STOPANSKA BANKA AD – Skopje

Financial Statements
Year Ended December 31, 2019 and
Independent Auditors' Report

CONTENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of STOPANSKA BANKA AD – Skopje:

Mr. Diomidis Nikoletopoulos

~~Chief Executive Officer~~

Chairman of the Board of Directors

Mr. Toni Stojanovski

Chief Risk Officer

Member of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska

Chief Retail Officer,

Member of the Board of Directors

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Independent auditor's report

To the Supervisory Board and Shareholders of Stopanska Banka AD Skopje

We have audited the accompanying financial statements of Stopanska Banka AD Skopje ("the Bank"), which comprise the statement of financial position as of 31 December 2019 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards..

Dragan Davitkov
General Manager

Sime Jovanovski
Certified Auditor

PricewaterhouseCoopers Revizija DOO

30 April 2020
Skopje, Republic of North Macedonia

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2019
(In thousands of Denars)

	Notes	2019	2018
Interest income		4,000,345	4,262,415
Interest expense		(571,522)	(682,760)
Net interest income	6	**3,428,823**	**3,579,655**
Fee and commission income		1,262,912	1,109,890
Fee and commission expense		(437,122)	(335,195)
Net fee and commission income	7	**825,790**	**774,695**
Trading income, net	8	(1,853)	1,940
Foreign exchange gains, net	9	91,300	105,173
Other operating income	10	87,385	106,504
(Impairment)/reversal, net	11	(100,710)	10,907
Personnel expenses	12	(850,367)	(869,787)
Depreciation and amortization	13	(179,902)	(138,613)
Other operating expenses	14	(711,774)	(776,576)
Profit before tax		**2,588,692**	**2,793,898**
Income tax expense	15	(272,929)	(295,127)
Profit for the year		**2,315,763**	**2,498,771**
Other comprehensive income			
Profit on available-for-sale financial assets, net	31	-	-
Gains less losses on investments in Debt securities at fair value through other comprehensive income, net of tax		(395)	8,475
Total of items that may be reclassified subsequently to profit or loss		(395)	8,475
Gains less losses on investments in equity securities at fair value through other comprehensive income, net of tax		1,366	2,624
Service & interest (cost)/income related to defined benefits obligation	31	380	(3,325)
Total of items that will not be reclassified subsequently to profit or loss		1,746	(701)
Other comprehensive income for the year, net of tax		1,351	7,774
Total comprehensive income for the year		**2,317,114**	**2,506,545**
Profit attributable to:			
Owners of the Bank		2,315,763	2,498,771
Total comprehensive income attributable to:			
Owners of the Bank		2,317,114	2,506,545
Earnings per share	31		
Basic (in Denars)		132.6	143.1
Diluted (in Denars)		132.6	143.1

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

The financial statements have been approved by the management of the Bank on April 29, 2020 and accepted by the Bank's Supervisory Board.

Signed on behalf of STOPANSKA BANKA AD – Skopje:

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

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

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

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STATEMENT OF FINANCIAL POSITION
At December 31, 2019
(In thousands of Denars)

	Notes	31 December 2019	31 December 2018
ASSETS			
Cash and balances with the central bank	16	21,847,735	19,296,827
Financial assets at fair value through profit and loss	17	3,763	5,616
Securities measured at FVTOCI	18	81,425	80,059
Securities measured at amortized cost	19	8,596,403	5,789,884
Placement with, and loans to banks	20	243,367	197,089
Loans to customers	21	68,078,217	65,145,885
Other assets	22	1,555,535	732,406
Income tax receivable		33,123	-
Investment property	23	27,284	28,389
Intangible assets	24	162,525	145,164
Property and equipment	25	901,630	828,923
Total assets		101,531,007	92,250,242
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	26	258,236	159,504
Deposits from customers	27	82,857,540	76,002,374
Loans payable	28	214,344	296,455
Other liabilities	29	1,121,772	930,122
Income tax payable		-	95,126
Deferred tax liabilities	15.1	175,610	176,757
Provisions	30	65,937	69,450
Total liabilities		84,693,439	77,729,788
EQUITY			
Share capital	31	3,511,242	3,511,242
Reserves	31	842,652	841,301
Retained earnings		12,483,674	10,167,911
Total equity		16,837,568	14,520,454
Total liabilities and equity		101,531,007	92,250,242
Commitments and contingencies	34	13,990,638	14,249,961

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2019
(In thousands of Denars)

	Share capital	Revaluation reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2018	3,511,242	6,634	830,290	1,083	11,114,815	15,464,064
Impact of IFRS 9	-	(4,480)	-	-	(128,240)	(132,720)
Balance at 1 January 2018 adjusted for IFRS 9 impact	3,511,242	2,154	830,290	1,083	10,986,575	15,331,344
Other comprehensive income for the year, net of tax	-	7,774	-	-	-	7,774
Profit for the year	-	-	-	-	2,498,771	2,498,771
Total comprehensive income for the year	-	7,774	-	-	2,498,771	2,506,545
Dividend distribution	-	-	-	-	(3,317,435)	(3,317,435)
Balance, December 31, 2018	3,511,242	9,928	830,290	1,083	10,167,911	14,520,454
Balance, January 1, 2019	3,511,242	9,928	830,290	1,083	10,167,911	14,520,454
Other comprehensive income for the year, net of tax	-	1,351	-	-	-	1,351
Profit for the year	-	-	-	-	2,315,763	2,315,763
Total comprehensive income for the year	-	1,351	-	-	2,315,763	2,317,114
Dividend distribution	-	-	-	-	-	-
Balance, December 31, 2019	3,511,242	11,279	830,290	1,083	12,483,674	16,837,568

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(In thousands of Denars)

	2019	2018
Profit before tax	2,588,692	2,793,898
Adjustments for:		
Depreciation of property and equipment	81,230	87,982
Depreciation of investment property	1,105	1,972
Amortization of intangible assets	54,910	48,659
Depreciation of RoU Assets	42,657	-
Gain on sale of property and equipment, net	-	(4,052)
Gain on sale of foreclosure assets, net	(35,716)	(30,438)
Interest income	(4,000,345)	(4,262,415)
Interest expense	571,522	682,760
Net trading income	1,853	(1,940)
Impairment losses on financial assets, net	88,451	(37,115)
Impairment losses on non-financial assets	12,259	26,208
Provision for employee benefits, net	1,950	2,763
Provision for litigation, net	(3,851)	(2,588)
Interest receipts	4,114,785	4,129,344
Interest paid	(574,206)	(684,741)
Operating profit before changes in operating assets and liabilities:	**2,945,296**	**2,750,297**
(Increase)/decrease of operating assets:		
Due from banks	(46,278)	(37,550)
Loans to customers	(3,241,706)	(3,122,643)
Mandatory reserves and restricted deposits according NBRNM regulations	(164,580)	(192,318)
Other receivables	(726,594)	(6,432)
Increase/(decrease) of operating liabilities:		
Deposits from banks	98,732	77,034
Deposits from customers	6,857,850	5,123,917
Other liabilities	(9,061)	(247,675)
Net cash flows generated from operating activities before income tax	**5,713,659**	**4,344,630**
Income tax paid	(402,326)	(219,711)
Net cash flows generated from operating activities	**5,311,333**	**4,124,919**

STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2019
(In thousands of Denars)

	2019	2018
Cash flows from investing activities		
Acquisition of property and equipment	(115.163)	(71,024)
Acquisition of intangible assets	(72,271)	(53,009)
Acquisition of investment property	-	(116)
Investments in securities	(7,267,978)	(5,734,197)
Inflows from sale of investments in securities	4,629,050	6,094,970
Proceeds from sale of property and equipment	28,799	8,122
Proceeds from sale of investment property	-	13,827
Dividend received	6,965	5,399
Net cash flows (used in)/ generated from investing activities	**(2.790.598)**	**263,972**
Cash flows from financing activities		
Repayment of loan payables	(82,111)	(112,955)
Dividends paid	-	(3,309,730)
Net cash flows used in financing activities	**(82,111)**	**(3,422,685)**
Net increase of cash and cash equivalents	**2,438,624**	**966,206**
Cash and cash equivalents, beginning of the year	16,000,033	15,033,827
Cash and cash equivalents at the end of the year	**18,438,657**	**16,000,033**

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

1. GENERAL INFORMATION

STOPANSKA BANKA AD – Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the RNM with a network of 65 branches (2018: 65 branches).

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

The Bank may perform the following activities:

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

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2018: 94.64%) shareholding in the Bank and represents its ultimate parent company.

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

<u>Symbol</u>	<u>ISIN code</u>
STB (common shares)	MKSTBS101014
STBP (preference shares)	MKSTBS120014

The Bank's financial statements for the year ended December 31, 2019 have been approved by the management of the Bank on April 29, 2020 and accepted by the Bank's Supervisory Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

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

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, except for fair value through other comprehensive income financial assets, financial assets and financial liabilities (included derivative financial instruments) held at fair value through profit or loss which have been measured at fair value. These financial statements have been also prepared under the going concern assumption.

(c) Functional and reporting currency

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

(d) Use of estimates and judgments

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

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

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

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

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

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

- **IFRS 16 Leases** (effective for annual periods beginning on or after 1 January 2019). IFRS 16 supersedes relevant lease guidance including IAS 17 Leases, IFRIC 4 Determining whether an agreement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal From of a Lease, and establishes principles for the recognition, measurement, presentation and disclosure of lease agreements, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions.

  IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use (RoU) asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability is initially measured at the present value of the future lease payments, discounted using the rate implicit in the lease or, if this rate cannot be readily determined, the lessee's incremental borrowing rate (IBR). The RoU asset is initially measured at the amount of the lease liability.

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

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

Subsequently, the RoU asset is amortised over the length of the lease, and the financial liability is measured at amortised cost. The operating lease expense for the leases accounted for under IAS 17 is replaced by a depreciation charge for the RoU asset and an interest expense from the unwinding of the discount on the lease liability. The change in presentation of operating lease expenses results in an improvement in cash flows from operating activities and a corresponding decline in cash flows from financing activities.

Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases, using the same classification criteria provided by IAS 17.

Leases in which the Bank is a Lessor

There was no significant impact for the Bank's finance leases or for the leases in which the Bank is a lessor.

Leases in which the Bank is a Lessee

The Bank applied the modified retrospective approach, where the RoU asset is set equal to the amount of the lease liability upon adoption and did not restate the comparative information. The Bank applied the practical expedient to grandfather the lease definition on transition to IFRS 16 and not reassess whether a contract is or contains a lease. Therefore, at the transition date (i.e. 1 January 2019), the Bank applied IFRS 16 solely to contracts that were previously identified as leases based on IAS 17 and IFRIC 4.

The Bank has elected to take a recognition exemption for short-term leases and leases of low-value items, for which lease payments are recognized as operating expenses on a straight-line basis over the lease term.

The adoption of IFRS 16 on 1 January 2019, increased the Banks's Right of Use Assets and Lease liability by Denar 110,526 thousand. The Bank's RoU assets and lease liabilities are included in line items 'property and equipment' and 'other liabilities', respectively. Detailed disclosure for Banks's Right of Use Assets and Lease liability the IFRS 16 impact is presented in Note 25 and 29.

The Bank adopted the following amendment and interoperations which did not have a material impact on the Bank's financial statements:

- **Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7-** On 26 September 2019 the International Accounting Standards Board (IASB) published 'Interest Rate Benchmark Reform, Amendments to IFRS 9, IAS 39 and IFRS 7' (the "amendments"). This concludes phase one of the IASB's work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an "RFR").
- **IFRS 4 (Amendment) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.** The amendments introduce two approaches. The amended standard will: a) give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued and b) give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply IAS 39. In June 2019 the IASB issued an Exposure Draft which proposes targeted amendments to IFRS 17 Insurance Contracts (IFRS 17) including, amongst other matters, a deferral of the effective date by one year (1 January 2022). This would mean that qualifying insurers could apply both standards for the first time in reporting periods beginning on or after 1 January 2022.
- **IFRIC 23 Uncertainty over Income Tax Treatments.** The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. IFRIC 23 applies to all aspects of income tax accounting where there is such uncertainty, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

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

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

- **IAS 19 (Amendments) Plan Amendment, Curtailment or Settlement.** The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur.
- **Annual Improvements to IFRS Standards 2015–2017 Cycle.** The amendments set out below include changes to four IFRSs.

  IFRS 3 Business Combinations – the amendments clarify that a company remeasures its previously held interest in a joint operation when it obtains control of the business.

  IFRS 11 Joint Arrangements – the amendments clarify that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

  IAS 12 Income Taxes – the amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.

  IAS 23 Borrowing Costs – the amendments clarify that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
- **IFRS 9 (Amendments) Prepayment Features with Negative Compensation.** The amendments allow companies to measure particular repayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met instead of at fair value through profit or loss.
- **IAS 28 (Amendments) Long-Term Interests in Associates and Joint Ventures.** The amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied, using IFRS 9.

(f) *New Standards and amendments effective after 2019*

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

- **IFRS 17 Insurance Contracts** (effective for annual periods beginning on or after 1 January 2021, as issued by the IASB). IFRS 17 has been issued in May 2017 and supersedes IFRS 4. In June 2019, the IASB issued an Exposure Draft which proposes targeted amendments to IFRS 17 including, amongst other matters, a deferral of the effective date by one year (1 January 2022). IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of this standard and its objective is to ensure that an entity provides relevant information that faithfully represents those contracts. The new standard solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. Insurance obligations will be accounted for using current values instead of historical cost.

- **Definition of a Business - Amendments to IFRS 3,** (effective for annual periods beginning on 1 January 2020). The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements or processes and continuing to produce outputs, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods.

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

(f) New Standards and amendments effective after 2019 (Continued)

- **Definition of Materiality - Amendments to IAS 1 and IAS 8** (effective for annual periods beginning on 1 January 2020). In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.
- **Conceptual Framework.** In March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the "Framework"), which becomes effective in annual periods beginning on 1 January 2020. The Framework sets out the fundamental concepts of financial reporting that guide the IASB in developing IFRS Standards. The Framework underpins existing IFRS Standards but does not override them. Preparers of financial statements use the Framework as a point of reference to develop accounting policies in rare instances where a particular business transaction is not covered by existing IFRS Standards. The IASB and the IFRS Interpretations Committee will begin to use the new Framework immediately in developing new, or amending existing, financial reporting standards and interpretation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

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

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

3.2 Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized using the effective interest rate method.

3.3 Dividend income

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

3.4 Foreign exchange translation

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

3.5 Financial assets

(a) Classification and Measurement of financial instruments

Classification of financial assets

The Bank uses the following measurement categories for financial assets:

- Debt instruments at amortised cost.
- Debt instruments at fair value through other comprehensive income (FVTOCI) with cumulative gains and losses reclassified to profit and loss on derecognition.
- Equity instruments designated as measured at FVTOCI with gains and losses remaining in other comprehensive income (OCI) without recycling to profit or loss on derecognition.
- Debt instruments, derivatives, equity instruments at fair value through the profit and loss (FVTPL).

Except for debt instruments that are designated at initial recognition as at FVTPL, such assets are classified at amortised cost or FVTOCI on the basis of:

- the Bank's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(a) Classification and Measurement of financial instruments (Continued)

Business model assessment

The business models reflect how the Bank manages its debt financial assets in order to generate cash flows. This assessment is performed on the basis of scenarios that the Bank reasonably expects to occur. The assessment is based on all relevant and objective information that is available at the time of the business model assessment. The Bank has identified the following business models for debt financial assets:

- Held to collect contractual cash flows ("HTC"): The Bank's objective is to hold the financial assets and collect the contractual cash flows. All the assets in this business model give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Debt instruments classified in this business model are measured at amortised cost.
- Held to collect contractual cash flows and sell ("HTCS"): The objective of this business model is to meet everyday liquidity needs and such objective is achieved by both collecting contractual cash flows and selling debt instruments. Assets within this business model are not sold with the intention of short-term profit taking, however frequent sales may occur and such sales may be significant in value. All the assets in this business model give rise to cash flows that are SPPI. The debt instruments in this business model are accounted for at FVTOCI.
- Held for trading ("HFT"): Under this business model, the Bank actively manages the instruments in order to realise fair value gains arising from changes in credit spreads and yield curves. The assets in this business model are accounted for at FVTPL.

