,541,587</b></u>
<b>Previous year, 2017</b>							
Total income	5,814,969	154,224	1,786	125,976	-	-	<b>6,096,955</b>
Total assets 2017	<u>82,390,269</u>	<u>2,166,304</u>	<u>25,089</u>	<u>1,769,514</u>	<u>-</u>	<u>-</u>	<u><b>86,351,176</b></u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

**A. Fair value of financial assets and liabilities**

	<b>December 31, 2018</b>		<b>In thousands of Denars December 31, 2017</b>	
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Carrying amount</b>	<b>Fair Value</b>
<b>Financial assets</b>				
Cash and cash equivalents	19,296,328	19,296,328	17,901,316	17,901,316
Trading assets	5,616	5,616	3,676	3,676
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	197,089	197,089	159,539	159,539
Placement with, and loans to other customers	63,664,180	63,664,180	60,657,198	60,657,198
Investment securities	5,869,943	5,869,943	6,230,521	6,230,521
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	-	-	6,898	6,898
Other receivables	454,474	454,474	178,749	178,749
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	<b>89,487,630</b>	<b>89,487,630</b>	<b>85,137,897</b>	<b>85,137,897</b>
<b>Financial liabilities</b>				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	159,504	159,504	82,470	82,470
Deposits from other customers	76,002,374	76,002,374	70,880,438	70,880,438
Issued debt securities	-	-	-	-
Borrowings	296,455	296,455	409,410	409,410
Subordinated debt	-	-	-	-
Income tax liabilities (current)	95,126	95,126	-	-
Differed tax liabilities	-	-	-	-
Other liabilities	930,114	930,114	1,213,031	1,213,031
	<b>77,483,573</b>	<b>77,483,573</b>	<b>72,585,349</b>	<b>72,585,349</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

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

		In thousands of Denars			
	Note	Level 1	Level 2	Level 3	Total
<b>Curent year, 2018</b>					
<b>Financial assets measured at fair value</b>					
Trading assets	19	5,616	-	-	5,616
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	55,651	-	24,408	80,059
<b>Total</b>		<b>61,267</b>	<b>-</b>	<b>24,408</b>	<b>85,675</b>
<b>Financial liabilities</b>					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Previous year, 2017</b>					
<b>Financial assets measured at fair value</b>					
Trading assets	19	3,676	-	-	3,676
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	53,028	6,153,085	24,408	6,230,521
<b>Total</b>		<b>56,704</b>	<b>6,153,085</b>	<b>24,408</b>	<b>6,234,197</b>
<b>Financial liabilities</b>					
<b>Liabilities for trading</b>	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

**B.2 Transfers between fair value level 1 and 2**

	<b>Current year, 2018</b>		<b>In thousands of Denars Previous year, 2017</b>	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
<b>Financial assets measured at fair value</b>				
Trading assets	-	-	-	-
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in securities, available for sale	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial liabilities</b>				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

**B.3 Reconciliation of the Movements in Fair Values Measured at Level 3 during the Year**

					In thousands of Denars		
	Assets for trading	Financial assets at fair value through income statement determined as such upon initial recognition	Investments in securities available –for-sale	Total assets	Liabilities for trading	Financial assets at fair value through income statement determined as such upon initial recognition	Total liabilities
<b>Balance at January 1, 2017</b>							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other profit /(loss) in the period not recognized in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
<b>Balance at December 31, 2017</b>	-	-	-	-	-	-	-
<b>Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2017</b>	-	-	-	-	-	-	-
<b>Balance at January 1, 2018</b>							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other profit /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
<b>Balance at December 31, 2018</b>	-	-	-	-	-	-	-
<b>Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2018</b>	-	-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

*a) Cash and cash equivalents*

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with Central Bank, which mature *shortly*. Treasury bills are measured at fair value, at level 2.

*b) Held-for-trading financial assets*

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

*c) Placement with, and loans to banks*

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

*d) Placements with and loans to customers*

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

*e) Investment in securities*

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

*f) Other receivables*

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

*g) Deposits from banks*

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

*h) Deposits from other customers*

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

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

## i) Loans payable

The major part of this position relates to the loans from specific sources for which the market interest rate can not be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

## j) Other liabilities

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

## 6. NET INTEREST INCOME /(EXPENSE)

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

	In thousands of Denars	
	Current year 2018	Previous year 2017
<b>Interest income</b>		
Cash and cash equivalents	147,482	184,633
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	52,104	29,013
Placements with and loans to customers	3,948,490	3,943,763
Investments in securities	107,807	151,003
Other receivables	6,533	8,541
(Allowance for impairment of income interest, on net-basis)	(35,837)	(66,194)
Collected previously written-off interest	283,281	179,976
<b>Total interest income</b>	<b>4,509,860</b>	<b>4,430,735</b>
<b>Interest expense</b>		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	189	29
Deposits from other customers	676,414	745,684
Issued debt securities	-	-
Borrowings	4,110	5,386
Subordinated debt	-	-
Other liabilities	2,047	2,274
<b>Total interest expense</b>	<b>682,760</b>	<b>753,373</b>
<b>Net interest income / (expense)</b>	<b>3,827,100</b>	<b>3,677,362</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<b>Interest income</b>		
Non-financial companies	907,815	1,008,261
Government	105,650	151,162
Non-profit institutions servicing households	269	61
Banks	54,635	29,747
Other financial companies (non-banking)	155,023	189,110
Households	3,038,997	2,938,584
Non-residents	27	28
(Allowance for impairment of interest income, on net-basis)	(35,837)	(66,194)
Collected previously written-off interest	283,281	179,976
<b>Total interest income</b>	<b>4,509,860</b>	<b>4,430,735</b>
<b>Interest expense</b>		
Non-financial companies	64,196	79,941
Government	2,239	2,248
Non-profit institutions servicing households	2,143	2,683
Banks	2,098	3,174
Other financial companies (non-banking)	53,222	53,506
Households	543,739	599,170
Non-residents	15,123	12,651
<b>Total interest expense</b>	<b>682,760</b>	<b>753,373</b>
<b>Net interest income / (expense)</b>	<b>3,827,100</b>	<b>3,677,362</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<b>Fee and commission income</b>		
Financing	102,757	124,359
Payment operations		
domestic	195,345	213,207
international	195,309	189,291
L/Cs and L/Gs	40,169	46,647
Brokerage operations	3,608	2,056
Asset management	535	474
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	464,397	421,700
Deposit operations	1,185	1,202
Renting safe-deposit-boxes	9,084	8,345
Third party accounts collection	3,409	6,629
Other	94,092	62,387
<b>Total fee and commission income</b>	<b>1,109,890</b>	<b>1,076,297</b>
<b>Fee and commission expense</b>		
Financing	-	-
Payment operations		
domestic	72,142	64,258
international	26,511	22,928
L/Cs and L/Gs	-	-
Brokerage operations	449	410
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	6,629	6,866
<b>Total fee and commission expense</b>	<b>105,731</b>	<b>94,462</b>
<b>Net fee and commission income / (expense)</b>	<b>1,004,159</b>	<b>981,835</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<b>Fee and commission income</b>		
Non-financial companies	476,831	505,887
Government	3,711	3,741
Non-profit institutions servicing households	92	49
Banks	27,625	23,787
Other financial companies (non-banking)	-	-
Households	576,494	515,608
Non-residents	25,137	27,225
<b>Total fee and commission income</b>	<b>1,109,890</b>	<b>1,076,297</b>
<b>Fee and commission expense</b>		
Non-financial companies	6,160	6,160
Government	-	-
Non-profit institutions servicing households	-	-
Banks	75,957	63,282
Other financial companies (non-banking)	23,614	25,020
Non-residents	-	-
<b>Total fee and commission expense</b>	<b>105,731</b>	<b>94,462</b>
<b>Net fee and commission income / (expense)</b>	<b>1,004,159</b>	<b>981,835</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**8. NET TRADING INCOME**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	1,940	1,426
Income from dividend from trading assets	-	-
Income from interest from trading assets	-	-
<i>Trading liabilities</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit /(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	-	-
<b>Net trading income</b>	<b>1,940</b>	<b>1,426</b>



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

	In thousands of Denars	
	Current	Previous
	year	year
	2018	2017
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
<b>Net income from other financial instruments carried at fair value</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

	In thousands of Denars	
	Current year 2018	Previous year 2017
Realized net foreign exchange gains/(losses)	104,205	93,201
Non-realized net foreign exchange gains/(losses)	-	-
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	-	-
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis	-	-
other foreign exchange gains/(losses), on net basis	968	14,472
<b>Net foreign exchange gains/(losses)</b>	<b>105,173</b>	<b>107,673</b>

## 11. OTHER OPERATING INCOME

	In thousands of Denars	
	Current year 2018	Previous year 2017
Profit from sales of assets available for sale	10	-
Dividend from equity instruments available for sale	5,399	5,723
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
property and equipment	13	19,659
intangible assets	-	-
foreclosed assets	90,242	47,612
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	2,427	1,291
Income from won court disputes	15,915	27,764
Collected previously written-off receivables	395,678	325,248
Release of special reserves and provisions for:		
contingent liabilities based on court disputes	2,588	-
pensions and other benefits for employees	-	510
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
early withdrawal of deposits of non-residents	18,620	38,730
revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	1,559	1,896
other income	28,086	12,391
<b>Total other operating income</b>	<b>560,537</b>	<b>480,824</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**12. IMPAIRMENT LOSSES OF FINANCIAL ASSETS AND SPECIAL RESERVES FOR OFF BALANCE SHEET EXPOSURE, ON NET-BASIS**

**In thousands of Denars**

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total allowance for impairment of financial assets	Special reserves for off balance sheet exposures	Total
<b>December 31, 2018 (current year)</b>										
<i>Allowance for impairment and special reserves</i>										
Additional allowance for impairment and special reserves	1,040	1,315,949	-	19,503	19,111	9,005	22,984	1,387,592	19,177	1,406,769
(Release of allowance for impairment and special reserves)	(7,895)	(779,591)	-	(18,567)	(19,099)	(3,476)	(25,013)	(853,640)	(21,482)	(875,122)
<b>Total allowance for impairment of financial assets and special reserves for off balance sheet exposures, on net-basis</b>	<b>(6,855)</b>	<b>536,358</b>	<b>-</b>	<b>936</b>	<b>12</b>	<b>5,529</b>	<b>(2,029)</b>	<b>533,952</b>	<b>(2,305)</b>	<b>531,646</b>
<b>December 31, 2017 (previous year)</b>										
<i>Allowance for impairment and special reserves</i>										
Additional allowance for impairment and special reserves	102	1,439,445	-	-	11,901	17,263	22,497	1,491,208	25,169	1,516,377
(Release of allowance for impairment and special reserves)	(7,671)	(532,795)	-	-	(13,181)	(2,371)	(3,046)	(559,064)	(75,235)	(634,299)
<b>Total allowance for impairment of financial assets and special reserves for off balance sheet exposures, on net-basis unaudited</b>	<b>(7,569)</b>	<b>906,650</b>	<b>-</b>	<b>-</b>	<b>(1,280)</b>	<b>14,892</b>	<b>19,451</b>	<b>932,144</b>	<b>(50,066)</b>	<b>882,078</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**13. IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET**

In thousands of Denars						
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	Total
<b>December 31, 2018 (current year)</b>						
Additional impairment loss	3,929	-	17,300	-	-	21,229
(Release of impairment loss)	-	-	-	-	(138,267)	(138,267)
<b>Total impairment loss of non-financial assets, on net-basis</b>	<b>3,929</b>	<b>-</b>	<b>17,300</b>	<b>-</b>	<b>(138,267)</b>	<b>(117,038)</b>
<b>December 31, 2017 (previous year)</b>						
Additional impairment loss	-	-	110,306	-	-	110,306
(Release of impairment loss)	-	-	-	-	-	-
<b>Total impairment loss of non-financial assets, on net-basis unaudited</b>	<b>-</b>	<b>-</b>	<b>110,306</b>	<b>-</b>	<b>-</b>	<b>110,306</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 14. PERSONNEL EXPENSES

	In thousands of Denars	
	Current year 2018	Previous year 2017
<b>Short-term personnel benefits</b>		
Salaries	458,227	446,463
Compulsory contributions for social and health insurance	232,781	217,836
Short-term paid leaves	-	-
Costs for temporary employment	13,515	14,022
Share in profit and remuneration	1,423	893
Non-monetary benefits	-	-
Other personnel benefits	163,443	120,767
	<u>869,389</u>	<u>799,981</u>
<b>Post retirement benefits</b>		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	-	-
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	413	1,085
	<u>413</u>	<u>1,085</u>
<b>Total personnel expenses</b>	<u><b>869,802</b></u>	<u><b>801,066</b></u>

The amounts referring to provisions for retirement benefits in the amount of Denar 2,498 thousand (2017: Denar 3,291 thousand) are presented in Note 38.

	Current year 2018	Previous year 2017
Average number of employees for the period	1,028	1,040
Number of permanent employees at year-end	1,027	1,048
Number of temporary employees at year-end	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**15. DEPRECIATION**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<b>Depreciation of intangible assets</b>		
Internally developed software	-	-
Software acquired from external suppliers	35,400	34,762
Other internally developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>35,400</u>	<u>34,762</u>
<b>Depreciation of property and equipment</b>		
Buildings	31,161	30,341
Means of transport	-	-
Furniture and equipment	54,767	57,735
Other equipment	2,054	2,156
Other items of property and equipment	1,190	1,325
Property and equipment leasehold improvements	13,259	10,457
	<u>102,431</u>	<u>102,014</u>
<b>Total depreciation</b>	<u><b>137,831</b></u>	<u><b>136,776</b></u>

**16. OTHER OPERATING EXPENSES**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
Losses from sale of assets available for sale	-	12
Software licensing expense	-	-
Deposit insurance premium	142,267	246,731
Premium on property and employee insurance	13,064	11,945
Materials and services	644,544	570,946
Administrative and marketing expense	132,014	117,848
Other taxes and contributions	5,303	2,118
Rental expense	52,693	54,661
Court dispute expense	1,893	2,721
Provisions for pension and other employee benefits, on a net basis	-	1,868
Provisions for contingent liabilities based on court disputes, on a net basis	-	9,369
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	-	2
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	5,614	4,058
other costs	11,195	12,883
<b>Total other operating expenses</b>	<u><b>1,008,587</b></u>	<u><b>1,035,162</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 17. INCOME TAX

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

	In thousands of Denars	
	Current year 2018	Previous year 2017
<b>Current income tax</b>		
Expenses/(income) for current income tax for the year	321,735	239,612
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	<u>321,735</u>	<u>239,612</u>
<b>Deferred income tax</b>		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	<u>-</u>	<u>-</u>
<b>Total income tax expenses/(returns)</b>	<u><b>321,735</b></u>	<u><b>239,612</b></u>

	In thousands of Denars	
	Current year 2018	Previous year 2017
<b>Current income tax</b>		
Recognized in income statement	321,735	239,612
Recognized in capital and reserves	-	-
	<u>321,735</u>	<u>239,612</u>
<b>Deferred income tax</b>		
Recognized in income statement	-	-
Recognized in capital and reserves	-	-
	<u>-</u>	<u>-</u>
<b>Total income tax expenses/(returns)</b>	<u><b>321,735</b></u>	<u><b>239,612</b></u>

In accordance with the Income Tax Law which is in appliance for the fiscal 2018 and 2017, basis for taxation represents the realized gross profit (difference between the total income and expenditures) increased by certain costs that are not subject to taxation, or decreased by certain income, investments and similar which are not subject to taxation.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 17. INCOME TAX (continued)

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

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

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

	in %	In thousands of Denars	in%	In thousands of Denars
	current year 2018		previous year 2017	
Profit/(loss) before taxation	100.00	3,068,081	100.00	2,283,732
Income tax as per applicable tax rate	10.00	306,808	10.00	228,373
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0.50	15,467	0.52	11,811
Tax-exempted income	-	-	-	-
Tax exemptions unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	(0.02)	(5,410)	(0.03)	(572)
<b>Total expenses/(return) on income tax</b>		<b>321.735</b>		<b>239,612</b>
<b>Average effective tax rate</b>	<b>10.49</b>		<b>10.49</b>	



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**17. INCOME TAX (continued)**