Contractual cash flow characteristics

The Bank assesses the characteristics of its financial assets' contractual cash flows at initial recognition in order to determine whether they are SPPI. This is referred to as the "SPPI test". Interest amount within a basic lending arrangement, is typically the consideration for the time value of money and the credit risk. Interest may also include consideration for other basic lending risks such as liquidity and costs (e.g. administration associated with holding the financial asset for a particular period of time), as well as a profit margin

Measurement of financial assets

- Financial assets measured at amortised cost

A debt financial asset is measured at amortised cost if it is held in a business model that has an objective to hold financial assets to collect contractual cash flows and the contractual terms of the financial asset result in cash flows that pass the SPPI test.
The financial assets classified within this category, mainly include the following asset classes:

- Cash and balances with central banks
- Sight and time deposits with banks
- Securities purchased under agreements to resell
- Deposits in margin accounts
- Other receivables due from banks
- Loans and advances to customers
- Debt securities
- Other receivables included in line item "other assets"

Subsequent to initial recognition, the debt financial asset is measured at amortised cost using the effective interest rate ("EIR") method for the allocation and recognition of interest revenue in line item "interest income" of the income statement over the relevant period. The amortised cost is the amount at which the financial asset is measured at initial recognition minus any principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount is the amortised cost of a financial asset before adjusting for any loss allowance.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(a) Classification and Measurement of financial instruments (Continued)

Measurement of financial assets (Continued)

- **Debt instruments measured at FVTOCI**

A debt financial asset is measured at FVTOCI if it is held in a business model that has an objective to hold financial assets to collect contractual cash flows and sell the assets and the contractual terms of the financial asset result in cash flows that pass the SPPI test.
After initial recognition, investments in debt financial assets are measured at fair value in the statement of financial position (with no deduction for sale or disposal costs) with unrealised gains and losses reported in OCI, net of applicable income taxes, until such investments are derecognised (i.e. when sold or collected). Upon derecognition, the cumulative gains or losses previously recognised in OCI are reclassified from equity to "Other operating income" of the income statement, as a reclassification adjustment.

- **Equity instruments designated at FVTOCI**

After initial recognition, investments in equity instruments designated at FVTOCI are measured at fair value, with no deduction for sale or disposal costs. With the exception of dividends received, the associated gains and losses (including any related foreign exchange component) is recognised in OCI. Amounts presented in OCI are not subsequently recycled to the income statement, instead the cumulative gain or loss is transferred within equity from accumulated OCI to retained earnings.

- **Financial assets and financial liabilities measured at FVTPL**

After initial recognition, financial assets and financial liabilities that are classified as at FVTPL are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from fair value remeasurement are recognised in their entirety in "Trading income, net".

(b) Impairment - Expected Credit Losses

Expected Credit Loss ("ECL") are recognised for all financial assets measured at amortised cost, debt financial assets measured at FVTOCI, financial guarantees and certain loan commitments. ECL represent the difference between contractual cash flows and those that the Bank expects to receive, discounted at the EIR. For loan commitments and other credit facilities in scope of ECL, the expected cash shortfalls are determined by considering expected future draw downs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

(b) Impairment - Expected Credit Losses (Continued)

Recognition of expected credit losses

At initial recognition, an impairment allowance is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL), weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in Stage 1. For instruments with a remaining maturity of less than 12 months, ECL are determined for this shorter period.
In the event of a significant increase in credit risk ("SICR"), an ECL allowance is required, reflecting lifetime cash shortfalls that would result from all possible default events over the expected life of the financial instrument ("lifetime ECL"), weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in Stage 2.

Lifetime ECL are always recognised on financial assets for which there is objective evidence of impairment, that is they are considered to be in default or otherwise credit-impaired. Such instruments are referred to as instruments in Stage 3.

Purchased or originated financial assets that are credit impaired (POCIs) are classified as credit impaired. An instrument is POCI if it has been purchased with a material discount to its par value that reflects the incurred credit losses or is originated with a defaulted counterparty.

For POCI financial assets, the Group Bank recognises adverse changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in the income statement. POCI are initially recognised at fair value with interest income subsequently being recognised based on a credit-adjusted EIR. POCI may also include financial instruments that are newly recognised following a substantial modification and remain a separate category until maturity. Any favourable changes for POCI assets are impairment gain even if the resulting expected cash flows exceed the estimated cash flows on initial recognition.

ECL are recognised in the income statement with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the statement of financial position. For financial assets measured at FVTOCI, the carrying value is not reduced, but the ECL allowance is recognised in OCI. For off-balance sheet financial instruments, the ECL allowance is reported as a provision in "other liabilities". ECL are recognised within the income statement in "(impairment)/reversal, net".

Write-off

A write-off is made when the Bank does not have a reasonable expectation to recover all or part of a financial asset. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses. Recoveries, in part or in full, of amounts previously written off are generally credited to "credit provisions and other impairment charges". Write-offs and partial write-offs represent derecognition or partial derecognition events.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities

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

Deposits from banks and other financial institutions and customers

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

Financial liabilities through profit and loss

These financial liabilities include derivative financial instruments of foreign exchange contracts and initially and subsequently are measured/re-measured at fair value. These contracts do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated in the same way as derivative instruments held-for-trading, i.e. fair value gains and losses are recognized in net-trading income.

Loans payable

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

Other payables

Other payables are stated at their nominal amounts. Preferred shares which carry a mandatory fixed dividend are classified as financial liabilities and are presented in other liabilities. The dividends from these preference shares are recognized in profit or loss.

Derecognition of financial liabilities

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

3.7 Property and equipment

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

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

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates for 2019 and 2018 are as follows:

Buildings	2.5%
Furniture and equipment	10% - 25%
Right of use assets	Straight-line basis over the lease term

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

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

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

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

3.9 Impairment of tangible and intangible assets

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

3.10 Investment property

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

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

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

3.11 Assets acquired through foreclosure proceedings

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

3.12 Cash and balances with the central bank

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

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

3.14 Provisions

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

Employment benefits

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

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

3.15 Income tax

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

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

3.16 Leases (applicable before 1 January 2019)

Bank is the lessor

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases (applicable before 1 January 2019) continued

Bank is the lessee
Operating lease. Leases where a significant portion of the risk and rewards of ownership of the assets are retained by the lessor are classified as operating leases. The total payments made under the operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3.16.1 Leases (applicable after 1 January 2019)

Bank is the lessee
The Bank applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets for which the payments are recognized as operating expense on straight line basis over the lease term. The Bank recognizes liabilities representing the obligation to make lease payments and RoU assets representing the right to use the underlying assets.

RoU assets The Bank recognizes RoU assets at the commencement date of the lease (i.e. the date of the underlying assets is available for use) RoU assets are measures at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of RoU assets includes the amount of lease liabilities recognized, initial directs costs incurred, restoration costs and lease payments made before the commencement date less any lease incentive received. RoU assets are depreciated on a straight-line basis over the lease term. The RoU assets are presented in the property and equipment.

Lease liabilities the bank recognizes liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Short term leases and leases of low-value assets The Bank has elected not to recognize RoU assets and liabilities for short-term leases that have a lease term of 12 months of less and leases of low-value assets. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

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

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

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

3.18 Offsetting

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

3.19 Financial guarantee contracts

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

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

3.20 Related party transactions

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

3.21 Earnings per share

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

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

Fair value of financial instruments

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

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

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

Expected Credit Loss ("ECL")

The calculation of ECL requires management to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are determined. Changes to these estimates and assumptions can result in significant changes to the amount and timing of ECL to be recognised. The most significant sources of measurement uncertainty relate to the following ECL factors:

Determination of a significant increase of credit risk (SICR)

The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative criteria. A non-credit impaired asset is classified in stage 2 if it has suffered a SICR, otherwise it is classified in stage 1. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

The Bank assesses SICR based on three main components:

- a quantitative element, i.e. reflecting a quantitative comparison of PD or credit rating at the reporting date versus the respective metric at initial recognition.
- a qualitative element, that is all Forborne Performing Exposures (FPE) and internal watch list for corporate obligors; and
- "Backstop" indicators. The Bank applies on all lending exposures the IFRS 9 presumption that a SICR has occurred when the financial asset is more than 30 days past due.

Model risk inherent in the IFRS 9 models

Compliance with the IFRS 9 impairment model requires the use of a variety of models. The complexity of the models as well as dependency to other model-based inputs is high therefore any changes in inputs and data, as well as new or revised models, may significantly affect ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Forward looking information

FLI is incorporated in the ECL measurement of collectively assessed loans and debt securities through the PD and LGD models. The expected recoveries (cash flow recoveries or liquidation of collateral) used in the ECL calculation of corporate lending exposures individually assessed, takes into account FLI based on the Bank's forecasts of the relevant macroeconomic factors. Each of the scenarios is based on Management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. Changes in the scenarios and weights, the relevant macroeconomic variables and the assumptions made under those variables for the forecast horizon would have a significant effect on the ECL.

The Bank incorporates forward-looking information in the ECL measurement through the PD models. In order to capture the FLI in the credit risk parameters models, the Bank initially selects potential drivers of each target risk metric that are likely to be the most important based on economic intuition, experience with similar models, and historical data analysis. A customized variable selection algorithm is then applied to choose the optimal combination of macroeconomic drivers. Through widely accepted econometric models, the Bank develops FLI for credit risk parameters models in form of three macroeconomic scenarios using official sources for future macroeconomic projections (for three respective years).

More specifically, the Bank uses three macroeconomic scenarios (i.e. baseline, optimistic, pessimistic) applying weights of 40% for baseline and 30% for optimistic and pessimistic scenario respectively.

The scenarios are developed using official projections from recognized international sources (such as the country's Central Bank, IMF, World bank etc.) along with projections by NBG Economic Research Division. The main purpose is achieving the objective of measuring ECL in a way that reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes.

The macroeconomic scenarios used for incorporating FLI into the ECL measurement, as well as the scenario weights, are approved by the Bank's Risk Management Committee.

Further, the projections are assessed against the actual parameters on quarterly bases, and in case the actual values vary significantly from the incorporated projections, the projections are amended and incorporated in the PD curves.

The annual average forecasts for the period 2019-2022 for the main macro variables used, under each scenario are presented in the table below.

Variable	Baseline	Optimistic	Pessimistic
GDP	3.8%	4.6%	2.5%
Gross expenses on fixed assets	8.1%	9.9%	5.1%
Personal consumption	2.9%	3.6%	1.9%
Inflation	1.8%	2.4%	0.6%
Main interest rate	2.4%	2.0%	2.8%
Industrial production	5.3%	9.1%	1.6%

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

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

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

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

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

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

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

4.2 Credit risk

4.2.1 Credit risk measurement, limits and mitigation policies

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit risk measurement, limits and mitigation policies (Continued)

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

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

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

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

4.2.2 Impairment and provisioning policies – IFRS 9

Since January 2018, the Bank applies IFRS9 standard in the impairment and provision calculation.

The impairment requirements of IFRS 9 are based on an ECL model and replace the IAS 39 incurred loss model. The new impairment model of IFRS 9 recognizes impairment losses before they are realized. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

IFRS 9 requires the classification of all financial assets into three stages. The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Under the general approach, there are two measurement bases:

- 12-month ECL (stage 1), which apply to all items as long as there is no significant deterioration in credit risk; and

- Lifetime ECL ("LT ECL") for stages 2 and 3, which apply when a significant increase in credit risk, compared to the credit risk at initial recognition, has occurred on an individual or collective basis.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	LT ECL	LT ECL

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies – IFRS 9 (Continued)

In order to assess SICR and calculate ECL on a collective basis, the Bank allocates financial assets into groups on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous. The frequency of ECL measurement on a collective basis is monthly. The Bank groups exposures if there is sufficient information for the group to be statistically credible. The characteristics used to determine groupings are outlined below:

Retail loans:

- Product type (e.g. mortgages, credit cards, overdraft, term loans, retail SME)
- Origination vintage (Months on Book at time of assessment)
- Delinquency Bucket at time of assessment (current, 1-30 DPD, 31-60 DPD, 61 to 90 DPD, default)

Wholesale corporate loans: Industry

- Business segment (large corporates, SME, small banking business)
- Internal credit rating band

The ECL calculations are based on the following factors ("the ECL Factors"):

- **Exposure at Default ("EAD"):** This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest.
- **Credit Conversion Factor ("CCF"):** The *CCF* converts the amount of a credit line and other off-balance sheet amounts to an EAD amount.
- **Probability of Default ("PD"):** Represents the likelihood of a borrower/issuer defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), assessed on the prevailing economic conditions at the reporting date (PIT), adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default either over the next 12 months (12M PD) for Stage 1 financial assets, or over the remaining lifetime (lifetime PD) of the obligation, for Stage 2 and 3 financial assets.
- **Loss given default ("LGD"):** Represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of EAD.
- **Discount Rate:** The implied discount factor based on the original EIR of the financial asset or an approximation thereof.
- **Survival rate:** Is the cumulative probability of non-default at time t-1, further adjusted by the annual prepayment rate, PRt.

The use of the parameters in the ECL calculation depends on the Stage the credit exposure is in.

The scope of the exposures subject to individual assessment, is the following:

- Exposures classified into Stage 1 or Stage 2 & 3, irrespective of their balance, for which an individual assessment is deemed necessary by the relevant Units, based on current facts and circumstances at the reporting date,
- Exposures in Stage 3 for which the enforcement procedure has been initiated and collection is expected based on collateral liquidation, can be optionally subject to individual assessment.

The Divisions/Units responsible for conducting the individual assessment take into consideration both qualitative and quantitative factors in order to calculate the ECL allowance.

Apart from the aforementioned thresholds set for determining the Individually Significant Loans, additional exposures may be individually assessed, irrespectively of their total exposure, based on the knowledge of the Relationship Managers and Business Units.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

	In thousands of Denars	
	31 December 2019	31 December 2018
Credit risk exposure relating to on balance sheet assets		
Cash and balances with the central bank	21,847,735	19,296,827
Financial assets through profit and loss	3,763	5,616
Securities measured at FVTOCI	81,425	80,059
Securities measured at amortized cost	8,596,403	5,789,884
Placement with, and loans to banks	243,367	197,089
Loans to customers	68,078,217	65,145,885
Other receivables (less foreclosure assets)	1,348,563	449,513
	100,199,473	90,964,873
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	2,833,648	2,396,649
Standby letters of credits	134,773	84,989
Commitments to extend credits	11,040,652	11,787,420
Other off-balance sheet commitments	1,551	1,482
Gross exposure	14,010,624	14,270,540
Less: Provision for off-balance sheet items	(19,986)	(20,579)
	13,990,638	14,249,961
Total credit risk exposure	114,190,111	105,214,834

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

Mortgages are fully secured by property (residential and business premises) or deposits with a loan to value ratio up to 85%. Consumer loans in the amounts over EUR 20,000 are fully secured by property (only residential premises) or deposits with a loan to value ratio up to 70%.