**C. Income tax from other gains / (losses) in the period not disclosed in the Income Statement**

	In thousands of Denars					
	Current year 2018			Previous year 2017		
	Before taxation	Expenditure/ return of income tax	Less Income tax	Before taxation	Expenditure/ return of income tax	Less Income tax
Revaluated reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against the cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk of net investments in foreign operations	-	-	-	-	-	-
Reserve of foreign exchange differences from investments in foreign operations	-	-	-	-	-	-
Share in other gains / (losses) of affiliates companies that are not shown in the Income Statement	-	-	-	-	-	-
Other gains / (losses) not shown in the Income Statement	-	-	-	-	-	-
Total other gains / (losses) in the period that are not shown in the Income Statement	-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**18. CASH AND CASH EQUIVALENTS**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Cash on hand	1,434,007	1,143,282
Accounts and deposits with Central Bank, besides mandatory FC deposits	4,935,642	4,724,032
Current accounts and transaction deposits with foreign banks	1,660,580	1,638,896
Current accounts and transaction deposits with local banks	585	90
Treasury bills that may be traded in the secondary market	4,957,841	5,128,841
Government bills that may be traded in the secondary market	-	-
Time deposits up to 3 months	3,012,266	2,398,378
Other short-term highly liquid assets	322	308
Receivables based on interest (allowance for impairment loss)	(1,709)	(445)
<b>Included in cash and cash equivalents for the needs of the Statement on cash flows</b>	<b>15,999,534</b>	<b>15,033,382</b>
Mandatory FC deposits	2,962,726	2,770,408
Restricted deposits (allowance for impairment loss)	334,068	97,526
	-	-
<b>Total</b>	<b>19,296,328</b>	<b>17,901,316</b>

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<b>Movement of allowance for impairment</b>		
On January 1	445	1,726
Allowance for impairment for the year		
Additional allowance for impairment	19,111	11,901
(release from allowance for impairment)	(19,099)	(13,182)
(foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	1,252	-
(Written off receivables)	-	-
<b>On December 31</b>	<b>1,709</b>	<b>445</b>

Level of mandatory deposits in foreign currency is determined in the amount of 2,962,726 thousands of Denars (2017: 2,770,408 thousands of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with Central Bank. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies for 2018 and 2017 do not bear an interest.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 18. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with Central Bank, except for the mandatory deposits in foreign currency in the amount of 4,935,642 thousands of Denars (2017: 4,724,032 thousands of Denars), represent mandatory reserve in Denars. The mandatory reserves in Denars in 2018 and 2017 do not bear an interest.

Treasury bills that can be traded at the secondary market in the amount of 4,957,841 thousands of Denars (2017: 5,128,841 thousands of Denars) have been purchased from Central Bank with maturity period of 35 days. Depending on maturity, interest rates on these bills are 3.25 – 3.00% (2017: 3.25%).

## 19. TRADING ASSETS

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

	In thousands of Denars	
	Current year	Previous year
	2018	2017
<i>Trading securities</i>		
<i>Debt securities for trading</i>		
Treasury bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	5,616	3,676
Other equity instruments	-	-
	5,616	3,676
Quoted	5,616	3,676
Unquoted	-	-
<i>Trading derivatives</i>		
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	-
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IFRS criteria	-	-
	-	-
<i>Loans and placements</i>		
Placements with and loans to banks	-	-
Placements with and loans to customers	-	-
	-	-
<b>Total trading assets</b>	<b>5,616</b>	<b>3,676</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**19. TRADING ASSETS (continued)**

**B. Reclassified trading assets**

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

	In thousands of Denars				
	Reclassified amount (on the date of reclassificati on)	Current year, 2018		Previous year, 2017	
		Book amount on 31.12.2018	Fair value on 31.12.2018	Book amount on 31.12.2017	Fair value on 31.12.2017
Trading assets, reclassified in 31.12.2018 (current period) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 31.12.2017 (previous year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 19. TRADING ASSETS (continued)

## B. Reclassified trading assets (continued)

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

	In thousands of Denars					
	Reclassified in 2018 (Current period)		Reclassified in 2017 (previous period)			
	Income Statement 2018 (Current period)	Other profit /(loss) 2018 (Current period)	Income Statement 2018 (Current period)	Other profit /(loss) 2018 (Current period)	Income Statement 2017 (Previous period)	Other profit /(loss)2017 (Previous period)
<b>Period before reclassification</b>						
Trading assets, reclassified in financial assets available-for-sale						
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
<b>Period after reclassification</b>						
Trading assets, reclassified in financial assets available-for-sale						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
- changes in the fair value on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**19. TRADING ASSETS (continued)**

**B. Reclassified trading assets (continued)**

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

	In thousands of Denars		
	Reclassified in 2018 (Current period)	Reclassified during 2017 (previous period)	
		Income Statement 2018 (Current period)	Income Statement 2017 (Previous period)
Trading assets, reclassified in financial assets available- for-sale			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from banks			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from other customers			
- Net income from trading	-	-	-

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

	In thousands of Denars	
	Current year 2018	Previous year 2017
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
	-	-
<b>Total financial assets at fair value through the income statement determined as such at initial recognition</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT**

		<b>In thousands of Denars</b>	
		<b>Current year 2018</b>	<b>Previous year 2017</b>
		<b>derivative assets</b>	<b>(derivative liabilities)</b>
		<b>derivative assets</b>	<b>(derivative liabilities)</b>
<b>A.</b>	<b>Derivatives for protection against risk/Derivatives held for risk management</b>		
A.1	<i>by type of variable</i>		
	<b>Derivatives held for risk management</b>		
	Agreements dependant on interest rate change	-	-
	Agreements dependant on exchange rate change	-	-
	Agreements dependant on changes in price of securities	-	-
	Other agreements that meet the IFRS 9 criteria	-	-
	<b>Total derivatives held for risk management</b>	-	-
A.2	<i>by type of protection against risk</i>		
	Protection against risk to fair value	-	-
	Protection against risk to cash flows	-	-
	Protection against risk to net investment in international operations	-	-
	<b>Total derivatives held for risk management</b>	-	-
<b>B.</b>	<b>Inherent derivatives</b>		
	Agreements dependant on interest rate change	-	-
	Agreements dependant on exchange rate change	-	-
	Agreements dependant on changes in price of securities	-	-
	Other agreements that meet the IFRS 9 criteria	-	-
	<b>Total inherent derivatives</b>	-	-
	<b>Total derivatives held for risk management</b>	-	-

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 22. LOANS AND PLACEMENTS

## 22.1 PLACEMENTS WITH AND LOANS TO BANKS

	Current year 2018		In thousands of Denars Previous year 2017	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	-	-	-	-
foreign banks	18,138	-	25,089	-
Time deposits at maturity period of				
over 3 months				
domestic banks	-	-	-	-
foreign banks	-	186,691	-	149,790
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Receivables based on interests	1,770	-	1,025	-
Current maturity	-	-	-	-
<b>Total placements with and loans to banks before allowance for impairment</b>	<b>19,908</b>	<b>186,691</b>	<b>26,114</b>	<b>149,790</b>
(Allowance for impairment)	(9,510)	-	(16,365)	-
<b>Total placements with and loans to banks less allowance for impairment</b>	<b>10,398</b>	<b>186,691</b>	<b>9,749</b>	<b>149,790</b>

	In thousands of Denars	
	Current year 2018	Previous year 2017
<b>Movements of allowance for impairment</b>		
As at January 1	16,365	23,934
Allowance for impairment for the year		
Additional allowance for impairment	1,040	102
(Release of allowance for impairment)	(7,895)	(7,671)
(Foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
<b>As at December 31</b>	<b>9,510</b>	<b>16,365</b>

Part of loans and advances with banks amounting to 18,328 thousands of Denars (2017: 19,071 thousands of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002 (Note 34.1).



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 22. LOANS AND PLACEMENTS (continued)

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

Part of facilities with foreign banks are as well the restricted accounts totalling 186,691 thousands of Denars (2017: 149,790 thousands of Denars), which represent deposits with United Overseas Bank Limited Singapore and HSBC Bank PLC London, Great Britain, as collateral for VISA and Master credit card transactions. These funds are not available in Bank's daily operations.