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

a) Loans to customers are summarized below:

	Stage 1	Stage 2	Stage 3	Total gross	ECL allowance for Stage 1	ECL allowance for Stage 2	ECL allowance for Stage 3	Total ECL allowance	Total net
December 31,2019									
Cards	3,724,398	82,929	250,785	4,058,112	(13,139)	(1,588)	(117,851)	(132,578)	3,925,534
Consumer	28,420,874	2,959,984	2,450,269	33,831,127	(386,723)	(256,792)	(1,324,548)	(1,968,063)	31,863,064
Mortgage	9,982,245	1,023,942	215,371	11,221,558	(3,383)	(12,696)	(48,648)	(64,727)	11,156,831
Small business loans	3,213,675	698,898	129,772	4,042,345	(11,342)	(17,461)	(47,842)	(76,645)	3,965,700
Corporate loans	13,337,790	2,701,172	3,180,835	19,219,797	(130,954)	(154,509)	(1,767,246)	(2,052,709)	17,167,088
Total	58,678,982	7,466,925	6,227,032	72,372,939	(545,541)	(443,046)	(3,306,135)	(4,294,722)	68,078,217

	Stage 1	Stage 2	Stage 3	Total gross	ECL allowance for Stage 1	ECL allowance for Stage 2	ECL allowance for Stage 3	Total ECL allowance	Total net
December 31,2018									
Cards	3,851,663	32,137	254,808	4,138,608	(18,751)	(2,479)	(145,919)	(167,149)	3,971,459
Consumer	28,315,371	1,265,649	2,393,948	31,974,968	(390,918)	(176,662)	(1,257,554)	(1,825,134)	30,149,834
Mortgage	9,313,141	810,231	274,979	10,398,351	(6,777)	(15,371)	(50,583)	(72,731)	10,325,620
Small business loans	2,795,037	691,696	142,358	3,629,091	(12,433)	(16,116)	(105,512)	(134,061)	3,495,030
Corporate loans	13,188,860	2,706,536	4,308,500	20,203,896	(145,104)	(185,756)	(2,669,094)	(2,999,954)	17,203,942
Total	57,464,072	5,506,249	7,374,593	70,344,914	(573,983)	(396,384)	(4,228,662)	(5,199,029)	65,145,885

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) A breakdown by range of probability of default summarized below:

	31.12.2019				31.12.2018			
Total	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**
12 month PD								
0,01% - 0,6%	15,875,791	11,659	-	15,887,450	13,264,226	6,271	-	13,270,497
0,6% - 2%	19,525,204	324,711	-	19,849,915	25,998,102	419,730	-	26,417,832
2,01% - 5%	20,122,178	1,169,707	-	21,291,885	13,044,239	413,840	-	13,458,079
5,01% - 10%	1,184,497	1,315,791	-	2,500,288	2,928,213	929,244	-	3,857,457
10,01% - 20%	1,902,585	1,333,990	-	3,236,575	2,121,026	632,961	-	2,753,987
20,01% - 36 %	68,727	1,815,850	-	1,884,577	106,849	1,366,016	-	1,472,865
36,01% and above	-	1,495,217	6,227,032	7,722,249	1,417	1,738,187	7,374,593	9,114,197
Total	58,678,982	7,466,925	6,227,032	72,372,939	57,484,072	5,506,249	7,374,593	70,344,914

	Mortgage				Consumer			
December 31,2019	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**
12 month PD								
0,01% - 0,6%	9,303,240	3,935	-	9,307,175	3,520,657	-	-	3,520,657
0,6% - 2%	679,005	11,269	-	690,274	7,284,414	2,987	-	7,287,401
2,01% - 5%	-	431,488	-	431,488	15,219,194	169,696	-	15,388,890
5,01% - 10%	-	365,019	-	365,019	437,178	621,849	-	1,059,027
10,01% - 20%	-	145,409	-	145,409	1,896,251	652,573	-	2,548,824
20,01% - 36 %	-	5,902	-	5,902	63,180	871,636	-	934,816
36,01% and above	-	60,920	215,371	276,291	-	641,243	2,450,269	3,091,512
Total	9,982,245	1,023,942	215,371	11,221,558	28,420,874	2,959,984	2,450,269	33,831,127

	Mortgage				Consumer			
December 31,2018	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**	**Stage 1 12 month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Credit impaired**	**Total**
12 month PD								
0,01% - 0,6%	8,462,159	1,878	-	8,464,037	2,023,796	1,658	-	2,025,454
0,6% - 2%	262,099	21,455	-	283,554	13,323,985	26,760	-	13,350,745
2,01% - 5%	588,883	84,208	-	673,091	10,439,293	46,502	-	10,485,795
5,01% - 10%	-	506,974	-	506,974	518,558	72,726	-	591,284
10,01% - 20%	-	774	-	774	1,902,859	240,439	-	2,143,298
20,01% - 36 %	-	84,413	-	84,413	106,849	300,666	-	407,515
36,01% and above	-	110,529	274,979	385,508	31	576,898	2,393,948	2,970,877
Total	9,313,141	810,231	274,979	10,398,351	28,315,371	1,265,649	2,393,948	31,974,968

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) A breakdown by range of probability of default summarized below: (Continued)

December 31,2019	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
12 month PD								
0,01% - 0,6%	38	-	-	38	1,340,868	7,724	-	1,348,592
0,6% - 2%	3,724,360	-	-	3,724,360	739,574	15,373	-	754,947
2,01% - 5%	-	59,333	-	59,333	818,865	58,971	-	877,836
5,01% - 10%	-	4,796	-	4,796	302,487	55,118	-	357,605
10,01% - 20%	-	18,800	-	18,800	6,334	128,738	-	135,072
20,01% - 36 %	-	-	-	-	5,547	154,996	-	160,543
36,01% and above	-	-	250,785	250,785	-	277,978	129,772	407,750
Total	3,724,398	82,929	250,785	4,058,112	3,213,675	698,898	129,772	4,042,345

December 31,2018	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
12 month PD								
0,01% - 0,6%	12,838	-	-	12,838	497,246	2,735	-	499,981
0,6% - 2%	3,618,244	-	-	3,618,244	1,048,887	24,294	-	1,073,181
2,01% - 5%	220,581	-	-	220,581	865,511	69,385	-	934,896
5,01% - 10%	-	20	-	20	358,623	47,306	-	405,929
10,01% - 20%	-	7,434	-	7,434	23,384	121,075	-	144,459
20,01% - 36 %	-	24,683	-	24,683	-	147,851	-	147,851
36,01% and above	-	-	254,808	254,808	1,386	279,050	142,358	422,794
Total	3,851,663	32,137	254,808	4,138,608	2,795,037	691,696	142,358	3,629,091

December 31,2019	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
12 month PD								
0,01% - 0,6%	1,390,426	-	-	1,390,426	320,562	-	-	320,562
0,6% - 2%	5,062,551	183,888	-	5,246,439	2,035,300	111,194	-	2,146,494
2,01% - 5%	719,419	137,443	-	856,862	3,364,700	312,776	-	3,677,476
5,01% - 10%	-	-	-	-	444,832	269,009	-	713,841
10,01% - 20%	-	-	-	-	-	388,470	-	388,470
20,01% - 36 %	-	175,788	-	175,788	-	607,528	-	607,528
36,01% and above	-	-	1,269,011	1,269,011	-	515,076	1,911,824	2,426,900
Total	7,172,396	497,024	1,269,011	8,938,526	6,165,394	2,204,148	1,911,824	10,281,271

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) A breakdown by range of probability of default summarized below: (Continued)

	Large				SME			
December 31,2018	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
12 month PD								
0,01% - 0,6%	1,786,753	-	-	1,786,753	481,434	-	-	481,434
0,6% - 2%	5,225,631	300,737	-	5,526,368	2,519,256	46,484	-	2,565,740
2,01% - 5%	460,615	41,896	-	502,511	469,356	171,849	-	641,205
5,01% - 10%	141,660	55,615	-	197,275	1,909,372	246,603	-	2,155,975
10,01% - 20%	20,776	33,837	-	54,613	174,007	229,402	-	403,409
20,01% - 36 %	-	227,006	-	227,006	-	581,397	-	581,397
36,01% and above	-	2,645	2,086,516	2,089,161	-	769,065	2,221,984	2,991,049
Total	7,635,435	661,736	2,086,516	10,383,687	5,553,425	2,044,800	2,221,984	9,820,209

c) Ageing analysis of loans and advances to customers net of allowance for impairment

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31,2019								
Cards	3,774,362	18,238	2,910	8,576	17,844	28,333	75,271	3,925,534
Consumer	30,275,614	333,389	153,641	102,110	155,173	244,522	598,615	31,863,064
Mortgage	10,792,163	154,128	65,947	19,427	6,450	20,142	98,574	11,156,831
Small-business loans	3,744,683	118,506	59,867	9,602	24,347	1,596	7,099	3,965,700
Corporate loans	15,354,749	491,816	31,288	6,970	160,169	529,771	592,325	17,167,088
Total	63,941,571	1,116,077	313,653	146,685	363,983	824,364	1,371,884	68,078,217

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

c) Ageing analysis of loans and advances to customers net of allowance for impairment (Countinued)

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31,2018								
Cards	3,832,912	29,658	1,771	8,639	14,682	27,924	55,873	3,971,459
Consumer	28,642,099	324,342	122,136	103,920	134,106	186,711	636,520	30,149,834
Mortgage	9,918,474	186,194	63,047	16,349	19,245	18,099	104,212	10,325,620
Small-business loans	3,260,295	137,422	64,634	23,672	5,686	2,117	1,204	3,495,030
Corporate loans	14.908.757	639.956	252.416	545.708	63.572	103.866	689.667	17.203.942
Total	60.562.537	1,317,572	504.004	698,288	237.291	338.717	1,487,476	65.145.885

d) Movement in Gross carrying amount of loans and advances to customers at amortised cost

Total Loans	**31.12.2019**				**31.12.2018**			
	Stage 1 12 month ECL	**Stage 2** Lifetime ECL	**Stage 3** Credit impaired	**Total**	**Stage 1** 12 month ECL	**Stage 2** Lifetime ECL	**Stage 3** Credit impaired	**Total**
Balance at beginning of period	57,464,072	5,506,249	7,374,593	70,344,914	54,727,030	5,195,470	7,519,827	67,442,327
Transfer from Stage 1 to Stage 2	(3,701,617)	3,701,617	-	-	(3,444,709)	3,444,709	-	-
Transfer from Stage 1 to Stage 3	(401,460)	-	401,460	-	(913,540)	-	913,540	-
Transfer from Stage 2 to Stage 1	1,270,411	(1,270,411)	-	-	1,561,274	(1,561,274)	-	-
Transfer from Stage 2 to Stage 3	-	(356,934)	356,934	-	-	(561,491)	561,491	-
Transfer from Stage 3 to Stage 2	-	136,140	(136,140)	-	-	87,556	(87,556)	-
New financial assets originated or purchased	22,143,334	1,213,725	-	23,357,059	21,882,849	957,119	-	22,839,968
Write-offs	-	-	(1,327,699)	(1,327,699)	-	-	(374,613)	(374,613)
Other movements including repayments	(16,095,756)	(1,463,461)	(442,116)	(20,001,335)	(16,348,832)	(2,055,840)	(1,158,096)	(19,562,768)
Ending balance	58,678,982	7,466,925	6,227,032	72,372,939	57,464,072	5,506,249	7,374,593	70,344,914

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2019								
Balance at beginning of period	9,313,141	810,231	274,979	10,398,351	28,315,371	1,265,649	2,393,948	31,974,968
Transfer from Stage 1 to Stage 2	156,067	(156,067)	-	-	(2,292,687)	2,292,687	-	-
Transfer from Stage 1 to Stage 3	(8,735)	-	8,735	-	(285,433)	-	285,433	-
Transfer from Stage 2 to Stage 1	103,706	(103,706)	-	-	230,857	(230,857)	-	-
Transfer from Stage 2 to Stage 3	-	(11,851)	11,851	-	-	(166,850)	166,850	-
Transfer from Stage 3 to Stage 2	-	33,529	(33,529)	-	-	87,997	(87,997)	-
New financial assets originated or purchased	2,228,136	238,975	-	2,467,111	12,888,756	541,544	-	13,430,300
Write-offs	-	-	-	-	-	-	(264,978)	(264,978)
Other movements including repayments	(1,810,070)	212,831	(46,665)	(1,643,904)	(10,435,990)	(830,186)	(42,987)	(11,309,163)
Ending balance	9,982,245	1,023,942	215,371	11,221,558	28,420,874	2,959,984	2,450,269	33,831,127

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2018								
Balance at beginning of period	9,035,960	219,363	312,937	9,568,260	26,958,133	625,167	2,150,628	29,733,928
Transfer from Stage 1 to Stage 2	(657,198)	617,201	-	(39,997)	(1,009,152)	846,238	-	(162,914)
Transfer from Stage 1 to Stage 3	(10,935)	-	10,651	(284)	(318,902)	-	289,140	(29,762)
Transfer from Stage 2 to Stage 1	80,669	(90,860)	-	(10,191)	180,618	(215,536)	-	(34,918)
Transfer from Stage 2 to Stage 3	-	(20,907)	19,866	(1,041)	-	(145,884)	133,098	(12,786)
Transfer from Stage 3 to Stage 2	-	41,570	(45,215)	(3,645)	-	36,115	(37,356)	(1,241)
New financial assets originated or purchased	2,381,771	88,634	-	2,470,405	12,142,650	275,068	-	12,417,718
Write-offs	-	-	-	-	-	-	(110,448)	(110,448)
Other movements including repayments	(1,517,126)	(44,770)	(23,260)	(1,585,156)	(9,637,976)	(155,519)	(73,662)	(9,867,157)
Ending balance	9,313,141	810,231	274,979	10,398,351	28,315,371	1,265,649	2,351,400	31,932,420

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2019								
Balance at beginning of period	3,851,663	32,137	254,808	4,138,608	2,795,037	691,696	142,358	3,629,091
Transfer from Stage 1 to Stage 2	(58,263)	58,263	-	-	(477,406)	477,406	-	-
Transfer from Stage 1 to Stage 3	(4,474)	-	4,474	-	(32,298)	-	32,298	-
Transfer from Stage 2 to Stage 1	18,750	(18,750)	-	-	237,819	(237,819)	-	-
Transfer from Stage 2 to Stage 3	-	(153)	153	-	-	(50,291)	50,291	-
Transfer from Stage 3 to Stage 2	-	1,304	(1,304)	-	-	348	(348)	-
New financial assets originated or purchased	311,814	21,907	-	333,721	1,542,572	91,002	-	1,633,574
Write(offs	-	-	(41,577)	(41,577)	-	-	(58,218)	(58,218)
Other movements including repayments	(395,092)	(11,779)	34,231	(372,640)	(852,049)	(273,444)	(36,609)	(1,162,102)
Ending balance	3,724,398	82,929	250,785	4,058,112	3,213,675	698,898	129,772	4,042,345

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2018								
Balance at beginning of period	3,846,999	38,894	250,304	4,136,197	2,230,285	731,838	142,599	3,104,722
Transfer from Stage 1 to Stage 2	(27,423)	27,423	-	-	(401,016)	401,016	-	-
Transfer from Stage 1 to Stage 3	(6,269)	-	6,269	-	(12,404)	-	12,404	-
Transfer from Stage 2 to Stage 1	22,636	(22,636)	-	-	214,612	(214,612)	-	-
Transfer from Stage 2 to Stage 3	-	(947)	947	-	-	(37,272)	37,272	-
Transfer from Stage 3 to Stage 2	-	1,766	(1,766)	-	-	3,219	(3,219)	-
New financial assets originated or purchased	350,133	4,327	-	354,460	1,467,071	100,694	-	1,567,765
Write-offs	-	-	(24,534)	(24,534)	-	-	(23,134)	(23,134)
Other movements including repayments	(334,413)	(16,690)	23,588	(327,515)	(703,511)	(293,187)	(23,564)	(1,020,262)
Ending balance	3,851,663	32,137	254,808	4,138,608	2,795,037	691,696	142,358	3,629,091