## 22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS

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

	Current year 2018		In thousands of Denars Previous year 2017	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	10,167,615	11,377,798	10,792,216	11,205,353
interest receivables	57,161	-	62,194	-
Government				
receivables upon principal	1,092	534	1,095	112
interest receivables	4	-	1	-
Non-profit institutions that serve households				
receivables upon principal	-	7,921	-	609
interest receivables	25	-	3	-
Financial companies, besides banks				
receivables upon principal	-	102,057	12,300	18,713
interest receivables	38	-	-	-
Households				
receivables upon principal				
housing loans	215,115	10,096,692	273,927	9,229,547
consumer loans	1,022,648	25,219,449	803,691	22,867,022
auto loans	635	43,997	1,482	53,141
mortgage loans	-	-	-	-
credit cards	309,118	6,231,379	359,048	6,566,448
other loans	134,028	1,729,963	131,497	1,724,288
interest receivables	129,076	-	128,105	-
Non-residents, besides banks				
receivables upon principal	572	1,276	972	96
interest receivables	5	-	1	-
Current maturity	10,796,996	(10,796,996)	10,690,032	(10,690,032)
<b>Total placements with and loans to customers before allowance for impairment</b>	<b>22,834,128</b>	<b>44,014,070</b>	<b>23,256,564</b>	<b>40,975,297</b>
(Allowance for impairment)	(2,766,908)	(417,110)	(2,926,146)	(648,517)
<b>Total placements with and loans to customers less allowance for impairment</b>	<b>20,067,220</b>	<b>43,596,960</b>	<b>20,330,418</b>	<b>40,326,780</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

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

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<b>Movement of allowance for impairment on a separate basis</b>		
As at 1 January	3,574,663	3,272,374
Allowance for impairment for the year		
Additional allowance for impairment	1,315,949	1,439,445
(Release of allowance for impairment)	(779,591)	(532,795)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(927,003)	(604,361)
<b>As at 31 December</b>	<b><u>3,184,018</u></b>	<b><u>3,574,663</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 22. LOANS AND PLACEMENTS (continued)

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

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

	In thousands of Denars	
	Current	Previous
	year	year
	2018	2017
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	1,807,781	1,369,254
government securities	-	-
government unconditional guarantees	922,425	1,090,063
bank guarantees	841,289	503,953
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	480,308	335,029
Guarantees from individuals	-	-
Property pledge:		
private property (flats, houses)	15,183,313	13,857,667
commercial property	12,295,219	13,035,390
Pledge over movables	950,025	1,798,671
Other types of collateral	506,845	543,555
Unsecured	30,676,975	28,123,616
<b>Total placements with and loans to customers less allowance for impairment</b>	<b>63,664,180</b>	<b>60,657,198</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

**Risks and uncertainties**

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

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

The Bank's operation could be influenced by the financial trends in case of deterioration of the overall global and local economic environment. Over the past years, when domestic and global economy faced the financial and political crisis, including the years 2018 and 2017, when the domestic political crisis was more pronounced, the Bank did not face liquidity problems as a result of its stability, capital strength, high liquidity and established mechanisms for managing all types of risks.

The Management of the Bank has adequately reacted to any developments on the market and the entire economy. Some of the undertaken measures are: limiting the long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening the monitoring of large customers and industrial sectors to which the Bank is mostly exposed, providing appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial market, whereat it is possible to have increase the collateral limits. The aforementioned is focusing on protection and development of the current and future customer/borrower/depositor base heading to achievement of the Bank's goals and objectives for 2018 and beyond.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**23. INVESTMENTS IN SECURITIES**

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

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

	<b>In thousands of Denars</b>	
	<b>As at 2018</b>	<b>As at 2017</b>
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	5,148,157
Other instruments in the money market	-	-
Government bonds	-	1,004,928
Corporate bonds	-	-
Other debt instruments	-	-
	-	6,153,085
Quoted	-	-
Unquoted	-	6,153,085
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	80,059	174,519
	80,059	174,519
Quoted	-	-
Unquoted	80,059	174,519
<b>Total investment in financial instruments available for sale before allowance for impairment</b>	<b>80,059</b>	<b>6,327,604</b>
<i>(Allowance for impairment)</i>	<i>-</i>	<i>(97,083)</i>
<b>Total investment in financial instruments available for sale reduced by the allowance for impairment</b>	<b>80,059</b>	<b>6,230,521</b>

	<b>In thousands of Denars</b>	
	<b>As at 2018</b>	<b>As at 2017</b>
<b>Movements of allowance for impairment</b>		
Balance on January 1	97,083	100,037
Allowance for impairment for the year:		
Additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	(2,954)
Other:		
-transferred to changes in fair value	(97,083)	-
<b>Balance on December 31</b>	<b>-</b>	<b>97,083</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

## 23. INVESTMENTS IN SECURITIES (continued)

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

## B. Reclassified financial assets available-for-sale

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

	Reclassified amount (on the date of reclassification)	Curent year 2018		In thousands of Denars Previous year 2017	
		Book value on 31.12.2018	Fair value on 31.12.2018	Book value on 31.12.2017	Fair value on 31.12.2017
Assets available-for-sale reclassified in 2018 (current period) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2017 (previous year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-

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

	In thousands of Denars		In thousands of Denars	
	Income Statement 2018	Other profit/(loss) 2018	Income Statement 2017	Other profit/(loss) 2017
<b>Period before reclassification</b>				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
<b>Period after reclassification</b>				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**23. INVESTMENT IN SECURITIES (continued)**

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

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

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

	In thousands of Denars			
	Income Statement 2018 (current period)	Other profit /(loss) 2018	Income Statement 2017 (previous period)	Other profit /(loss) 2017
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**23. INVESTMENT IN SECURITIES (continued)**

**23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	3,548,553	-
Other instruments in the money market	-	-
Government bonds	2,254,138	-
Corporate bonds	-	-
Other debt instruments	-	-
	<u>5,802,691</u>	<u>-</u>
Quoted	-	-
Unquoted	-	-
	<u>-</u>	<u>-</u>
<b>Total investment in financial instruments hold to maturity before allowance for impairment</b>	<b>5,802,691</b>	<b>-</b>
(Allowance for impairment)	(12,807)	-
<b>Total investment in financial instruments hold to maturity reduced by the allowance for impairment</b>	<b><u>5,789,884</u></b>	<b><u>-</u></b>

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
<b>Movements of allowance for impairment</b>		
Balance on January 1	-	-
Allowance for impairment for the year:		
additional allowance for impairment	19,503	-
(release of the allowance for impairment)	(18,567)	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	11,871	-
(Written off receivables)	-	-
	<u>-</u>	<u>-</u>
<b>Balance on December 31</b>	<b><u>12,807</u></b>	<b><u>-</u></b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**24. INVESTMENT IN ASSOCIATES**

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

Name of subsidiaries and associates	Country	Share percentage in ownership		Percentage of voting share	
		Current year	Previous year	Current year	Previous year
		2018	2017	2018	2017
-	-	-	-	-	-

**B. Financial data of associates – 100 %**

Name of associates	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the fin. year
As at 31.12.2018	-	-	-	-	-
As at 31.12.2017	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**25. OTHER RECEIVABLES**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Trade receivables	268,852	73,339
Prepaid expenses	2,217	29,734
Deferred income	-	-
Fees and commissions receivables	32,309	36,640
Receivables from the employees	4,033	1,354
Advances for intangible assets	-	-
Advances for property and equipment	-	-
Other:		
Materials in stocks	4,730	12,667
Numismatic collections	9,907	9,907
Arka sub-branch (judicial process)	-	11,500
Receivables for disbursements to foreign VISA cards	168,113	51,910
Other	8,947	13,370
<b>Total other receivables before allowance for impairment</b>	<b>499,108</b>	<b>240,421</b>
(Allowance for impairment)	(44,634)	(61,942)
<b>Total other receivables reduced for the allowance for impairment</b>	<b>454,474</b>	<b>178,479</b>

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<b>Movements of allowance for impairment</b>		
Balance on January 1	61,942	40,004
Allowance for impairment for the year:		
Additional allowance for impairment	31,989	39,760
(release of the allowance for impairment)	(28,489)	(5,418)
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(20,808)	(12,404)
<b>Balance on December 31</b>	<b>44,634</b>	<b>61,942</b>

**26. COLLATERALIZED ASSETS**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Debt securities	-	-
Equity instruments	-	-
<b>Total collateralized assets</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS**

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and apartments	Other valuables	Total
<b>Cost</b>						
Balance on 1 <sup>st</sup> January 2017	17,740	631,536	29,416	87,255	23	765,970
Assets acquired during the year	10	176,115	-	-	7,634	183,759
(Sold during the year)	(44)	(63,494)	(2,445)	(11,803)	-	(77,786)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>17,706</b>	<b>744,157</b>	<b>26,971</b>	<b>75,452</b>	<b>7,657</b>	<b>871,943</b>
Balance on 1 <sup>st</sup> January 2018	17,706	744,157	26,971	75,452	7,657	871,943
Assets acquired during the year	-	13,718	-	5,371	(790)	18,299
(Sold during the year)	(728)	(260,202)	(2,001)	(13,486)	(4,693)	(281,110)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2018</b>	<b>16,978</b>	<b>497,673</b>	<b>24,970</b>	<b>67,337</b>	<b>2,174</b>	<b>609,132</b>
<b>Impairment</b>						
Balance on 1 <sup>st</sup> January 2017	12,597	448,550	29,416	83,471	-	574,034
Impairment loss during the year	5,135	152,753	-	1,125	6,123	165,136
(Sold during the year)	(26)	(55,344)	(2,445)	(10,824)	-	(68,639)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>17,706</b>	<b>545,959</b>	<b>26,971</b>	<b>73,772</b>	<b>6,123</b>	<b>670,531</b>
Balance on 1 <sup>st</sup> January 2018	17,706	545,959	26,971	73,772	6,123	670,531
Impairment loss during the year	-	18,488	-	2,269	(441)	20,316
(Sold during the year)	(728)	(129,832)	(2,001)	(13,486)	(4,637)	(150,684)
(Transferred to own assets)	-	-	-	-	-	-
<b>Balance on 31<sup>st</sup> December 2018</b>	<b>16,978</b>	<b>434,615</b>	<b>24,970</b>	<b>62,555</b>	<b>1,045</b>	<b>540,163</b>
<b>Current carrying amount</b>						
Balance on 1 <sup>st</sup> January 2017	5,143	182,986	-	3,784	23	191,936
<b>Balance on 31<sup>st</sup> December 2017</b>	<b>-</b>	<b>198,198</b>	<b>-</b>	<b>1,680</b>	<b>1,534</b>	<b>201,412</b>
<b>Balance on 31<sup>st</sup> December 2018</b>	<b>-</b>	<b>63,058</b>	<b>-</b>	<b>4,782</b>	<b>1,129</b>	<b>68,969</b>

Assets acquired on the basis of outstanding claims consist of assets that are not used in the regular operations of the Bank, except in rare cases when the Bank uses them for its own activities. During 01.01 – 31.12.2018, the Bank recorded impairment losses on these assets in the total amount of Denar 20,316 thousand (2017: Denar 165,136 thousand).

During this period, the Bank sold 16 assets (2017: 17 assets) totalling Denar 130,464 thousand (2017: Denar 9,147 thousand), and took over 4 objects (2017: 8 objects) value totalling Denar 14,946 thousand (2017: Denar 128,951 thousand). Activities are undertaken for the preparation for sale of the assets taken over in period to 31.12.2018 because the Bank's general policy is these facilities to be sold within a period of 3 years.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**28. INTANGIBLE ASSETS**

**A. Reconciliation of the current book value**

	In thousands of Denars					
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets
						Total
<b>Cost</b>						
Balance at 1 January 2017	-	711,092	-	-	1,817	-
increases through new purchases	-	26,856	-	-	6,939	-
increases through internal development	-	-	-	-	-	-
increases through business combinations (disposals )	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	-	<b>737,948</b>	-	-	<b>8,756</b>	-
Balance at 1 January 2018	-	737,948	-	-	8,756	-
increases through new purchases	-	31,821	-	-	-	-
increases through internal development	-	-	-	-	-	-
increases through business combinations (disposals )	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-
<b>Balance at 31<sup>st</sup> December 2018</b>	-	<b>769,769</b>	-	-	<b>8,756</b>	-
<b>Depreciation and impairment</b>						
Balance at 1 January 2017	-	607,279	-	-	-	-
Depreciation for the year	-	34,762	-	-	-	-
Impairment loss during the year (release of the impairment loss during the year)	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	-	<b>642,041</b>	-	-	-	-
<b>Balance at 1 January 2018</b>	-	642,041	-	-	-	-
Depreciation for the year	-	35,400	-	-	-	-
Impairment loss during the year (release of the impairment loss during the year)	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-
<b>Balance at 31<sup>st</sup> December 2018</b>	-	<b>677,441</b>	-	-	-	-
<b>Current book value at</b>						
January 1, 2017	-	103,813	-	-	1,817	-
December 31, 2017	-	<b>95,907</b>	-	-	<b>8,756</b>	-
December 31, 2018	-	<b>92,328</b>	-	-	<b>8,756</b>	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**28. INTANGIBLE ASSETS (continued)**

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

						In thousands of Denars	
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangibl e assets	Intangible assets in preparation	Investment s in leased intangible assets	Total
Current book value at							
December 31, 2017	-	-	-	-	-	-	-
December 31, 2018	-	-	-	-	-	-	-

On December 31, 2018 and 2017, the Bank has no intangible assets for which there is limitations of ownership and/or pledged as collateral for the liabilities to the Bank.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**29. REAL ESTATE AND EQUIPMENT**

**A. Reconciliation of the present carrying amount**

In thousands of Denars									
			Transport vehicles	Furniture and office equipme nt	Other equipme nt	Other items of propert y and equipme nt	Real estate and equipme nt in progress	Investmen t in leased real estate and equipme nt	Total
Cost	Land	Building facilities							
On 1 January 2017	-	1,227,949	5,841	1,258,723	72,121	52,836	23,308	166,246	2,807,024
Increases	-	29,661	-	23,942	3,940	186	2,573	10,353	70,655
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(10,506)	-	(359,747)	(18,157)	(5,465)	-	-	(393,875)
(entering through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	9,411	-	(18)	-	-	(18,261)	(25,858)	(34,726)
On December 31, 2017	-	1,256,515	5,841	922,900	57,904	47,557	7,620	150,741	2,449,078
On 1 January 2018	-	1,256,515	5,841	922,900	57,904	47,557	7,620	150,741	2,449,078
Increases	-	40,749	-	19,791	2,528	116	8,042	21,102	92,328
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(18,039)	-	(427)	-	-	-	-	(18,466)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	24,401	-	(4,086)	-	(24,487)	-	(4,904)	(9,076)
On December 31, 2018	-	1,303,626	5,841	938,178	60,432	23,186	15,662	166,939	2,513,864
Depreciation and impairment									
On 1 January 2017	-	545,157	5,841	1,091,038	57,774	23,029	-	130,943	1,853,782
Depreciation for the year	-	30,341	-	57,735	2,156	1,325	-	10,457	102,014
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(9,526)	-	(356,123)	(18,033)	(2,982)	-	-	(386,664)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	(10)	-	-	-	(27,517)	(27,527)
On December 31, 2017	-	565,972	5,841	792,640	41,897	21,372	-	113,883	1,541,605
On 1 January 2018	-	565,972	5,841	792,640	41,897	21,372	-	113,883	1,541,605
Depreciation for the year	-	31,161	-	54,767	2,054	1,190	-	13,259	102,431
Impairment loss during the year	-	2,275	-	-	-	-	-	-	2,275
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(7,591)	-	(414)	-	-	-	-	(8,005)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	10,283	-	(4,063)	-	(10,283)	-	(4,283)	(8,346)
On December 31, 2018	-	602,100	5,841	842,930	43,951	12,279	-	122,859	1,629,960
Current carrying amount									
On January 1, 2017	-	682,792	-	167,685	14,347	29,807	23,308	35,303	953,242
On December 31, 2017	-	690,543	-	130,260	16,007	26,185	7,620	36,858	907,473
On December 31, 2018	-	701,526	-	95,248	16,481	10,907	15,662	44,080	883,904

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**29. REAL ESTATE AND EQUIPMENT (continued)**

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

In thousands of Denars								
							Investment in leased real estate and equipment	
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Total
Current carrying amount								
On December 31, 2017	-	-	-	-	-	-	-	-
On December 31, 2018	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2018 includes assets with a net book value of Denar 3,452 thousand (2017: Denar 4,334 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

**30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES**

**30.1 Current tax assets and current tax liabilities**

	In thousands of Denars	
	Current year 2018	Previous year 2017
Income tax receivable (current)	-	6.899
Income tax payable (current)	95,126	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