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

d) Movement in Gross carrying amount of loans and advances to customers at amortized cost (Continued)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2019								
Balance at beginning of period	7,635,435	661,736	2,086,516	10,383,687	5,553,425	2,044,600	2,221,984	9,820,209
Transfer from Stage 1 to Stage 2	(115,106)	115,106	-	-	(914,222)	914,222	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	(70,520)	-	70,520	-
Transfer from Stage 2 to Stage 1	231,703	(231,703)	-	-	447,576	(447,576)	-	-
Transfer from Stage 2 to Stage 3	-	(50,212)	50,212	-	-	(77,577)	77,577	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	12,962	(12,962)	-
New financial assets originated or purchased	2,084,670	-	-	2,084,670	3,087,386	320,297	-	3,407,683
Write(offs	-	-	(632,659)	(632,659)	-	-	(330,267)	(330,267)
Other movements including repayments	(2,684,306)	2,097	(235,058)	(2,897,267)	(1,938,251)	(562,980)	(115,028)	(2,616,259)
Ending balance	7,172,396	497,024	1,269,011	8,938,431	6,165,394	2,204,148	1,911,824	10,281,366

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2018								
Balance at beginning of period	6,774,359	1,432,895	2,756,168	10,963,422	5,881,294	2,147,313	1,907,191	9,935,798
Transfer from Stage 1 to Stage 2	(283,551)	283,551	-	-	(1,066,369)	1,066,369	-	-
Transfer from Stage 1 to Stage 3	(484,353)	-	484,353	-	(80,677)	-	80,677	-
Transfer from Stage 2 to Stage 1	572,855	(572,855)	-	-	444,775	(444,775)	-	-
Transfer from Stage 2 to Stage 3	-	(177,949)	177,949	-	-	(178,532)	178,532	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New financial assets originated or purchased	2,712,064	145,256	-	2,857,320	2,829,160	343,140	-	3,172,300
Write-offs	-	-	(104,536)	(104,536)	-	-	(111,961)	(111,961)
Other movements including repayments	(1,655,939)	(449,162)	(1,227,418)	(3,332,519)	(2,454,758)	(888,715)	167,545	(3,175,928)
Ending balance	7,635,435	661,736	2,086,516	10,383,687	5,553,425	2,044,600	2,221,984	9,820,209

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in allowance for impairment:

	Stage 1 12 - month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2019				
Balance at beginning of period	(573,983)	(396,384)	(4,228,662)	(5,199,029)
Transfer from Stage 1 to Stage 2	89,112	(89,112)	-	-
Transfer from Stage 1 to Stage 3	44,780	(46)	(44,734)	-
Transfer from Stage 2 to Stage 1	(65,384)	65,384	-	-
Transfer from Stage 2 to Stage 3	-	42,072	(42,072)	-
Transfer from Stage 3 to Stage 2	-	(66,448)	66,448	-
New financial assets, net of Recoveries	(224,503)	(64,852)	-	(289,355)
Write-offs	-	-	1,327,699	1,327,699
Other movements	184,437	66,340	(384,814)	(134,037)
Ending balance	(545,541)	(443,046)	(3,306,135)	(4,294,722)

	Stage 1 12 - month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2018				
Balance at beginning of period	(652,732)	(409,905)	(4,124,487)	(5,187,124)
Transfer from Stage 1 to Stage 2	45,366	(45,366)	-	-
Transfer from Stage 1 to Stage 3	33,085	-	(33,085)	-
Transfer from Stage 2 to Stage 1	(109,396)	109,396	-	-
Transfer from Stage 2 to Stage 3	-	91,066	(91,066)	-
Transfer from Stage 3 to Stage 2	-	(23,566)	23,566	-
New financial assets, net of Recoveries	(233,138)	(73,713)	-	(306,851)
Write-offs	-	-	374,595	374,595
Other movements	342,832	(44,296)	(378,185)	(79,649)
Ending balance	(573,983)	(396,384)	(4,228,662)	(5,199,029)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in allowance for impairment: (Continued)

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2019								
Balance at beginning of period	(6,777)	(15,371)	(50,583)	(72,731)	(390,918)	(176,662)	(1,257,554)	(1,825,134)
Transfer from Stage 1 to Stage 2	442	(442)	-	-	41,164	(41,164)	-	-
Transfer from Stage 1 to Stage 3	46	(46)	-	-	13,664	-	(13,664)	-
Transfer from Stage 2 to Stage 1	(3,368)	3,368	-	-	(22,881)	22,881	-	-
Transfer from Stage 2 to Stage 3	-	2,502	(2,502)	-	-	15,271	(15,271)	-
Transfer from Stage 3 to Stage 2	-	(3,618)	3,618	-	-	(61,595)	61,595	-
New financial assets, net of Recoveries	(277)	(1,221)	-	(1,498)	(150,639)	(46,816)	-	(197,455)
Write-offs	-	-	-	-	-	-	264,978	264,978
Other movements	6,551	2,132	819	9,502	122,887	31,293	(364,632)	(210,452)
Ending balance	(3,383)	(12,696)	(48,646)	(64,727)	(388,723)	(256,792)	(1,324,548)	(1,968,063)

	Mortgage				Consumer			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2018								
Balance at beginning of period	(5,458)	(7,546)	(48,564)	(61,568)	(375,735)	(149,806)	(1,116,098)	(1,641,639)
Transfer from Stage 1 to Stage 2	393	(393)	-	-	12,076	(12,076)	-	-
Transfer from Stage 1 to Stage 3	28	-	(28)	-	7,908	-	(7,908)	-
Transfer from Stage 2 to Stage 1	(3,297)	3,297	-	-	(48,902)	48,902	-	-
Transfer from Stage 2 to Stage 3	-	1,173	(1,173)	-	-	48,946	(48,946)	-
Transfer from Stage 3 to Stage 2	-	(6,430)	6,430	-	-	(15,028)	15,028	-
New financial assets, net of Recoveries	(662)	(824)	-	(1,486)	(147,104)	(39,793)	-	(186,897)
Write-offs	-	-	-	-	-	-	110,448	110,448
Other movements	2,220	(4,649)	(7,248)	(9,677)	160,837	(57,804)	(210,077)	(107,044)
Ending balance	(6,776)	(15,372)	(50,583)	(72,731)	(390,916)	(176,661)	(1,257,553)	(1,825,132)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in allowance for impairment: (Continued)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2019								
Balance at beginning of period	(18,751)	(2,479)	(145,919)	(167,149)	(12,433)	(16,116)	(105,512)	(134,061)
Transfer from Stage 1 to Stage 2	1,434	(1,434)	-	-	1,692	(1,692)	-	-
Transfer from Stage 1 to Stage 3	597	-	(597)	-	263	-	(263)	-
Transfer from Stage 2 to Stage 1	(16,281)	16,281	-	-	(4,545)	4,545	0	-
Transfer from Stage 2 to Stage 3	-	34	(34)	-	-	1,666	(1,666)	-
Transfer from Stage 3 to Stage 2	-	(42)	42	-	-	(48)	48	-
New financial assets, net of Recoveries	(947)	(323)	-	(1,270)	(4,844)	(1,707)	-	(6,551)
Write-offs	-	-	41,577	41,577	-	-	58,218	58,218
Other movements	20,809	(13,625)	(12,920)	(5,736)	8,525	(4,111)	1,335	5,749
Ending balance	(13,139)	(1,588)	(117,851)	(132,578)	(11,342)	(17,461)	(47,842)	(76,645)

	Credit Cards				Small Business			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit Impaired	Total
December 31,2018								
Balance at beginning of period	(41,033)	(2,727)	(126,119)	(169,879)	(33,282)	(42,477)	(92,494)	(168,253)
Transfer from Stage 1 to Stage 2	370	(370)	-	-	4,196	(4,196)	-	-
Transfer from Stage 1 to Stage 3	81	-	(81)	-	268	-	(268)	-
Transfer from Stage 2 to Stage 1	(1,430)	1,430	-	-	(12,119)	12,119	-	-
Transfer from Stage 2 to Stage 3	-	74	(74)	-	-	3,397	(3,397)	-
Transfer from Stage 3 to Stage 2	-	(885)	885	-	-	(1,223)	1,223	-
New financial assets, net of Recoveries	(1,539)	(350)	-	(1,889)	(7,163)	(1,907)	-	(9,070)
Write-offs	-	-	24,534	24,534	-	-	23,116	23,116
Other movements	24,799	349	(45,063)	(19,915)	35,668	18,170	(33,693)	20,145
Ending balance	(18,752)	(2,479)	(145,918)	(167,149)	(12,432)	(16,117)	(105,513)	(134,062)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

e) Movement in allowance for impairment: (Continued)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2019								
Balance at beginning of period	(51,232)	(17,902)	(1,311,652)	(1,380,786)	(93,872)	(167,854)	(1,357,442)	(1,619,168)
Transfer from Stage 1 to Stage 2	539	(539)	-	-	43,841	(43,841)	-	-
Transfer from Stage 1 to Stage 3	-	0	-	-	30,210	-	(30,210)	-
Transfer from Stage 2 to Stage 1	(10,533)	10,533	-	-	(7,776)	7,776	-	-
Transfer from Stage 2 to Stage 3	-	392	(392)	-	-	22,205	(22,205)	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	(1,145)	1,145	-
New financial assets, net of Recoveries	(14,077)	-	-	(14,077)	(53,719)	(14,785)	-	(68,504)
Write-offs	-	-	632,659	632,659	-	-	330,267	330,267
Other movements	36 244	(13,493)	(2,322)	20 429	(10,579)	64,144	(7,094)	46,471
Ending balance	(39,059)	(21,009)	(681,707)	(741,775)	(91,895)	(133,500)	(1,085,539)	(1,310,934)

	Large				SME			
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Credit impaired	Total
December 31,2018								
Balance at beginning of period	(86,284)	(80,217)	(1,454,539)	(1,621,040)	(110,940)	(127,132)	(1,286,673)	(1,524,745)
Transfer from Stage 1 to Stage 2	2,467	(2,467)	-	-	25,862	(25,862)	-	-
Transfer from Stage 1 to Stage 3	23,812	-	(23,812)	-	988	-	(988)	-
Transfer from Stage 2 to Stage 1	(28,786)	28,786	-	-	(14,862)	14,862	-	-
Transfer from Stage 2 to Stage 3	-	18,799	(18,799)	-	-	18,677	(18,677)	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	-	-	-
New financial assets, net of Recoveries	(21,829)	(3,614)	-	(25,443)	(54,841)	(27,225)	-	(82,066)
Write-offs	-	-	104,536	104,536	-	-	111,961	111,961
Other movements	59 387	20 812	80,961	161 160	59 921	(21,174)	(163,065)	(124,318)
Ending balance	(51,233)	(17,901)	(1,311,653)	(1,380,787)	(93,872)	(167,854)	(1,357,442)	(1,619,168)

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

	2019	2018
Cash and cash equivalents or restricted accounts held in Bank	1,254,411	1,082,911
Movable property	110,990	119,710
Residential property	35,559,590	35,214,198
Other real estate	1,869,757	1,749,035
Total	38,794,748	38,165,854

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

	2019	2018
Cash and cash equivalents or restricted accounts held in Bank	1,062,109	1,424,089
Financial and corporate guarantees	7,522,661	6,194,196
Movable property	17,119,699	18,135,531
Real estate	29,808,928	30,846,884
Total	55,513,397	56,600,700

f) Renegotiated loans to customers

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

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

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

As of 31.12.2019 the Bank has renegotiated loans at a total amount of Denar 439,524 thousand (2018: Denar 596,750 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.5 Cash and balances with the central bank, investment in securities and placement with, and loans to banks

Cash and balances with the central bank are classified in Stage 1 Issuer of the treasury bills is the National Bank of the Republic of North Macedonia. S&P assigned to the RNM sovereign foreign and local currency long term ratings of BB+ and short term ratings of B-, with stable outlook. Accounts and deposits with foreign banks are placed in the banks that have S&P bank or sovereign rating from AAA to A- in amount of Denar 2,018,745 thousands (2018: Denar 1,203,536 thousands) rating from BBB+ to B- in amount of Denar 403,838 thousands (2018: Denar 455,938 thousands) and only deposits in NBG have CCC+ rating, in amount of Denar 3,694 thousands (2018: Denar 1,106 thousands). Time deposits up to three months are also in first class banks with S&P bank or sovereign rating from AAA to A-.

Securities measured at FVOCI consists of equity securities.

Securities measured at amortized cost, classified as Stage 1, consists of debt securities issued by the Government of the RNM classified as neither past due nor impaired, with S&P BB+/B- rating.

Placement with, and loans to banks, classified as Stage 1, in amount of Denar 234,561 thousands (2018: Denar 188,460 thousands), has S&P bank or sovereign rating from AAA to A- and the part of loans in foreign banks, are classified as Stage 3, in net amount of Denar 8,806 thousand (2018: Denar 8,629 thousands).

4.2.6 Foreclosed assets

During 2019, the Bank conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Bank sold 10 assets (2018: 16 assets) at a total value of Denar 140,917 thousand (2018: Denar 186,353 thousand), whereas it foreclosed 7 facilities (2018: 4 facilities) at a total value of Denar 76,901 thousand (2018: Denar 18,967 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.7 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2019 and 2018. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and balances with the central bank		Financial assets through profit and loss		Investment in securities		Placements with and loans to banks		Loans to customers		Other receivables		Total	
Geographical region	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
RNM	16,214,924	14,582,574	-	-	8,677,797	5,869,912	-	-	68,078,217	65,145,885	1,348,563	449,513	94,319,501	86,047,884
EU member countries	4,153,125	2,992,783	-	-	31	31	80,580	40,980	-	-	-	-	4,233,736	3,033,794
Europe (other)	-	-	3,763	5,616	-	-	8,806	8,628	-	-	-	-	12,569	14,244
OECD member countries (less European OECD member countries)	1,479,686	1,721,470	-	-	-	-	-	410	-	-	-	-	1,479,686	1,721,880
Other	-	-	-	-	-	-	153,981	147,071	-	-	-	-	153,981	147,071
Total	21,847,735	19,296,827	3,763	5,616	8,677,828	5,869,943	243,367	197,089	68,078,217	65,145,885	1,348,563	449,513	100,199,473	90,964,873

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector

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

	Cash and balances with the central bank		Financial assets through profit and loss		Investment in securities		Placements with and loans to banks		Loans to customers		Other receivables		Total	
Industry	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	372,264	597,241	262	87	372,526	597,328
Mining and quarrying	-	-	-	-	-	-	-	-	256,457	173,806	2	-	256,459	173,806
Manufacturing	-	-	-	-	-	-	-	-	7,325,444	7,264,620	38,264	361,258	7,363,708	7,625,878
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	1,664,772	1,959,386	35	747	1,664,807	1,960,133
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	6,757	9,058	21	98	6,778	9,156
Construction	-	-	-	-	-	-	-	-	2,305,793	1,486,062	405	1,690	2,306,198	1,487,752
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	1,813	1,361	-	-	5,481,088	5,599,190	3,812	3,332	5,486,713	5,603,883
Transportation and storage	-	-	-	-	-	-	-	-	814,444	854,570	387	863	814,831	855,433
Accommodation and food service activities	-	-	-	-	-	-	-	-	822,866	785,518	252	190	823,118	785,708
Information and communication	-	-	-	-	-	-	-	-	250,233	160,530	442	500	250,675	161,030
Financial and insurance activities	21,847,735	19,296,827	3,763	5,616	79,612	78,698	243,367	197,089	58,809	98,434	2,725	2,950	22,236,011	19,679,614
Real estate activities	-	-	-	-	-	-	-	-	305,226	581,159	26	57	305,252	581,216
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	450,486	377,016	56	74	450,542	377,090
Administrative and support service activities	-	-	-	-	-	-	-	-	566,846	615,788	312	452	567,158	616,240
Public administration and defence; compulsory social security	-	-	-	-	8,596,403	5,789,884	-	-	16,321	2,862	1,102,796	-	9,715,520	5,792,746
Education	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Human health and social work activities	-	-	-	-	-	-	-	-	402,422	65,435	-	68	402,422	65,503
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	4,568	39,740	8	59	4,576	39,799
Other service activities	-	-	-	-	-	-	-	-	27,991	28,557	122	-	28,113	28,557
Individuals	-	-	-	-	-	-	-	-	46,945,430	44,446,913	198,636	77,088	47,144,066	44,524,001
Total	21,847,735	19,296,827	3,763	5,616	8,677,828	5,869,943	243,367	197,089	68,078,217	65,145,885	1,348,563	449,513	100,199,473	90,964,873