**30.2 Deferred tax assets and deferred tax liabilities**

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

	<b>31 December 2018</b>			<b>In thousands of Denars 31 December 2017</b>		
	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>	<b>Net basis</b>	<b>Deferred tax assets</b>	<b>Deferred tax liabilities</b>	<b>Net basis</b>
Derivative assets held for risk management	-	-	-	-	-	-
Loans to and receivables on banks	-	-	-	-	-	-
Loans to and receivables on other customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Real estate and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Deferred tax assets / liabilities recognized in the income statement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments in financial assets available for sale	-	-	-	-	-	-
Hedging of cash flows	-	-	-	-	-	-
<b>Deferred tax assets / liabilities recognized in the equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total recognized deferred tax assets / liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**B. Unrecognized deferred tax assets**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Tax losses	-	-
Tax credits	-	-
<b>Total unrecognized deferred tax assets</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

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

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

	Balance at January 1	Recognized in Income Statement	In thousands of Denars Recognized in equity	Balance at December 31
<b>31 December 2018</b>				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
<b>Total recognized deferred tax assets/(liabilities)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

	In thousands of Denars Current year 2018	Previous year 2017
Intangible assets	-	-
Property and equipment	-	-
<b>Total non-current assets held for sale</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

## B. Group for disposal

	In thousands of Denars	
	Current	Previous
	year	year
	2018	2017
<i>Group of assets for disposal</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in associates	-	-
Income tax receivables	-	-
Other assets	-	-
<b>Total group of assets for sale</b>	-	-
<i>Liabilities directly related to the group of assets for disposal</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
<b>Total liabilities directly related to the group of assets for disposal</b>	-	-

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

	In thousands of Denars	
	Current	Previous
	year	year
	2018	2017
Profit/(loss) recognized from sale of held for sale assets and group for disposal	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**32. TRADING LIABILITIES**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<i>Deposits from banks</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<hr/>	<hr/>
<i>Deposits from other clients</i>	-	-
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<hr/>	<hr/>
<i>Issued debt securities</i>	-	-
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	<hr/>	<hr/>
<i>Other financial liabilities</i>	-	-
<i>Derivatives for trading</i>		
Agreements depending on the change of interest rate	-	-
Agreements depending on changes in the exchange rate	-	-
Agreements depending on the change of the price of securities	-	-
Other agreements that meet the criteria of IFRS 9	-	-
	<hr/>	<hr/>
<b>Total liabilities held for trading</b>	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

	<b>Curent year 2018</b>		<b>In thousands of Denars Previous year 2017</b>	
	<b>Current carrying amount</b>	<b>Agreed amount, payable at maturity</b>	<b>Current carrying amount</b>	<b>Agreed amount, payable at maturity</b>
<i>Deposits from banks</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>	-	-	-	-
<i>Other liabilities</i>	-	-	-	-
<b>Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition</b>	-	-	-	-

	<b>Current year 2018</b>	<b>Previous year 2017</b>
<b>Movement of changes in the bank's creditworthiness, for financial liabilities measured at fair value</b>		
Balance at January 1	-	-
Recognized in Other comprehensive income for the year	-	-
(Transferred to other reserve funds)	-	-
<b>Balance at December 31</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**34. DEPOSITS**

**34.1 DEPOSITS FROM BANKS**

	<b>Curent year 2018</b>		<b>In thousands of Denars Previous year 2017</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Current accounts				
with domestic banks	21,820	-	55,728	-
with foreign banks	11,876	-	7,671	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	107,379	-	-	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	18,328	-	19,071	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Interest payable on deposits				
with domestic banks	-	-	-	-
with foreign banks	101	-	-	-
Current maturity	-	-	-	-
<b>Total deposits from banks</b>	<b>159,504</b>	<b>-</b>	<b>82,470</b>	<b>-</b>

The restricted deposits with foreign banks in the amount of Denar 18,328 thousand (2017: Denar 19,071 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**34. DEPOSITS (continued)**

**34.2 DEPOSITS FROM OTHER CLIENTS**

	<b>Current year 2018</b>		<b>In thousands of Denars Previous year 2017</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Non-financial companies				
Current accounts	9,946,944	-	9,182,182	-
Demand deposits	215,535	-	172,080	-
Time deposits	1,425,692	1,073,983	1,150,322	1,119,776
Restricted deposits	296,481	603,598	242,539	521,418
Other deposits	12,347	-	6,045	-
Interest payable on deposits	27,047	-	19,973	-
	11,924,046	1,677,581	10,773,141	1,641,194
State				
Current accounts	71,089	-	55,747	-
Demand deposits	-	-	-	-
Time deposits	-	-	5,000	-
Restricted deposits	158	650	72	-
Other deposits	-	-	-	-
Interest payable on deposits	3	-	-	-
	71,250	650	60,819	-
Non-profit institutions serving the households				
Current accounts	504,053	-	494,339	-
Demand deposits	-	-	-	-
Time deposits	155,497	21,480	158,631	19,580
Restricted deposits	7,003	-	3,283	410
Other deposits	-	-	-	-
Interest payable on deposits	674	-	970	-
	667,227	21,480	657,223	19,990
Financial companies, except banks				
Current accounts	59,677	-	54,482	-
Demand deposits	-	-	-	-
Time deposits	71,050	1,659,490	176,500	1,842,408
Restricted deposits	179	31,405	154	357
Other deposits	-	-	-	-
Interest payable on deposits	27,308	-	27,670	-
	158,214	1,690,895	258,806	1,842,765
Households				
Current accounts	21,718,430	-	17,558,498	-
Demand deposits	14,329	-	39,820	-
Time deposits	17,570,504	16,903,275	18,950,093	15,689,275
Restricted deposits	1,466,708	1,119,531	1,339,261	1,031,274
Other deposits	-	-	-	-
Interest payable on deposits	73,778	-	88,322	-
	40,843,749	18,022,806	37,975,994	16,720,549
Non-residents, except banks				
Current accounts	567,368	-	528,852	-
Demand deposits	1,308	-	1,298	-
Time deposits	148,689	171,566	163,699	207,841
Restricted deposits	35,116	19	27,680	19
Other deposits	-	-	-	-
Interest payable on deposits	410	-	568	-
	752,891	171,585	722,097	207,860
Current maturity	11,283,154	(11,283,154)	10,079,113	(10,079,113)
<b>Total deposits from other clients</b>	<b>65,700,531</b>	<b>10,301,843</b>	<b>60,527,193</b>	<b>10,353,245</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**35. ISSUED DEBT SECURITIES**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on deposits	-	-
<b>Total issued debt securities</b>	<b>-</b>	<b>-</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**36. BORROWINGS**

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

	<b>Current year 2018</b>		<b>In thousands of Denars Previous year 2017</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Banks				
Residents				
Loans payable	-	145,554	-	253,577
Repo-transactions	-	-	-	-
Interest payable	311	-	542	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	-	149,398	5,690	149,398
Repo-transactions	-	-	-	-
Interest payable	1,192	-	203	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-residents, except banks				
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Current maturity	81,708	(81,708)	106,679	(106,679)
<b>Total loans payable</b>	<b>83,211</b>	<b>213,244</b>	<b>113,114</b>	<b>296,296</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**36. BORROWINGS (continued)**

**B. Borrowings according to the creditor**

	<b>Curent year 2018</b>		<b>In thousands of Denars Previous year 2017</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
<i>Domestic sources:</i>				
<b>Asset Management Agency</b> - long-term loans amounting to Denar 149,398 thousand (2017: Denar 149,399 thousand) matures and is payable in January 2020 on one-off basis. Related fees for these loans are 1.5% per annum	1.192	149.398	203	149,398
<b>Agency for underdeveloped regions</b> – matures in 2016 and the interest rate is equal to 3.9% per annum (2016: 3.9% p.a.).	-	-	5,690	-
<b>MBPD</b> – with maturity deadline in 2019 and interest rate of 1.0% at annual level (2017: 1 %.)	311	145.554	542	253,577
	1.503	294.952	6,435	402,975
<i>Foreign sources:</i>				
Other banks	-	-	-	-
Current maturities	81,708	(81,708)	106,679	(106,679)
<b>Total loans payable</b>	<b>83,211</b>	<b>213,244</b>	<b>113,114</b>	<b>296,296</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**37. SUBORDINATED DEBT**