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector (Continued)

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

	In thousands of Denars 2019	2018
Industry		
Agriculture, forestry and fishing	154,069	97,268
Mining and quarrying	34,783	39,828
Manufacturing	1,291,086	1,416,971
Electricity, gas, steam and air conditioning supply	34,840	321,059
Water supply; sewerage, waste management and remediation activities	1,434	6,545
Construction	774,181	1,411,511
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,395,190	2,421,690
Transportation and storage	320,374	398,640
Accommodation and food service activities	38,793	30,802
Information and communication	39,253	77,433
Financial and insurance activities	98,975	167,838
Real estate activities	2,090	30,059
Professional, scientific and technical activities	119,206	138,389
Administrative and support service activities	1,155,072	122,866
Education	3,776	24,284
Human health and social work activities	12,517	2,821
Arts, entertainment and recreation	2,505	46,624
Other service activities	16,974	15,364
Individuals	7,495,520	7,479,969
Total	13,990,638	14,249,961

4.3 Market risk

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

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2019 and 2018:

In thousands of Denars
December 31, 2019

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and balances with the central bank	5,361,553	2,216,378	1,765,606	9,343,537	12,504,198	21,847,735
Financial assets through profit and loss	3,763	-	-	3,763	-	3,763
Securities measured at FVTOCI	-	-	-	-	81,425	81,425
Securities measured at amortized cost	3,295,806	-	-	3,295,806	5,300,597	8,596,403
Placement with, and loans to banks	4,319	236,888	2,160	243,367	-	243,367
Loans to customers	19,116,608	18,676	-	19,135,284	48,942,933	68,078,217
Other receivables	4,115	545	230,830	235,490	1,113,073	1,348,563
Total assets	27,786,164	2,472,487	1,998,596	32,257,247	67,942,226	100,199,473
LIABILITIES						
Deposits from banks	10,667	220,737	26,829	258,233	3	258,236
Deposits from customers	27,789,514	2,242,849	1,732,332	31,764,695	51,092,845	82,857,540
Loans payable	64,945	-	-	64,945	149,399	214,344
Other liabilities	250,676	76	1	250,753	768,466	1,019,219
Total liabilities	28,115,802	2,463,662	1,759,162	32,338,626	52,010,713	84,349,339
Net currency gap:	(329,638)	8,825	239,434	(81,379)	15,931,513	15,850,134

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2018

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and balances with the central bank	4,213,931	2,047,474	2,000,219	8,261,624	11,035,203	19,296,827
Financial assets through profit and loss	5,616	-	-	5,616	-	5,616
Securities measured at FVTOCI	31	-	-	31	80,028	80,059
Securities measured at amortized cost	1,717,326	-	-	1,717,326	4,072,558	5,789,884
Placement with, and loans to banks	4,630	190,187	2,272	197,089	-	197,089
Loans to customers	20,667,885	24,527	-	20,692,412	44,453,473	65,145,885
Other receivables	1,872	206	1,249	3,327	446,186	449,513
Total assets	26,611,291	2,262,394	2,003,740	30,877,425	60,087,448	90,964,873
LIABILITIES						
Deposits from banks	16,391	109,801	33,309	159,501	3	159,504
Deposits from customers	26,189,030	2,144,735	1,953,712	30,287,477	45,714,897	76,002,374
Loans payable	145,864	-	-	145,864	150,591	296,455
Other liabilities	104,792	27	48	104,867	825,255	930,122
Total liabilities	26,456,077	2,254,563	1,987,069	30,697,709	46,690,746	77,388,455
Net currency gap:	155,214	7,831	16,671	179,716	13,396,702	13,576,418

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

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

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

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2019 and 2018.

In thousands of Denars
December 31, 2019

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-interest bearing	Total
ASSETS									
Cash and balances with the central bank	9,987,149	-	-	-	-	-	9,987,149	11,860,586	21,847,735
Financial assets through profit and loss	-	-	-	-	-	-	-	3,763	3,763
Securities measured at FVTOCI	-	-	-	-	-	-	-	81,425	81,425
Securities measured at amortized cost	8,880	1,281,984	4,563,543	858,038	924,351	920,312	8,557,108	39,295	8,596,403
Placement with, and loans to banks	153,981	-	-	-	-	-	153,981	89,386	243,367
Loans to customers	29,153,687	2,063,997	17,950,553	9,638,024	6,822,520	203,392	65,832,173	2,246,044	68,078,217
Other receivables	-	-	-	-	-	-	-	1,348,563	1,348,563
Total assets	39,303,697	3,345,981	22,514,096	10,496,062	7,746,871	1,123,704	84,530,411	15,669,062	100,199,473
LIABILITIES									
Deposits from banks	258,155	-	-	-	-	-	258,155	81	258,236
Deposits from customers	52,428,277	4,687,345	18,452,863	5,671,207	1,257,342	68,444	82,565,478	292,062	82,857,540
Loans payable	9,568	-	21,521	20,839	12,879	-	64,807	149,537	214,344
Other liabilities	-	-	-	-	-	-	-	1,019,219	1,019,219
Total liabilities	52,696,000	4,687,345	18,474,384	5,692,046	1,270,221	68,444	82,888,440	1,460,899	84,349,339
Net interest gap:	(13,392,303)	(1,341,364)	4,039,712	4,804,016	6,476,650	1,055,260	1,641,971	14,208,163	15,850,134

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

In thousands of Denars
December 31, 2018

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Interest bearing	Non-Interest bearing	Total
ASSETS									
Cash and balances with the central bank	9,142,613	-	-	-	-	-	9,142,613	10,154,214	19,296,827
Financial assets through profit and loss	-	-	-	-	-	-	-	5,616	5,616
Securities measured at FVTOCI	-	-	-	-	-	-	-	80,059	80,059
Securities measured at amortized cost	22,554	1,829,319	2,801,428	1,140,540	-	-	5,793,841	(3,957)	5,789,884
Placement with, and loans to banks	147,071	-	-	-	-	-	147,071	50,018	197,089
Loans to customers	38,244,449	2,004,913	6,968,050	8,843,670	6,734,692	352,864	63,148,638	1,997,247	65,145,885
Other receivables	-	-	-	-	-	-	-	449,513	449,513
Total assets	47,556,687	3,834,232	9,769,478	9,984,210	6,734,692	352,864	78,232,163	12,732,710	90,964,873
LIABILITIES									
Deposits from banks	145,712	-	-	-	-	-	145,712	13,792	159,504
Deposits from customers	46,095,580	5,088,941	19,259,481	4,648,350	457,180	86,611	75,636,143	366,231	76,002,374
Loans payable	23,761	-	57,332	30,977	33,483	-	145,553	150,902	296,455
Other liabilities	-	-	-	-	-	-	-	930,122	930,122
Total liabilities	46,265,053	5,088,941	19,316,813	4,679,327	490,663	86,611	75,927,408	1,461,047	77,388,455
Net interest gap:	1,291,634	(1,254,709)	(9,547,335)	5,304,883	6,244,029	266,253	2,304,755	11,271,663	13,576,418

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

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

4.4.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2019

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and balances with the central bank	21,847,735	-	-	-	-	-	21,847,735
Financial assets through profit and loss	3,763	-	-	-	-	-	3,763
Securities measured at FVTOCI	-	-	-	-	-	81,425	81,425
Securities measured at amortized cost	58,758	1,282,317	4,558,767	856,113	922,272	918,176	8,596,403
Placement with, and loans to banks	35	-	-	-	-	243,332	243,367
Loans to customers	3,509,414	3,767,781	15,040,747	9,863,899	15,971,049	19,925,327	68,078,217
Other receivables	1,348,563	-	-	-	-	-	1,348,563
Total assets	26,768,268	5,050,098	19,599,514	10,720,012	16,893,321	21,168,260	100,199,473
LIABILITIES AND EQUITY							
Deposits from banks	258,236	-	-	-	-	-	258,236
Deposits from customers	46,047,249	5,448,562	21,001,425	7,658,693	2,551,465	150,146	82,857,540
Loans payable	9,707	-	21,521	20,839	12,878	149,399	214,344
Other liabilities	928,241	-	-	-	-	90,978	1,019,219
Total liabilities and equity	47,243,433	5,448,562	21,022,946	7,679,532	2,564,343	390,523	84,349,339
Net liquidity gap	(20,475,165)	(398,464)	(1,423,432)	3,040,480	14,328,978	20,777,737	15,850,134

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2018

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and balances with the central bank	19,296,827	-	-	-	-	-	19,296,827
Financial assets through profit and loss	5,616	-	-	-	-	-	5,616
Securities measured at FVTOCI	-	-	-	-	-	80,059	80,059
Securities measured at amortized cost	25,687	1,827,815	2,801,805	1,134,577	-	-	5,789,884
Placement with, and loans to banks	1,770	-	-	-	-	195,319	197,089
Loans to customers	2,017,818	3,472,807	15,547,734	10,811,717	15,229,433	18,066,376	65,145,885
Other receivables	449 513	-	-	-	-	-	449,513
Total assets	21 797 231	5,300,622	18,349,539	11,946,294	15,229,433	18 341 754	90 964 873
LIABILITIES AND EQUITY							
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	1,504	23,761	57,332	30,976	33,483	149,399	296,455
Other liabilities	839 144	-	-	-	-	90 978	930 122
Total liabilities and equity	39 026 912	5 990 987	21 724 499	7 664 578	2 562 820	418 659	77 388 455
Net liquidity gap	(17 229 681)	(690 365)	(3 374 960)	4 281 716	12 666 613	17 923 095	13 576 418

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2019 and 2018, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 71,773,005 thousand (2018: Denar 66,100,781 thousand) which helps the maturity non-reconciliation to be overcome.

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2019

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	38,348	219,888	-	-	-	-	-	-	-	258,236
Deposits from customers	43,030,235	3,155,420	5,497,195	21,199,839	7,746,901	1,997,552	384,050	235,535	161,653	83,408,380
Loans payable	2,994	9,872	-	21,880	21,098	12,280	497	204	240,377	309,202
Other liabilities	925,248	-	-	-	-	-	-	-	-	925,248
Total	43,996,825	3,385,180	5,497,195	21,221,719	7,767,999	2,009,832	384,547	235,739	402,030	84,901,066

In thousands of Denars
December 31, 2018

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	52,025	107,479	-	-	-	-	-	-	-	159,504
Deposits from customers	34,888,098	3,276,848	6,032,090	21,906,121	7,766,386	1,709,517	378,559	539,866	194,831	76,692,316
Loans payable	3,249	24,704	-	58,821	32,421	21,506	12,553	347	147,342	300,943
Other liabilities	837,078	-	-	-	-	-	-	-	93,044	930,122
Total	35,780,450	3,409,031	6,032,090	21,964,942	7,798,807	1,731,023	391,112	540,213	435,217	78,082,885

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2019

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend Credits	11,040,651	-	-	-	-	-	-	-	-	11,040,651
Financial guarantees and LCs	-	74,843	323,521	1,388,878	1,028,220	98,347	7,266	-	47,347	2,968,422
Total	11,040,651	74,843	323,521	1,388,878	1,028,220	98,347	7,266	-	47,347	14,009,073

In thousands of Denars
December 31, 2018

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	11,787,420	-	-	-	-	-	-	-	-	11,787,420
Financial guarantees and LCs	-	173,091	296,158	819,997	907,862	124,522	64,896	437	94,675	2,481,638
Total	11,787,420	173,091	296,158	819,997	907,862	124,522	64,896	437	94,675	14,269,058

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		Fair value	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Financial assets				
Cash and balances with the central bank	21,847,735	19,296,827	21,847,735	19,296,827
Financial assets through profit and loss	3,763	5,616	3,763	5,616
Available-for-sale financial Assets	-	-	-	-
Securities measured at FVTOCI	81,425	80,059	81,425	80,059
Securities measured at amortized cost	8,596,403	5,789,884	8,596,403	5,789,884
Placement with, and loans to Banks	243,367	197,089	243,367	197,089
Loans to customers	68,078,217	65,145,885	68,078,217	65,145,885
Other receivables (less foreclosure assets)	1,348,563	449,513	1,348,563	449,513
	100,199,473	90,964,873	100,199,473	90,964,873
Financial liabilities				
Deposits from banks	258,236	159,504	258,236	159,504
Deposits from customers	82,857,540	76,002,374	82,857,540	76,002,374
Loans payable	214,344	296,455	214,344	296,455
Other liabilities	1,019,219	930,122	1,019,219	930,122
	84,349,339	77,388,455	84,349,339	77,388,455

Cash and balances with the central bank

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

Financial assets through profit and loss

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

Available-for-sale financial assets

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

Placement with, and loans to banks

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

Loans to customers

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

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

Deposits from banks

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

Financial liabilities through profit and loss

Fair value as determined by inputs derived from market prices.

Deposits from customers

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

Loans payable (including subordinated debt)

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

Other liabilities

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

Fair value hierarchy

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

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

			In thousands of Denars December 31, 2019	
	Fair value	Level 1	Level 2	Level 3
Financial assets				
Financial assets through profit and loss	3,763	3,763	-	-
Securities measured at FVTOCI				
Equity securities	81,425	-	57,018	24,407
Securities measured at amortized cost				
Government bills	4,560,507	-	4,560,507	-
Government continued coupon bond	1,679,053	-	1,679,053	-
Eurobonds	2,356,843		2,356,843	
Total	8,681,591	3,763	8,653,421	24,407

			In thousands of Denars December 31, 2018	
	Fair value	Level 1	Level 2	Level 3
Financial assets				
Financial assets through profit and loss	5,616	5,616	-	-
Securities measured at FVTOCI				
Equity securities	80,059	-	55,652	24,407
Securities measured at amortized cost				
Government bills	2,244,642	-	2,244,642	-
Government continued coupon bond	3,545,242	-	3,545,242	-
Eurobonds	-	-	-	-
Total	5,875,559	5,616	5,845,536	24,407

Level 3 financial instruments at December 31, 2019 and 2018 include available-for sale non-marketable private equity investments where prices are determined by the price of the most recent investments, based on which it is not practical to quote a range of key unobservable inputs.

Reconciliation of the fair value measurement in level 3 is not presented since there was no movement during 2019 (2018: none).

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

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

- to comply with the capital requirements set by NBRNM;
- 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 NBRNM on a quarterly basis.

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

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

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

The legally prescribed minimum rate for risk-weighted assets is: 4.5% for the common equity tier 1 capital, 6% for the tier 1 capital and 8% for own funds.

Furthermore, in accordance with the assessment of the whole risk profile of the Bank, NBRNM determines additional capital of 4.0% and the Bank is obliged to maintain capital adequacy rate of at least 12.0%.

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

The Bank is complied with the prescribed capital adequacy ratio of at least 16% as at 31.12.2019.