			In thousands of Denars	
			Curent year 2018	Previous year 2017
	<u>Maturity</u>	<u>Interest rate</u>		
<i>Liabilities under subordinated deposits</i>				
Principal payables			-	-
Interest payables			-	-
			<u>-</u>	<u>-</u>
<i>Liabilities under subordinated loans</i>				
			-	-
			-	-
Interest payables			-	-
			<u>-</u>	<u>-</u>
<i>Liabilities under subordinated issued debt securities</i>				
Principal payables			-	-
Interest payables			-	-
			<u>-</u>	<u>-</u>
Redeemable preferred shares			-	-
			<u>-</u>	<u>-</u>
<b>Total subordinated debt</b>			<u><u>-</u></u>	<u><u>-</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**38. SPECIAL RESERVE AND PROVISIONS**

In thousands of Denars

	Special reserves for off- balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuri ng	Provisions for unfavoura ble agreement s	Other provisions	Total
Balance as at January 1, 2017	131,864	9,561	32,056	-	-	-	173,481
Additional provisions during the year	25,169	9,369	3,428	-	-	-	37,966
(utilized provisions during the year)	-	(226)	-	-	-	-	(226)
(provisions recovery during the year)	(75,235)	-	(3,938)	-	-	-	(79,173)
<b>Balance at December 31, 2017</b>	<b>81,798</b>	<b>18,704</b>	<b>31,546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>132,048</b>
Balance as at January 1, 2018	81,798	18,704	31,546	-	-	-	132,048
additional provisions during the year	19,177	466	3,301	-	-	-	22,944
(utilized provisions during the period)	-	(1,289)	(266)	-	-	-	(1,555)
(provisions recovery during the period)	(21,482)	(3,054)	(537)	-	-	-	(25,073)
<b>Balance as at December 31, 2018</b>	<b>79,493</b>	<b>14,827</b>	<b>34,044</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>128,364</b>

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

The basic used actuarial assumptions are as following:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Interest rate	3.20%	3.90%
Average salary increase	4.00%	4.00%
Inflation rate	2.00%	2.00%

Mortality rate:

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**39. OTHER LIABILITIES**

	<b>In thousands of Denars</b>	
	<b>Current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2018</b>	<b>2017</b>
Trade payables	38,893	8,786
Received advances	-	-
Fees and commissions liabilities	77	132
Accrued expenses	93,535	158,595
Deferred income from previous year	116,195	99,848
Short-term liabilities to employees	-	-
Short-term liabilities for employees benefits	-	-
Other:		
Preferred cumulative shares	90,978	90,978
Liabilities for dividend on preferred shares	2,067	3,284
Disputed VISA cards transactions	1,839	2,099
Unallocated inflows upon deposits and other inflows	463,219	733,672
Obligations to merchants for outstanding payments on credit cards	22,673	23,219
Overpaid fees of credit cards	25,629	24,063
Commitments for closing current accounts - bankruptcy	12,464	13,180
Obligations for settlement with VISA	702	1,410
Premature repayment of loans and other liabilities	61,843	53,765
<b>Total other liabilities</b>	<b>930,114</b>	<b>1,213,031</b>

As at December 31, 2018 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400 (2017: Denar 400).

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

On 31 December 2018, the Bank allocated an amount of Denar 2,047 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2018 (2017: Denar 2,274 thousand).

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**40. SUBSCRIBED CAPITAL**

**A. Subscribed capital**

	In Denars		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Common shares	Non-redeemable preferred shares	Current year 2018	Previous Year 2017	Current year 2018	Previous Year 2017	Current year 2018	Previous Year 2017
Balance as at 1 January – paid in full	201,1	400	17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
<b>Balance as at 31 December – paid in full</b>			<b>17,460,180</b>	<b>17,460,180</b>	<b>227,444</b>	<b>227,444</b>	<b>3,602,220</b>	<b>3,602,220</b>

**B. Dividends**

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

	In thousands of Denars	
	Current year 2018	Previous year 2017
Announced dividends and paid dividends for the year	3,320,845	2,220,017

Announced dividends and paid dividends in 2018 in the amount of Denar 2,045,116 thousand (2017: Denar 2,220,017 thousand) including gross dividend for the holders of the ordinary shares in the amount of Denar 2,042,842 thousand (2017: Denar 2,217,443 thousand) allocated from a part of net profit for 2017 based on Shareholders Assembly, as well as Denar 2,274 thousand (2017: Denar 2,574 thousand) which are allocated for the holders of the preferred shares of the net profit in 2017.

In December 2018, based on a Decision of the Shareholders Assembly, the Bank made advance payment of dividend to the holders of ordinary shares in the total amount of MKD 1,274,593 thousand, as well as to the holders of preference shares in the total amount of MKD 1,137 thousand.

At the same meeting of the Shareholders Assembly, a Decision was adopted for distribution of part of the accumulated profit in profit restricted for distribution of the shareholders in the total amount of 489,809 thousand denars.

	Current year 2018	In MKD Previous year 2017
Dividend per ordinary share	117.00	127.00
Advance of dividend per ordinary share	73.00	-
Dividend per preferred share	9.00	10.00
Advance of dividend per preferred share	5.00	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**40. SUBSCRIBED CAPITAL(continued)**

**B. Dividend (continued)**

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

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Announced dividends after December 31	-	-

  

	<b>Current year 2018</b>	<b>In Denars Previous year 2017</b>
Dividend per ordinary share	-	-
Dividend per preferred share	-	-

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

The structure of shareholders whose stake exceeds 5% of the issued voting shares on December 31, 2018 and December 31, 2017 was officially announced and accepted by the Central Securities Depository of the RM, as follows:

	<b>In thousands of Denars</b>		<b>In %</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>	<b>Current year 2018</b>	<b>Previous year 2017</b>
<b>Shareholder</b>	<b>Subscribed capital (nominal value)</b>	<b>Subscribed capital (nominal value)</b>	<b>Voting right</b>	<b>Voting right</b>
National Bank of Greece	3,323,094	3,323,094	94.64%	94.64%
Other	188,148	188,148	5.36%	5.36%
<b>Total</b>	<b>3,511,242</b>	<b>3,511,242</b>	<b>100.00%</b>	<b>100.00%</b>

The share capital of the Bank as at December 31, 2018 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1.

The holders of ordinary shares are entitled to dividends when it will be released and have the right to one vote in the Shareholders Assembly of the Bank for the equivalent of one ordinary share, as well as the right to participate equally in the distribution of the rest of the bankruptcy or liquidation equity of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018****40. SUBSCRIBED CAPITAL(continued)****Revaluation reserve for available-for-sale assets**

These revaluation reserves consist of unrealized gains and losses arising from changes in fair value of investment in securities available for sale until they are sold or it is determined that they are impaired, and amount of the determinate difference when impairment of loan that is paid by foreclosing assets is higher than 20% of the initial value of the foreclosed asset, whereat the cumulative unrealized gain or loss previously recognized within the revaluation reserves are recognized in the net profit or loss for the period.

**Statutory reserves**

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

**Other reserves**

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



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**41. EARNINGS PER SHARE**

**A. Basic earnings per share**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	2,746,346	2,044,120
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	2,746,346	2,044,120
<b>Net profit attributable to ordinary shareholders</b>	<b>2,746,346</b>	<b>2,044,120</b>
	<b>Number of shares</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at 1 January	17,460,180	17,460,180
Effects of changes in the number of ordinary shares during the year	-	-
<b>Weighted average number of ordinary shares at 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Basic earnings per share ( in MKD)</b>	<b>157.30</b>	<b>117.07</b>

**B. Diluted earnings per share**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	2,746,346	2,044,120
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
<b>Net gains to which the holders of common shares are entitled (diluted)</b>	<b>2,746,346</b>	<b>2,044,120</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**41. EARNINGS PER SHARE (continued)**

**B. Diluted earnings per share (continued)**

	<b>Number of shares</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from issuance of potential common shares	-	-
<b>Weighted average number of common shares (diluted) on 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Diluted earnings per share (in MKD)</b>	<b>157.30</b>	<b>117.07</b>

**42. COMMITMENTS AND CONTINGENCIES**

**42.1 COMMITMENTS**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
Uncovered payment guarantees		
in MKD	801,423	697,671
in foreign currency	233,097	262,845
in MKD with FC Clause	23,762	227,880
Uncovered performance guarantees		
in MKD	390,029	420,973
in foreign currency	73,131	54,375
in MKD with FC Clause	602,689	628,269
Uncovered letters of credit		
in MKD	-	-
in foreign currency	79,137	24,066
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1,724,970	1,648,641
Unutilized limits under credit cards	5,771,824	5,996,410
Taken liabilities for financing and unutilized credit limits	4,290,626	4,199,528
Other uncovered contingent liabilities	1,482	2,577
Issued covered letters of guarantee	272,518	234,394
Covered letters of credit	5,852	5,774
Other covered contingent liabilities	-	-
<b>Total contingent liabilities before special reserve</b>	<b>14,270,540</b>	<b>14,403,403</b>
(Provisions)	(79,493)	(81,797)
<b>Total contingent liabilities reduced by special reserve</b>	<b>14,191,047</b>	<b>14,321,606</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

**42.1 COMMITMENTS (continued)**

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

From the total potential liabilities on the basis of covered and uncovered guarantees issued with maturity up to one year in the amount of Denar 1,480,934 thousand (2017: Denar 1,873,489 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2017: 1 year). The unused overdrafts on current accounts are short-term overdrafts.

Contingent liabilities in respect of unused overdrafts on current accounts and unused limits on credit cards are unsecured and are revocable in the event of deterioration of the creditworthiness of the debtor. The interest rates on current accounts and credit cards in the period 31.12.2018 and 2017 are ranged from 9.56% to 11.25%.

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

**Litigation**

The Bank is involved in litigation from its regular operations. The amount of litigation cases against the Bank as of December 31, 2018, for which additional analyses were made on the basis of which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank for that material losses could result in respect of these disputes amounted to Denar 18,760 thousand (2017: Denar 18,704 thousand). This amount includes the penalty interests, and other court expenses as well. Accordingly, in December 31, 2018, the Bank made provisions for impairment losses on the basis of litigations in the amount of Denar 466 thousand (2017: Denar 9,369 thousand).

**42.2 CONTINGENCIES**

	<b>In thousands of Denars</b>	
	<b>Current year 2018</b>	<b>Previous year 2017</b>
	-	-
<b>Total contingent assets</b>	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

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

	<b>Curent year 2018</b>			<b>In thousands of Denars Previous year 2017</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net position</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net position</b>
<i>Administration of assets on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	275,537	275,378	159	274,635	274,528	107
FC loans	300,655	300,655	-	291,011	291,011	-
Other MKD receivables	1,021,719	1,021,727	(8)	1,066,293	1,066,301	(8)
Other FC receivables	460,269	460,420	(151)	581,599	581,698	(99)
<i>Asset management on behalf and for account of third parties</i>	-	-	-	-	-	-
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other MKD claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
<i>Custody accounts</i>	40,158	40,158	-	35,512	35,515	(3)
<i>Other</i>	-	-	-	-	-	-
<b>Total</b>	<b><u>2,098,338</u></b>	<b><u>2,098,338</u></b>	<b><u>-</u></b>	<b><u>2,249,050</u></b>	<b><u>2,249,053</u></b>	<b><u>(3)</u></b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**44. RELATED PARTY TRANSACTIONS**

**A. Balance Sheet**

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
<b>31 December 2018</b>						
<b>Assets</b>						
Current accounts	1,106	-	-	-	-	1,106
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	1,485	2,750	4,235
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	208	37	245
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>1,106</b>	<b>-</b>	<b>-</b>	<b>1,693</b>	<b>2,787</b>	<b>5,586</b>
<b>Liabilities</b>						
Trading liabilities	-	-	-	-	-	-
Deposits	3	-	-	53,863	107,779	161,645
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	43,089	-	-	446	-	43,535
<b>Total</b>	<b>43,092</b>	<b>-</b>	<b>-</b>	<b>54,309</b>	<b>107,779</b>	<b>205,180</b>
<b>Contingent liabilities</b>						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities	-	-	-	-	-	-
(Special reserve)	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent assets</b>						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**44. RELATED PARTY TRANSACTIONS (continued)**

**A. Balance Sheet (continued)**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**44. RELATED PARTY TRANSACTIONS (continued)**

**B. Income and expenses arising from the related party transactions**

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
<b>2018 current year</b>						
<b>Income</b>						
Interest income	-	-	-	79	160	239
Income from fees and commissions	-	-	-	44	1	45
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	24	-	24
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147</b>	<b>161</b>	<b>308</b>
<b>Expenses</b>						
Interest expenses	7	-	-	766	864	1,637
Expenses for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	99,391	-	-	32,722	-	132,113
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>99,398</b>	<b>-</b>	<b>-</b>	<b>33,488</b>	<b>864</b>	<b>133,750</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**44. RELATED PARTY TRANSACTIONS (continued)**

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

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

**C. Remuneration for the management personnel of the Bank**

	In thousands of Denars	
	Current year 2018	Previous year 2017
Short-term benefits for employees	32,710	28,309
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	-	-
<b>Total</b>	<b>32,710</b>	<b>28,309</b>



**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**44. RELATED PARTIES TRANSACTIONS (continued)**

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

**45. LEASES**

**A. Lessor**

**A.1 Financial leases receivables**

	<b>Total financial lease receivables</b>	<b>In thousands of Denars</b>		
		<b>Maturity period for financial lease receivables</b>		
		<b>up to 1 year</b>	<b>from 1 to 5 years</b>	<b>over 5 years</b>
<b>December 31, 2018 (current year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-
<b>December 31, 2017 (previous year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-

**A.2 Irrevocable operating lease receivables**

	<b>Total operating lease receivables</b>	<b>In thousands of Denars</b>		
		<b>Maturity period of period for operating lease receivables</b>		
		<b>up to 1 year</b>	<b>from 1 to 5 years</b>	<b>over 5 years</b>
<b>December 31, 2018 (current period)</b>				
Net present value of minimum lease payments	2,427	2,427	-	-
<b>December 31, 2017 (previous year)</b>				
Net present value of minimum lease payments	1,291	1,291	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**45. LEASES (continued)**

**A. Lessor (continued)**

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

	In thousands of Denars					
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment
Value of the property given under operating lease:						
December 31, 2018	-	10,907	-	-	-	-
December 31, 2017	-	26,185	-	-	-	-
<b>Total</b>						

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

**B. LEASEE**

**B.1 Financial lease liabilities**

	In thousands of Denars			
	Maturity period for financial lease liabilities			
	Total financial lease liabilities	up to 1 year	from 1 to 5 years	over 5 years
Balance as at December 31, 2018 (current period)	-	-	-	-
Balance as at 31 December, 2017 (previous year)	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**45. LEASES (continued)**

**B. Lease (continued))**

**B.1 Financial lease liabilities (continued)**

	In thousands of Denars						
	<u>Land</u>	<u>Buildings</u>	<u>Means of transportation</u>	<u>Furniture and office equipment</u>	<u>Other equipment</u>	<u>Other items of property and equipment</u>	<u>Total</u>
Value of the property taken under financial lease:							
<b>Cost</b>							
Balance as at 1 January 2017	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	-	-	-	-	-	-	-
Balance as at 1 January 2018	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at December 31, 2018</b>	-	-	-	-	-	-	-
<b>Accumulated depreciation and impairment</b>							
Balance as at 1 January 2017	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>Balance as at 31 December 2017</b>	-	-	-	-	-	-	-
Balance as at 1 January 2018	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Balance as at December 31, 2018</b>	-	-	-	-	-	-	-
<b>Current carrying amount</b>							
As at 1 January 2017	-	-	-	-	-	-	-
<b>On December 31, 2017</b>	-	-	-	-	-	-	-
<b>On December 31, 2018</b>	-	-	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**45. LEASES (continued)**

**B. Lease (continued)**

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

	Total operational lease liabilities	In thousands of Denars Maturity period for operational lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at December 31, 2018 (current period)	-	-	-	-
Balance as at 31 December, 2017 (previous year)	-	-	-	-

**46. SHARE BASED PAYMENTS**

	In thousands of Denars	
	Current year 2018	Previous year 2017
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-

	Curent year 2018		Previous year 2017	
	number of options for shares	weighted average price of options for shares	number of options for shares	weighted average price of options for shares
Balance as at 1 January	-	-	-	-
Changes during the year:				
options given to the members of Supervisory Board	-	-	-	-
options given to the members of Board of Directors	-	-	-	-
other given options	-	-	-	-
forfeited options	-	-	-	-
options with expired deadline	-	-	-	-
Balance as at December 30/ December 31	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2018**

**47. TAXATION RISK**

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

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

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

**49. EXCHANGE RATES**

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

	<b><u>31.12.2018</u></b>	<b><u>In MKD</u></b> <b><u>31.12.2017</u></b>
1 USD	53.6887	51.2722
1 EUR	61.4950	61.4907