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

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

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended December 31, 2019 and 2018 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

	In thousands of Denars December 31, 2019
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	9,217,164
Accumulated other comprehensive income	24,552
Total qualifying Tier 1 capital	12,752,958
Tier 2 capital	
Cumulative non-voting shares	90,978
Total qualifying Tier 2 capital	90,978
Total regulatory capital	12,843,936
Credit risk-weighted assets	
On-balance sheet	65,307,401
Off-balance sheet	4,732,305
Total credit risk-weighted assets	70,039,706
FX risk-weighted assets	991,585
Operational risk-weighted assets	7,944,830
Risk-weighted assets	78,976,121
Capital adequacy ratio	16.26%

	In thousands of Denars December 31, 2018
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	8,294,664
Accumulated other comprehensive income	84,684
Total qualifying Tier 1 capital	11,890,590
Tier 2 capital	
Cumulative non-voting shares	90,978
Total qualifying Tier 2 capital	90,978
Total regulatory capital	11,981,568
Credit risk-weighted assets	
On-balance sheet	60,765,784
Off-balance sheet	4,175,161
Total credit risk-weighted assets	64,940,945
FX risk-weighted assets	672,704
Operational risk-weighted assets	7,993,485
Risk-weighted assets	73,607,134
Capital adequacy ratio	16.28%

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

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

December 31, 2019		In thousands of Denars Change in exchange rate	
	Total	10%	-10%
ASSETS			
Cash and balances with the central bank	21,847,735	934,354	(934,354)
Financial assets through profit and loss	3,763	376	(376)
Securities measured at FVTOCI	81,425	-	-
Securities measured at amortized cost	8,596,403	329,581	(329,581)
Placement with, and loans to banks	243,367	24,337	(24,337)
Loans to customers	68,078,217	1,913,528	(1,913,528)
Other receivables	1,348,563	23,549	(23,549)
Total assets	100,199,473	3,225,725	(3,225,725)
LIABILITIES			
Deposits from banks	258,236	25,823	(25,823)
Deposits from customers	82,857,540	3,176,470	(3,176,470)
Loans payable	214,344	6,495	(6,495)
Other liabilities	1,019,219	25,075	(25,075)
Total liabilities	84,349,339	3,233,863	(3,233,863)
Net currency gap:	15,850,134	(8,138)	8,138

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

December 31, 2018		In thousands of Denars	
		Change in exchange rate	
	Total	+10%	-10%
ASSETS			
Cash and balances with the central bank	19,296,827	826,162	(826,162)
Financial assets through profit and loss	5,616	562	(562)
Securities measured at FVTOCI	80,059	3	(3)
Securities measured at amortized cost	5,789,884	171,733	(171,733)
Placement with, and loans to banks	197,089	19,709	(19,709)
Loans to customers	65,145,885	2,069,241	(2,069,241)
Other receivables	449,513	333	(333)
Total assets	90,964,873	3,087,743	(3,087,743)
LIABILITIES			
Deposits from banks	159,504	15,950	(15,950)
Deposits from customers	76,002,374	3,028,748	(3,028,748)
Loans payable	296,455	14,586	(14,586)
Other liabilities	930,122	10,487	(10,487)
Total liabilities	77,388,455	3,069,771	(3,069,771)
Net currency gap:	13,576,418	17,972	(17,972)

At December 31, 2019, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 8,138 thousand lower (2018: Denar 17,972 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 8,138 thousand higher (2018: Denar 17,972 thousand).

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

In thousands of Denars
December 31, 2019

	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and balances with the central bank	21,847,735	199,743	(199,743)
Financial assets through profit and loss	3,763	-	-
Securities measured at FVTOCI	81,425	-	-
Securities measured at amortized cost	8,596,403	171,142	(171,142)
Placement with, and loans to banks	243,367	3,080	(3,080)
Loans to customers	68,078,217	1,316,643	(1,316,643)
Other receivables	1,348,563	-	-
Total assets	100,199,473	1,690,608	(1,690,608)
LIABILITIES			
Deposits from banks	258,236	5,163	(5,163)
Deposits from customers	82,857,540	1,651,310	(1,651,310)
Loans payable	214,344	1,296	(1,296)
Other liabilities	1,019,219	-	-
Total liabilities	84,349,339	1,657,769	(1,657,769)
Net interest gap:	15,850,134	32,839	(32,839)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

In thousands of Denars
December 31, 2018

	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and balances with the central bank	19,296,827	182,852	(182,852)
Financial assets through profit and loss	5,616	-	-
Securities measured at FVTOCI	80,059	-	-
Securities measured at amortized cost	5,789,884	115,877	(115,877)
Placement with, and loans to banks	197,089	2,941	(2,941)
Loans to customers	65,145,885	1,262,973	(1,262,973)
Other receivables	449,513	-	-
Total assets	90,964,873	1,564,643	(1,564,643)
LIABILITIES			
Deposits from banks	159,504	2,914	(2,914)
Deposits from customers	76,002,374	1,512,723	(1,512,723)
Loans payable	296,455	2,911	(2,911)
Other liabilities	930,122	-	-
Total liabilities	77,388,455	1,518,548	(1,518,548)
Net interest gap:	13,576,418	46,095	(46,095)

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

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2019, profit for the year would have been Denar 32,839 thousand (2018: 46,095 Denar thousand higher) higher. Conversely, if the interest rates had been 200 b.p lower with all other variables held constant, profit for the year would have been Denar 32,839 thousand (2018: Denar 46,095 thousand lower) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

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

Corporate banking

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

Investment banking

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

Other

This segment includes all other insignificant operating activities.

Unallocated

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

5.1 Operating segments

In thousands of Denars
Year ended December 31, 2019

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	640,398	2,522,688	65,867	(130)	-	3,428,823
Net fee and commission income	486,241	339,368	181	-	-	825,790
Net trading income	-	-	(1,853)	-	-	(1,853)
Other operating income	139,440	2,335	6,077	30,833	-	178,685
Total income	1,466,079	2,864,391	70,272	30,703	-	4,431,445
Profit before tax	1,113,082	1,408,686	68,831	(1,381)	(526)	2,588,692
Income tax expense						(272,929)
Net profit for the year						2,315,763
Total assets	46,163,330	46,669,181	8,698,496	-	-	101,531,007
Total liabilities	63,581,417	20,933,418	2,986	-	175,618	84,693,439
Impairment of financial assets, net	328,928	(383,854)	(1,441)	(32,084)	-	(88,451)
Impairment of non-financial assets	-	(12,259)	-	-	-	(12,259)
Depreciation and amortization	-	(179,376)	-	-	(526)	(179,902)
Property and equipment purchases	(54,705)	(26,128)	-	-	(816)	(81,649)
Other expenses	(681,925)	(880,216)	-	-	-	(1,562,141)

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
Year ended December 31, 2018

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	800,472	2,672,656	106,527	-	-	3,579,655
Net fee and commission income	411,752	362,942	1	-	-	774,695
Net trading income	-	-	1,940	-	-	1,940
Other operating income	132,351	36,648	5,408	37,270	-	211,677
Total income	1,344,575	3,072,246	113,876	37,270	-	4,567,967
Profit before tax	1,013,448	1,614,910	113,876	52,472	(808)	2,793,898
Income tax expense						(295,127)
Net profit for the year						2,498,771
Total assets	42,138,235	44,233,581	5,878,426	-	-	92,250,242
Total liabilities	60,116,191	17,434,773	2,059	-	176,765	77,729,788
Impairment of financial assets, net	370,945	(349,032)	-	15,202	-	37,115
Impairment of non-financial assets	-	(26,208)	-	-	-	(26,208)
Depreciation and amortization	-	(137,831)	-	-	(782)	(138,613)
Property and equipment purchases	(47,586)	(22,728)	-	-	(710)	(71,024)
Other expenses	(702,072)	(944,265)	-	-	(26)	(1,646,363)

5.2 Geographical areas

In thousands of Denars
December 31,2019

	RNM	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	4,092,012	257,621	1,122	80,690	-	4,431,445
Total assets	95,954,629	4,232,344	18,431	1,325,603	-	101,531,007

In thousands of Denars
December 31,2018

	RNM	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income, net	4,258,963	164,745	2,214	142,045	-	4,567,967
Total assets	89,015,201	1,161,594	31,829	2,041,618	-	92,250,242

6. INTEREST INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31, 2019	2018
Interest income calculated using the effective interest method:		
Cash and cash equivalents	88,410	147,482
Placement with, and loans to banks	64,716	52,104
Loans to customers	3,774,747	3,948,490
Investment securities	65,867	107,807
Other receivables	6,605	6,532
	4,000,345	4,262,415
Interest expense:		
Deposits from banks and financial institutions	3,363	189
Deposits from customers	561,315	676,414
Loans payable	3,241	4,110
Other liabilities	3,603	2,047
	571,522	682,760
Net interest income	3,428,823	3,579,655

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

	Year ended December 31, 2019		In thousands of Denars Year ended December 31, 2018	
	Income	Expense	Income	Expense
Enterprises	728,262	64,531	774,233	64,196
State	65,910	2,294	105,650	2,239
Not-for-profit institutions	349	1,889	269	2,143
Banks	52,405	1,170	54,635	2,098
Other non-banking financial entities	106,441	37,575	155,023	53,222
Households	3,046,918	457,478	3,172,578	543,739
Non-residents	60	6,585	27	15,123
	4,000,345	571,522	4,262,415	682,760
Net interest income	3,428,823		3,579,655	

7. FEE AND COMMISSION INCOME AND EXPENSE

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

	Year ended December 31, 2019		In thousands of Denars Year ended December 31, 2018	
	Income	Expense	Income	Expense
Loans provided	94,564	-	102,757	-
Domestic payment operations	219,417	73,115	195,345	72,142
Foreign payment operations	213,979	29,297	195,309	26,511
Letters of credit and guaranties	38,418	-	40,169	-
Brokerage	2,546	323	3,608	449
Assets administering	477	-	535	-
Credit cards	514,076	327,754	434,236	229,437
Consumer credit	28,843	-	30,161	-
Mortgage credit	-	34	-	27
Deposits	19,038	-	1,185	-
Safe box	8,041	-	9,084	-
Third party collection	2,576	-	3,409	-
Maintenance fees for transaction accounts	84,037	-	79,983	-
Selling fees on insurance policies	27,000	-	1,908	-
Other	9,900	6,599	12,201	6,629
	1,262,912	437,122	1,109,890	335,195
Net fee and commission income	825,790		774,695	

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

	Year ended December 31, 2019		In thousands of Denars Year ended December 31, 2018	
	Income	Expense	Income	Expense
Enterprises	501,520	53,521	476,831	6,160
State	4,105	-	3,711	-
Not-for-profit institutions	140	-	92	-
Banks	30,173	205,872	27,625	75,957
Other non-banking financial entities	-	24,381	-	23,614
Households	702,017	-	576,494	-
Non-residents	24,957	153,348	25,137	229,464
	1,262,912	437,122	1,109,890	335,195
Net fee and commission income	825,790		774,695	

8. TRADING INCOME, NET

	In thousands of Denars Year ended December 31, 2019	2018
Financial assets through profit and loss:		
Net gain on sales and fair valuation of equity securities	(1,853)	1,940
	(1,853)	1,940

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2019	2018
Realized exchange gains, net	87,362	104,205
Unrealized exchange losses, net	3,938	968
	91,300	105,173

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2019	2018
Early withdrawal of deposits and operations with non-residents	17,355	18,620
Gain on sale of property and equipment and foreclosed assets	35,869	34,489
Court claims collections	9,659	15,915
Dividend from equity securities designated at FVTOCI	6,965	5,399
Income from mediation at mortgage insurance	250	1,559
Rental income	1,874	2,427
Income from collected damage from insurance companies	776	902
Other	14,637	27,193
	87,385	106,504

11. IMPAIRMENT REVERSAL, NET

	In thousands of Denars Year ended December 31, 2019	2018
(Impairment)/Reversal of impairment loss on financial assets, net	(88,451)	37,115
Impairment loss on non-financial assets	(12,259)	(26,208)
	(100,710)	10,907

Impairment/Reversal of impairment loss on financial assets, net

In thousands of Denars

	December 31,2019			December 31, 2018		
	Charge	Release	Net	Charge	Release	Net
Cash and balances with the central bank (Note 16)	3	(93)	(90)	-	(42)	(42)
Placement with, and loans to banks (Note 20)	458	(309)	149	1,040	(7,895)	(6,855)
Loans to customers (Note 21)	909,854	(828,478)	81,376	1,330,351	(1,330,714)	(363)
Other assets (Note 22)	8,071	(1,996)	6,075	28,251	(25,013)	3,238
Securities measured at amortized cost (Note 19)	5,373	(3,839)	1,534	936	-	936
Off-balance sheet items (Note 30)	928	(1,521)	(593)	1,103	(35,132)	(34,029)
	924,687	(836,236)	88,451	1,361,681	(1,398,796)	(37,115)

Accrued interest income on impaired financial assets as at December 31, 2019 amount to nil (2018: Denar nil).

Impairment loss on non-financial asset

	In thousands of Denars Year ended December 31, 2019	2018
Investment property (Note 23)	-	3,997
Property and equipment (Note 25)	298	3,929
Assets acquired through foreclosure procedures (Note 22a)	11,961	18,282
	12,259	26,208

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2019	2018
Wages and salaries	481,488	471,742
Social security cost	238,003	232,781
Other staff costs	128,545	165,825
Pension costs based on defined benefit plans, net	2,331	(561)
	850,367	869,787
Average number of employees during the period	1,026	1,028
Number of permanent employees at the end of the year	1,021	1,027

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2019	2018
Depreciation of property and equipment (Note 25)	81,230	87,981
Amortization of intangible assets (Note 24)	54,910	48,660
Depreciation of investment property (Note 23)	1,105	1,972
Depreciation of RoU Assets (Note 25)	42,657	-
	179,902	138,613

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2019	2018
Insurance premiums for deposits	151,743	142,267
Other service costs	123,639	84,016
Administrative and marketing costs	119,859	121,568
Materials	62,802	66,298
Telecommunication and postage costs	59,690	61,818
Service fee (Legal fees, audit fees)	48,690	55,478
Collection costs	41,629	44,063
Maintenance and other related expenses	41,111	82,219
Credit cards costs	-	31,633
Other expenses	21,268	12,124
Expense for Variable lease payments not in Lease Liability	11,733	-
Insurance premiums for property and employees	11,589	13,064
Operating expense relating to Short-term & low value leases	8,257	-
Travel expenses	6,370	5,614
Other taxes and contributions	2,125	1,828
Court claims	1,269	1,892
Rent	-	52,694
	711,774	776,576

15. INCOME TAX EXPENSE

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

	In thousands of Denars Year ended December 31, 2019	2018
Current income tax expense	274,076	321,735
Deferred income tax expense	(1,147)	(26,608)
	272,929	295,127

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

	In thousands of Denars Year ended December 31, 2019	2018
Profit before tax	2,588,692	2,793,898
Income tax at the statutory income tax rate of 10%	258,869	279,390
Tax on expenses not allowed for tax purposes	10,240	15,467
Other	3,820	270
At effective rate of 10.54% (2018: 10.56%)	272,929	295,127

In accordance with the Income Tax Law which is in appliance for the fiscal 2019 and 2018, 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.

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

15.1 DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

In thousands of Denars

	31 December 2019			31 December 2018		
	Deferred tax assets	**Deferred tax liabilities**	**Net basis**	**Deferred tax assets**	**Deferred tax liabilities**	**Net basis**
Placement with, and loans to banks	-	167	167	-	50	50
Loans and advances to customers	-	157,147	157,147	-	147,674	147,674
Foreclosed collateral	-	18,333	18,333	-	23,141	23,141
Provisions - Off-balance sheet items	-	1,398	1,398	-	5,892	5,892
Impairment securities	-	(1,435)	(1,435)	-	-	-
Total recognized deferred tax assets / liabilities	-	175,610	175,610	-	176,757	176,757

Movement in temporary differences during the year are as follows:

In thousands of Denars

	2019			2018		
	1 January	**Recognised in income**	**31 December**	**1 January**	**Recognised in income**	**31 December**
Placement with, and loans to banks	50	117	167	45	5	50
Loans and advances to customers	147,674	9,473	157,147	168,644	(20,970)	147,674
Foreclosed collateral	23,141	(4,808)	18,333	29,022	(5,881)	23,141
Provisions - Off-balance sheet items	5,892	(4,494)	1,398	5,654	238	5,892
Impairment securities	-	(1,435)	(1,435)	-	-	-
	176,757	(1,147)	175,610	203,365	(26,608)	176,757

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

16. CASH AND BALANCES WITH THE CENTRAL BANK

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Cash on hand	1,434,400	1,434,007
Accounts and deposits with NBRNM, except mandatory reserves in foreign currency	6,513,190	4,935,642
Accounts and deposits with foreign banks	2,426,277	1,660,580
Accounts and deposits with domestic banks	1,465	585
Treasury bills which can be traded on the secondary market	4,899,320	4,957,841
Time deposits up to three months	3,164,795	3,012,266
Other short-term highly liquid assets	330	322
Less: ECL allowance	(1,120)	(1,210)
Included in Statement of Cash Flows	18,438,657	16,000,033
Mandatory reserves in foreign currency	3,127,306	2,962,726
Restricted deposits	281,772	334,068
	21,847,735	19,296,827

Accounts and deposits with NBRNM, except mandatory reserves in foreign currency in the amount of Denar 4,935,642 thousand (2018: Denar 4,935,642 thousand) represent mandatory reserves in Denars. These reserves are non-interest bearing.

Treasury bills which can be traded on the secondary market in the amount of Denar 4,899,320 thousand (2018: Denar 4,957,841 thousand) represent bills issued by the Central Bank with a maturity of 28 - 35 days. Interest rate in 2019 from 2.25% to 2.50% p.a. (2018: 3.25-2.50% p.a.). Treasury Bills are classified as FVOCI as at 31 December 2018.

Mandatory reserves in foreign currency represent non-interest-bearing mandatory deposit with NBRNM amounting to Denar 2,962,726 thousand (2018: Denar 2,962,726 thousand) calculated as an average amount of deposits in foreign currencies during the last calendar month.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Equity securities issued by banks	3,763	5,616
	3,763	5,616

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

18. SECURITIES MEASURED AT FVTOCI

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Equity securities issued by other entities	81,425	80,059
	81,425	80,059

The movement of Equity securities is as follows:

Equity securities issued by other entities:

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	80,059	77,435
Gains / (losses) from changes in fair value	1,366	2,624
Balance at the end of the year	81,425	80,059

The movement in the ECL allowance is as follows:

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	-	301,136
Addition for the year (Note 11)	-	-
Foreign exchange effects	-	-
Other - reclassified to FVOCI	-	(301,136)
	-	-

19. SECURITIES MEASURED AT AMORTIZED COST

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Debt securities		
Government bills	4,565,809	3,548,553
Government continued coupon bond	1,682,720	2,254,139
Eurobonds	2,362,216	-
	8,610,745	5,802,692
Less: ECL	(14,342)	(12,808)
	8,596,403	5,789,884

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	5,789,884	6,141,214
Additions within the period	7,267,978	5,734,197
Disposals (sales and redemptions) within the period	(4,629,050)	(6,094,970)
Amortization of premiums / discounts	169,456	10,369
Foreign exchange differences	(331)	10
Impairment charge	(1,534)	(936)
Balance at the end of the year	8,596,403	5,789,884

The movement in the ECL allowance is as follows:

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	12,808	-
Adoption of IFRS 9	-	11,872
Balance at the beginning of the year, adjusted for IFRS 9 impact	12,808	11,872
Addition for the year (Note 11)	5,373	936
Release (Note 11)	(3,839)	-
Balance at the end of the year	14,342	12,808

The ECL movement in the table above relates to Stage 1.

Debt securities issued by the Government in the amount of Denar 8,596,403 thousand, net, include the amount of Denar 4,560,507 thousand, net (2018: Denar 3,545,241 thousand) relating to eligible bills issued by the Ministry of Finance of the RNM which can be traded on the secondary market with a maturity of one year and fixed interest rate from 0.50% p.a. to 0.80% p.a. (2018: from 0.30% p.a. to 1.20% p.a.). As well as amount of Denar 1,679,053 thousand, net, (2018: Denar 2,244,643 thousand) which relate to continued coupon government bonds issued by the state of RNM with maturity from March 2020 till October 2024 and fixed interest rate from 0.90% p.a. to 1.60% p.a.(2018: from 0.90% p.a. to 3.90% p.a.) being repayable in annual coupons. Starting from this year Eurobond issued by the Ministry of Finance of the RNM is part of investment securities, in amount of Denar 2,356,843 thousand, net (2018: Denar null) with maturity from December 2020 till January 2025 and fixed interest rate from 2.75% p.a. to 5.63% p.a..

20. PLACEMENTS WITH, AND LOANS TO BANKS

				In thousands of Denars
	Year ended December 31, 2019		Year ended December 31, 2018	
	Short-term	Long-term	Short-term	Long-term
Loans to foreign banks	18,431	-	18,138	-
Other placements due from foreign banks	-	234,561	-	186,691
Interest receivable	34	-	1,770	-
	18,465	234,561	19,908	186,691
Less: ECL allowance	(9,659)	-	(9,510)	-
	8,806	234,561	10,398	186,691
	243,367		197,089	

The movement in the ECL allowance is as follows:

		In thousands of Denars
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	9,510	16,365
Charge for the year (Note 11)	458	1,040
Release (Note 11)	(309)	(7,895)
Balance at the end of the year	9,659	9,510

Part of the loans to foreign banks amounting to Denar 18,431 thousand (2018: Denar 18,138 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26). The ECL movement above relates to Stage 1.

Other placement due from foreign banks relate to restricted accounts of Denar 234,561 thousand (2018: Denar 186,691 thousand) which represent deposits held with United Overseas Bank Limited Singapore and HSBC Bank PLC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Bank's daily operations.

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

				In thousands of Denars
	Year ended December 31, 2019		Year ended December 31, 2018	
	Short-term	Long-term	Short-term	Long-term
Non-financial entities				
principal amount	11,004,540	12,156,772	12,223,277	11,479,855
interest receivable	45,659	-	57,199	-
State				
principal amount	(227)	726	1,091	534
interest receivable	4	-	4	-
Not-for-profit organizations				
principal amount	(226)	7,629	-	7,921
interest receivable	23	-	25	-
Households				
principal amount:				
- housing loans	277,935	10,922,356	279,826	10,096,692
- consumer loans	2,376,551	27,407,794	2,468,765	31,450,828
- auto loans	49,929	33,990	53,271	43,997
- credit cards	380,203	5,825,042	264,554	1,729,963
- other loans	187,475	1,569,620	185,259	-
interest receivable	125,982	-	-	-
Non-residents, except banks				
principal amount	318	839	572	1,276
interest receivable	4	-	5	-
Current maturity	11,255,992	(11,255,991)	10,796,996	(10,796,996)
	25,704,162	46,668,777	26,330,844	44,014,070
Total gross loans	72,372,939		70,344,914	
Provision for impairment	(4,294,722)		(5,199,029)	
	68,078,217		65,145,885	

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

The movement in the ECL allowance is as follows:

		In thousands of Denars
	December 31, 2019	December 31, 2018
Balance at the beginning of the year	5,199,029	5,101,360
Adoption of IFRS 9	-	85,764
Balance at the beginning of the year, adjusted for IFRS 9 impact	5,199,029	5,187,124
Charge for the year (Note 11)	909,854	1,330,351
Release (Note 11)	(828,478)	(1,330,714)
Recoveries	342,016	386,880
Write off	(1,327,699)	(374,612)
Balance at the end of the year	4,294,722	5,199,029

21. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Agriculture and forestry	372,264	597,241
Mining and quarrying	256,457	173,806
Manufacturing	7,325,445	7,264,620
Electricity, gas, steam and air conditioning supply	1,664,772	1,959,386
Water supply; sewerage, waste management and remediation activities	6,757	9,058
Construction	2,305,793	1,486,062
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,481,088	5,599,190
Transportation and storage	814,444	854,570
Accommodation and food service activities	822,866	785,518
Information and communication	250,233	160,530
Financial and insurance activities	58,809	98,434
Real estate activities	305,226	581,159
Professional, scientific and technical activities	450,486	377,016
Administrative and support service activities	566,846	615,788
Public administration and defence; compulsory social security	16,321	2,862
Education	-	-
Human health and social work activities	402,422	65,435
Arts, entertainment and recreation	4,568	39,740
Other service activities	27,991	28,557
Individuals	46,945,429	44,446,913
	68,078,217	65,145,885

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Cash and cash equivalents or restricted accounts held in Bank	1,477,792	1,814,483
Government guarantees	754,596	922,425
Bank guarantees	608,802	843,721
Corporate guarantees	574,024	481,622
Property	28,385,482	27,819,142
Equipment and other movable assets	1,276,750	1,197,558
Other securities	3,190,487	3,584,073
Non-secured	31,810,284	28,482,861
	68,078,217	65,145,885

22. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars December 31, 2019	December 31, 2018
Foreclosed collateral		
Land	17,710	18,027
Buildings	488,947	630,321
Other	29,092	29,107
	535,749	677,455
Less: Allowance for impairment	(328,778)	(394,562)
	206,971	282,893

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

	In thousands of Denars December 31, 2019	December 31, 2018
Balance at the beginning of the year	394,562	457,497
Charge for the year (Note 11)	11,961	18,282
Disposals	(77,745)	(81,217)
Balance at the end of the year	328,778	394,562

b) Other receivables and prepaid expenses

	In thousands of Denars December 31, 2019	December 31, 2018
Trade receivables from contracts with customers	17,524	268,842
Prepaid expenses	19,240	2,217
Receivables for commission and fees	4,517	4,262
Advances to suppliers	4,181	2,435
Short term settlements of operations with credit cards	28,003	30,904
Receivables upon payments on credit cards	169,421	137,209
Stock of material, plastic cards, coins and numismatic collection	37,034	28,746
Treasury shortage	3,742	3,668
Suspense account for pensions	1,102,796	-
Other receivables	26,342	30,502
	1,412,800	508,785
Less: ECL allowance	(64,237)	(59,272)
	1,348,563	449,513

Suspense accounts in amount of 1.102.796 thousand MKD refers to pension for December 2019 prepaid from bank's funds, offset by the Pension and disability insurance fund of North Macedonia on 3rd of January 2020.

22. OTHER ASSETS (Continued)

b) Other receivables and prepaid expenses

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

In thousands of Denars

	Stage 1	Stage 2	Stage 3	
	12 - month ECL	Lifetime ECL	Credit Impaired	Total
December 31,2019				
Balance at beginning of period	(12)	(2.204)	(57.056)	(59.272)
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	(19)	19	-	-
Transfer from Stage 2 to Stage 3	-	1.827	(1.827)	-
Transfer from Stage 3 to Stage 2	-	(1.846)	1.846	-
New financial assets	-	-	-	-
Write-offs	-	-	1.110	1.110
Other movements including repayments	27	657	(6.759)	(6.075)
Ending balance	(4)	(1.547)	(62.686)	(64.237)

In thousands of Denars

	Stage 1	Stage 2	Stage 3	
	12 - month ECL	Lifetime ECL	Credit Impaired	Total
December 31,2018				
Balance at beginning of period	(88)	(976)	(54,125)	(55,189)
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	539	(539)	-
Transfer from Stage 3 to Stage 2	-	(1,591)	1,591	-
New financial assets	-	-	-	-
Write-offs	-	-	-	-
Other movements including repayments	76	(176)	(3,983)	(4,083)
Ending balance	(12)	(2.204)	(57,056)	(59,272)

23. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2018	166,289
Additions	116
Transfer from assets acquired through foreclosure procedure	(24,487)
Disposals	(27,504)
Balance at December 31, 2018	114,414
Balance at January 1, 2019	114,414
Additions	-
Transfer to Property and equipment	-
Disposals	-
Balance at December 31, 2019	114,414
Accumulated depreciation	
Balance at January 1, 2018	2,649
Transfer to Property and equipment	(10,283)
Charge for the year	1,972
Disposals	(13,677)
Balance at December 31, 2018	(19,339)
Balance at January 1, 2019	(19,339)
Transfer to Property and equipment	-
Charge for the year	1,105
Disposals	-
Balance at December 31, 2019	(18,234)
Impairment	
Balance at January 1, 2018	101,367
Charge for the year (Note 11)	3,997
Balance at December 31, 2018	105,364
Balance at January 1, 2019	105,364
Charge for the year (Note 11)	-
Balance at December 31, 2019	105,364
Carrying amount	
Balance at December 31, 2018	28,389
Balance at December 31, 2019	27,284

As of December 31, 2019, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

24. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold Improvements	Other Intangibles	Total
Cost				
Balance at January 1, 2018	738,181	150,735	8,758	897,674
Additions	31,821	21,188	-	53,009
Disposals	-	(4,990)	-	(4,990)
Balance at December 31, 2018	770,002	166,933	8,758	945,693
Balance at January 1, 2019	770,002	166,933	8,758	945,693
Additions	62,996	9,275	-	72,271
Disposals	-	(2,840)	-	(2,840)
Balance at December 31, 2019	832,998	173,368	8,758	1,015,124
Accumulated amortization				
Balance at January 1, 2018	642,275	113,878	-	756,153
Charge for the year	35,400	13,259	-	48,659
Disposal	-	(4,283)	-	(4,283)
Balance at December 31, 2018	677,675	122,854	-	800,529
Balance at January 1, 2019	677,675	122,854	-	800,529
Charge for the year	38,617	16,293	-	54,910
Disposal	-	(2,840)	-	(2,840)
Balance at December 31, 2019	716,292	136,307	-	852,599
Carrying amount				
Balance at December 31, 2018	92,327	44,079	8,758	145,164
Balance at December 31, 2019	116,706	37,061	8,758	162,525

25. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	RoU assets Buildings and vehicles	Total
Cost					
Balance at January 1, 2018	1,246,570	992,321	1,964	-	2,240,855
Additions	40,662	26,251	4,111	-	71,024
Transfer (Note 24)	24,487	-	-	-	24,487
Disposals	(18,039)	(4,514)	-	-	(22,553)
Balance at December 31, 2018	1,293,680	1,014,058	6,075	-	2,313,813
Balance at January 1, 2019	1,293,680	1,014,058	6,075	-	2,313,813
First time adoption IFRS 16				110,526	110,526
Additions	24,259	55,125	2,265	33,514	115,163
Transfer (Note 23)	-	-	-	-	-
Disposals	(59,025)	(67,914)	-	-	(126,939)
Balance at December 31, 2019	1,258,914	1,001,269	8,340	144,040	2,412,563
Accumulated depreciation					
Balance at January 1, 2018	556,011	840,408	-	-	1,396,419
Transfer (Note 23)	10,283	-	-	-	10,283
Charge for the year	31,162	56,820	-	-	87,982
Disposals	(9,230)	(4,494)	-	-	(13,724)
Balance at December 31, 2018	588,226	892,734	-	-	1,480,960
Balance at January 1, 2019	588,226	892,734	-	-	1,480,960
Transfer (Note 23)	-	-	-	-	-
Charge for the year	31,481	49,748	-	42,657	123,886
Disposals	(30,589)	(67,551)	-	-	(98,140)
Balance at December 31, 2019	589,118	874,931	-	42,657	1,506,706
Impairment					
Balance at January 1, 2018	-	-	-	-	-
Charge for the year (Note 11)	3,929	-	-	-	3,929
Balance at December 31, 2018	3,929	-	-	-	3,929
Balance at January 1, 2019	3,929	-	-	-	3,929
Charge for the year (Note 11)	298				298
Balance at December 31, 2019	4,227	-	-	-	4,227
Carrying amount					
Balance at December 31, 2018	701,525	121,324	6,075	-	828,924
Balance at December 31, 2019	665,569	126,338	8,340	101,383	901,630

The Bank's buildings as of December 31, 2019 include property with a net carrying amount of Denar 2,969 thousand (2018: Denar 3,452 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2019 and 2018 the Bank's property and equipment are free of any pledges and mortgages.

26. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2019		December 31, 2018	
	Up to one year	Over one Year	Up to one year	Over one year
Current accounts				
domestic banks	10,862	-	21,820	-
foreign banks	8,866	-	11,876	-
	19,728	-	33,696	-
Time deposits				
foreign banks	219,807	-	107,379	-
	219,807	-	107,379	-
Restricted deposits				
foreign banks	18,620	-	18,328	-
	18,620	-	18,328	-
Interest payable on deposits				
foreign banks	81	-	101	-
	81	-	101	-
Total deposits from banks	258,236		159,504	

The restricted deposits held with foreign banks amounting to Denar 18,620 thousand (2018: Denar 18,328 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 20).

27. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2019		December 31, 2018	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	13,980,721	-	9,946,944	-
Sight deposits	136,203	-	215,535	-
Time deposits	965,196	1,037,553	1,425,692	1,073,983
Restricted deposits	524,576	472,683	296,481	603,598
Other deposits	10,790	-	12,347	-
Interest payable on deposits	21,110	-	27,047	-
	15,658,596	1,510,236	11,924,046	1,677,581
State				
Current accounts	48,069	-	71,089	-
Time deposits	-	-	-	-
Restricted deposits	34	650	158	650
Interest payable on deposits	12	-	3	-
	48,115	650	71,250	650
Not-for-profit organizations				
Current accounts	519,236	-	504,053	-
Sight deposits	-	-	-	-
Time deposits	123,412	34,180	155,497	21,480
Restricted deposits	3,967	2,213	7,003	-
Interest payable on deposits	444	-	674	-
	647,059	36,393	667,227	21,480
Financial institutions, except banks				
Current accounts	49,450	-	59,677	-
Sight deposits	-	-	-	-
Time deposits	105,878	1,360,242	71,050	1,659,490
Restricted deposits	10,116	32,373	179	31,405
Interest payable on deposits	24,612	-	27,308	-
	190,056	1,392,615	158,214	1,690,895
Households				
Current accounts	25,726,005	-	21,718,430	-
Sight deposits	29,073	-	14,329	-
Time deposits	16,609,210	17,723,654	17,570,504	16,903,275
Restricted deposits	1,645,481	776,055	1,466,708	1,119,531
Interest payable on deposits	79,913	-	73,778	-
	44,089,682	18,499,709	40,843,749	18,022,806
Non-residents, except banks				
Current accounts	454,536	-	567,368	-
Sight deposits	864	-	1,308	-
Time deposits	127,446	163,154	148,689	171,566
Restricted deposits	37,964	20	35,116	19
Interest payable on deposits	445	-	410	-
	621,255	163,174	752,891	171,585
Current maturity	11,348,177	(11,348,177)	11,283,154	(11,283,154)
	72,602,940	10,254,600	65,700,531	10,301,843
Total deposits from customers	82,857,540		76,002,374	

28. LOANS PAYABLE

In thousands of Denars

	December 31, 2019		December 31, 2018	
	Up to one year	Over one year	Up to one year	Over one year
Domestic sources:				
Agency for assets management				
- long-term loan in amount of Denar 149,398 thousand (2018: Denar 149,398 thousand) is payable in March 2020 on a once off basis. Related fees for these loans are 1.5% p.a. annually.	149,398	-	1,192	149,398
MBPR				
- Matures in 2024 and interest rate is equal to 1.0% p.a. annually (2018: 1% p.a.)	139	64,807	311	145,554
	149,537	64,807	1,503	294,952
Current maturity of long-term loans	31,089	(31,089)	81,708	(81,708)
	180,626	33,718	83,211	213,244
Total loans payable	214,344		296,455	

a) FINANCIAL LIABILITIES RECONCILIATION

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

In thousands of Denars

	December 31, 2019	December 31, 2018
Balance at the beginning of the year	296,455	409,410
Cash flows	(80,804)	(113,732)
Foreign exchange adjustments	57	19
Other non-cash movements	(1,364)	758
Balance at the end of the year	214,344	296,455

29. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Trade payables	16,284	38,893
Received advances	-	-
Fee and commissions liabilities	137	77
Accrued expenses	40,888	93,535
Deferred income from previous year	125,873	116,195
Other		
Preferred cumulative shares	90,978	90,978
Liabilities for dividend on preferred shares	2,994	2,067
Disputed VISA cards transactions	4,561	1,839
Unallocated inflows upon deposits and other inflows	583,763	463,227
Obligations to merchants for outstanding payments on credit cards	20,432	22,673
Overpaid fees of credit cards	29,352	25,629
Commitments for closing current accounts - bankruptcy	12,453	12,464
Obligations for settlement with VISA	2,053	702
Lease liability	102,553	-
Premature repayment of loans and other liabilities	89,451	61,843
	1,121,772	930,122

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

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

As of December 31, 2019, the Bank allocated an amount of Denar 910 thousand as a dividend to the holders of these shares for the second half of 2019 (2018: Denar 2,047 thousand).

In December 2018, based on a Decision of the Shareholders Assembly, the Bank made advance payment of dividend to the holders of preference shares in the total amount of MKD 1,137 thousand for the first half of 2019.

The movement in the lease liability expenses is as follows

	In thousands of Denars
Balance at January 1, 2019	110,526
Additions	33,514
Repayments	(41,487)
Balance at December 31, 2019	102,553

30. PROVISIONS

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2018	25,255	18,704	31,547	75,506
Adoption of IFRS9	29,353	-	-	29,353
Balance at January 1, 2018 restated	54,608	18,704	31,547	104,859
Additions	1,103	466	3,301	4,870
Used	-	(1,289)	(266)	(1,555)
Release	(35,132)	(3,054)	(538)	(38,724)
Balance at December 31, 2018	20,579	14,827	34,044	69,450

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2019	20,579	14,827	34,044	69,450
Additions	928	475	3,428	4,831
Used	-	(945)	(74)	(1,019)
Release	(1,521)	(4,326)	(1,478)	(7,325)
Balance at December 31, 2019	19,986	10,031	35,920	65,937

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

The principal actuarial assumptions used were as follows:

	2019	2018
Interest rate	3.10%	3.20%
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.

31. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2019 and 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 receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2019 and 2018 officially announced and accepted by the Central Securities Depository of the RNM is as follows:

	December 31, 2019		December 31, 2018	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

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

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Reserves-Other comprehensive income-items that will be reclassified to P&L		
Revaluation reserve - FVTOCI Debt securities	(395)	8,475
Reserves-Other comprehensive income-items that will not be reclassified to P&L		
Gains less losses on investments in equity securities at fair value through other comprehensive income	1,366	2,624
Service & interest income/(cost) related to defined benefits obligation	380	(3,325)
Other comprehensive income	1,351	7,774
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	1,351	7,774

c) Statutory reserve

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

d) Special fund

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

32. EARNINGS PER SHARE

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

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

	December 31, 2019	December 31, 2018
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	2,315,763	2,498,771
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	132.6	143.1
Diluted earnings per share (in Denars)	132.6	143.1

33. RELATED PARTY TRANSACTIONS

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

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

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2019				
Assets				
Current accounts	3,694	-	-	3,694
Loans	-	1,398	2,655	4,053
Other assets	-	-	-	-
	3,694	1,398	2,655	7,747
Liabilities				
Deposits	3	63,552	220,237	283,792
Other liabilities	43,800	1	-	43,801
	43,803	63,553	220,237	327,593
December 31, 2018				
Assets				
Current accounts	1,106	-	-	1,106
Loans	-	1,485	2,922	4,407
Other assets	-	208	37	245
	1,106	1,693	2,959	5,758
Liabilities				
Deposits	3	55,314	107,939	163,256
Other liabilities	43,089	446	-	43,535
	43,092	55,760	107,939	206,791

33. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2019				
Income				
Interest income	1	70	176	247
Fee and commission income	-	18	4	22
Other income	-	4	1	5
	1	92	181	274
Expenses				
Interest expense	-	762	3,143	3,905
Fee and commission expense	108	-	-	108
Other expenses	111,974	23,855	-	135,829
	112,082	24,617	3,143	139,842
December 31, 2018				
Income				
Interest income	-	79	175	254
Fee and commission income	-	46	2	48
Other income	-	24	-	24
	-	149	177	326
Expenses				
Interest expense	7	766	864	1,637
Other expenses	99,391	33,389	-	165,490
	99,398	34,155	864	167,127

National Bank of Greece, Athens represents the parent and the ultimate parent company of the Bank. Other related party transactions relate mostly to NBG Cairo branch, fellow subsidiaries of the NBG Group, entity under common control and related parties to key management personnel.

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

In thousands of Denars

	December 31, 2019	December 31, 2018
Short-term compensation and benefits	23,843	33,377
	23,302	33,377

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

34. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars	
	December 31, 2019	December 31, 2018
Payment guarantees:		
In Denars	1,174,569	801,423
In foreign currency	182,735	233,097
In Denars with foreign currency clause	18,837	23,762
Performance guarantees:		
In Denars	396,086	390,029
In foreign currency	13,588	73,131
In Denars with foreign currency clause	797,873	602,689
Letters of credit in foreign currency	105,510	79,137
Cash covered letter of credit	29,265	5,852
Cash covered letter of guarantees	249,959	272,518
Unused current account overdrafts	5,400,738	6,015,596
Credit cards commitments	5,639,913	5,771,824
Other	1,551	1,482
	14,010,624	14,270,540
Less: provision for off-balance sheet items (Note 30)	(19,986)	(20,579)
	13,990,638	14,249,961

b) Managed funds

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

	December 31, 2019			December 31, 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans in Denars	266,075	266,023	52	275,537	275,378	159
Loans in foreign currency	135,086	135,086	-	300,655	300,655	-
Other receivables in Denars	1,142,674	1,142,674	-	1,021,719	1,021,727	(8)
Other receivables in foreign currency	402,897	402,897	-	460,269	460,420	(151)
Custodian accounts (Note 30)	44,168	44,168	-	40,158	40,158	-
	1,990,900	1,990,848	52	2,098,338	2,098,338	-

In thousands of Denars

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

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2019 the provision for legal proceedings filed against the Bank amounted to Denar 10,031 thousand (2018: Denar 14,827 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations. During 2019, the Bank has allocated additional provisions for impairment losses upon litigation in the amount of Denar 475 thousand (2018: Denar 466 thousand).

34. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 1,874 thousand (2018: Denar 2,427 thousand).

The Bank as lessee

The Bank applied IFRS 16 solely to contracts that were previously identified as leases based on IAS 17 and IFRIC 4 presented as Banks's Right of Use Assets and Lease liability. The lease liabilities were discounted at the Bank's incremental borrowing rate as of 1 January 2019.

The Bank has elected to take a recognition exemption for short-term leases and leases of low-value items, for which lease payments are recognized as operating expenses on a straight-line basis over the lease term.

35. TAXATION RISK

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

36. TRANSITION TO IFRS 16 LEASES AS OF 1 JANUARY 2019

The adoption of IFRS 16 on 1 January 2019, increased the Banks's assets and liability by Denar 110,526 thousand.

The table below presents reconciliation of the operating lease commitments for the Bank, as of 31 December 2018 to the recognized lease liabilities as of 1 January 2019.

	In thousands of Denars
Operating lease commitments as of 31.12.2018	113,699
Relief option for short-term lease and low value assets	18
Gross lease liabilities	113,717
Discounting	(3,191)
Lease liabilities 01.01.2019	110,526

37. EVENTS AFTER THE REPORTING PERIOD

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year-end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first months of 2020, the virus had spread globally, and its negative impact has gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event. While this is, still an evolving situation at the time of issuing these financial statements, to date there has been no discernible impact on the Bank's regular business operations; however, the future effects cannot be predicted. As the situation is still developing, management considers it is inadequate to provide quantitative estimation of potential impact of this outbreak on the Bank.

Depending how the COVID crisis will develop, it is certain that the banking sector will face downturn, revenue reduction, decreased lending activities and possible deterioration of the credit quality. Since the crisis occurred just before the year-end and the first case in the Republic of N. Macedonia appeared at the end of February 2020, the Bank did not consider potential economic impact due to limited information. The crisis started penetrating in the local economy during March 2020, when different authorities undertook many health and economic measures.

The ECL at 31 December 2019 was estimated based on the range of forecast economic condition as at that date. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that would be used to estimate ECL under IFRS 9 in 2020, upon assessment of the duration of the disruption caused by the virus.

Measures undertaken by the NBRNM

The NBRNM adopted on 20.03.2020 amendments in the prudential regulation with temporal character, related to non-performing exposures and forbearance classification standards. In particular, the amendments in the regulation with validity up to 30.09.2020 are allowing the banks for all clients with credit exposures (companies and individuals) that were with regular status as of 29.02.2020 to apply the following standards:

- The threshold of 90 dpd for assigning the non performing status is increased to 150 dpd for all credit clients (companies and individuals) classified as regular at the end of February, 2020 as well as for all new exposures, classified in A and B categories in the period until 30.09.2020
- Any changes in the contractual terms (repayment schedule including granting of grace period, change of pricing etc.) for all clients (companies and individuals), regular at the end of February 2020, shall not have a treatment of forbearance and those exposures shall not have a status of forborne exposures. In this regard, the new regulation is recognizing that the act of addressing the problems of the clients by banks through all necessary adjustments in the credit terms is not due to the individual financial difficulties of the clients but due to the extraordinary circumstances imposed by the crisis
- The banks have a right to do up to two sets of changes of credit terms per client until September 2020, without being treated as a forbearance, by that avoiding reclassification of the clients, and new provisions.
- The changes in the contractual terms to all already restructured exposures that have a status of Forborne Performing Exposures i.e. the amendment of credit terms and conditions for those clients shall not result in their reclassification to Forborne Non-Performing Exposures

With the amendments, the regulator is releasing the banks from obligation to do the financial analysis within the credit approval process for the changes of credit terms and conditions for individuals. For companies, the regulation prescribes that banks shall do only minimum financial analysis meaning the credit approval process to be simplest and quickest as much as possible.

NBRNM re-enacts the non-standard measure in the reserve account requirements which enables reduction of the liability for the reserve account requirement in MKD for newly approved and restructured loans approved to companies in activities that according to the information from the Government of the Republic of North Macedonia will be most affected by the spread of COVID-19.

37. EVENTS AFTER THE REPORTING PERIOD (continued)

Measures undertaken by Government

Government announced that is negotiating a EUR 600m loan, an amount that equals to 5.5% of the country GDP, from International Monetary Fund, World Bank and foreign commercial banks in order to support the budget and the economy.
Government has announced stopping all enforcement activities until end of June, obliging the banks to stop the collection activities and to de-block the accounts of all debtors.

In addition, no bankruptcy process can start against any company for a period until expiration of 3 months after the cease of the state of emergency in the country.
Government has decreased maximum interest rate that can be applied to the debtors by 4% during the period of State of emergency. For the individuals this will be applied only for new loan contracts during the period of State of emergency
Approximately 235 euro monthly (for April and May) is provided to each employee of the companies affected by the crisis. Alternatively, companies can choose the option the State to subsidize 50% of the social contributions. Financial support will be provided to all citizens that will lose their jobs due to the crisis and in the same time Government has freeze the prices of the basic food products and medical supplies. In addition to 5.7 million, the Development Bank of North Macedonia announced additional eur8 million interest-free loans for micro, small and medium enterprises.

The Development Bank of the Republic of North Macedonia in cooperation with the European Investment Bank has announced additional credit line in amount of EUR 50 million for small and medium enterprises in order to overcome the problems arising from the new situation with the emergence of the COVID-19 virus.

Banking Association

In mutual coordination guided by NBRNM, all banks, including all large banks, and in connection with changed regulation related to non-performing exposures and forbearance classification, have reached an agreement, through their offers to postpone the repayment of credit obligations for up to 6 months for individual persons across the board, no later than 30.09.2020.
With those actions, members of the Banking Association in coordination with the NBRNM once again are confirming their social responsibility in meeting the needs of all individuals and companies, which have faced or in the future could face major problems due to the COVID-19 virus.

Future prospects

It is difficult at this stage to estimate the effect of the crisis on the bank's financials; however, it is possible and depending on the duration of the disruption, the economy to slow down, affecting the bank's business operations respectively. Revenues possible will be affected mainly due to the lower lending activities and transaction volumes, while the liquidity position of the Bank is expected to remain stable and sufficient to cover unpredictable effects. Whilst the management is not able to quantify the impact of the situation, it is reasonable to assume that it will be negative.

Management will continue to monitor the potential impact and will take all steps possible to mitigate any effects depending on the future developments of the crisis.

No other material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.

38. EXCHANGE RATES

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

		In Denars
	2019	**2018**
1 USD	54.9518	53.6887
1 EUR	61.4856	61.4950