UNIVERSAL INVESTMENT BANK
AD - Skopje

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
FOR THE PERIOD ENDING
31 DECEMBER 2017
(According IFRS)

Skopje, March 2018

Contents

MOORE STEPHENS
SKOPJE

Sv.Kiril and Metodij 20, 1000 Skopje,
Republic of Macedonia

Tel: +389 (2) 32 16 976
Fax: +389 (2) 32 14 707

www.moorestephens.mk
www.moorestephens.com

INDEPENDENT AUDITOR'S REPORT
TO THE
SHAREHOLDERS OF
UNIVERSAL INVESTMENT BANK AD - Skopje

We have audited the accompanying financial statements of Universal Investment Bank AD - Skopje ("The Bank"), which comprise the Statement of Financial Position as at 31 December 2017, and the Income Statement, Statement of Comprehensive Income, Statement of changes in equity and Cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the 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 the Audit Law and International Standards on Auditing which are accepted and published in the Official gazette of the Republic of Macedonia (79/2010). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 polices used and the reasonableness of accounting estimates made by the 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.

INDEPENDENT AUDITOR'S REPORT (Continued)
TO THE
SHAREHOLDERS OF
UNIVERSAL INVESTMENT BANK AD - Skopje

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Universal Investment Bank AD - Skopje as of 31 December 2017, and of its financial performance and its cash flows for the period then ended in accordance with the International Financial Reporting Standards.

Skopje, 30 March 2018

Certified Auditor	Manager and Certified Auditor
Goce Hristov	Antonio Veljanov

Друштво за ревизија МУР СТИВЕНС ДОО СКОПЈЕ

Statement of comprehensive income

	Notes	(In 000 MKD) For the year ending 31 December 2017	2016
Interest income		812,207	750,855
Interest (expense)		(155,874)	(188,752)
Net interest income	5	**656,333**	**562,103**
Fee and commission income		283,450	266,071
Fee and commission (expense)		(158,424)	(148,729)
Net fee and commission income	6	**125,026**	**117,342**
Net foreign exchange gains		24,831	21,380
Other operating income	7	33,950	26,584
Operating income		**835,616**	**727,409**
(Additional) / Release of impairment provision on financial assets, net	8	37,982	39,550
Personnel expenses	9	(263,043)	(246,307)
Amortization and depreciation	18,19	(63,197)	(59,920)
Other operating expenses	10	(286,732)	(272,706)
Operating (expenses)		**(570,466)**	**(539,383)**
Profit before tax		**265,150**	**188,026**
Income tax (expense)	11	(23,895)	(19,004)
Net profit for the year		**241,255**	**169,022**
Other comprehensive income			
Other comprehensive income for the year			-
Total comprehensive income for the year		**241,255**	**169,022**
Earnings per share			
Basic and diluted earnings per share (in Denars)	12	442	310

Statement of financial position

	Notes	2017	(In 000 MKD) As at 31 December 2016
Assets			
Cash and cash equivalents	13	4,091,323	3,805,290
Loans and advances to banks	14	295,045	80,010
Loans and advances to customers	15	11,023,297	9,607,991
Investment securities	16	13,106	14,331
Foreclosed assets	17	119,592	155,380
Investment in subsidiaries	18	-	-
Intangible assets	19	84,722	98,526
Property and equipment	20	474,204	461,068
Other receivables	21	62,360	56,544
Total assets		**16,163,649**	**14,279,140**
Liabilities			
Due to banks	22	785,687	341,239
Due to customers	23	12,586,279	11,555,050
Borrowings	24	920,361	796,528
Provisions and special reserve	25	1,882	3,560
Current tax liabilities		10,944	7,410
Deferred tax liabilities	11	3,923	4,024
Other liabilities	26	137,005	95,016
Total liabilities		**14,446,081**	**12,802,827**
Equity and reserves			
Share capital	27	545,987	545,987
Share premium		510,387	510,387
Reserves		326,609	191,064
Retained earnings		334,585	228,875
Total equity and reserves		**1,717,568**	**1,476,313**
Total liabilities, equity and reserves		**16,163,649**	**14,279,140**
Commitments and contingencies	28	1,309,730	1,199,211

These financial statements have been authorized by the Bank's Supervisory Board on 30 March 2018.

Signed on behalf of the Board of Directors by:

Kosta Mitrovski
Chairman of the Managing Board, Chief Executive Officer

Delcho Krastev
Member of the Managing Board, Chief Lending Officer

Vladislav Hadjidinev
Member of the Managing Board, Chief Financial Officer

UNIVERZALNA INVESTICIONA BANKA AD SKOPJE

Statement of changes in equity

(In 000 MKD)	Share capital	Share premium	Reserves	Retained earnings / Accumulated (losses)	Total equity
At 01 January 2016	**545,987**	**510,387**	**119,334**	**131,583**	**1,307,291**
Transactions with owners					
Distribution to reserves	-	-	*71,730*	(71,730)	-
Total transactions with owners	-	-	*71,730*	(71,730)	-
Profit for the year	-	-	-	169,022	169,022
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	169,022	169,022
At 31 December 2016	**545,987**	**510,387**	**191,064**	**228,875**	**1,476,313**
At 01 January 2017	**545,987**	**510,387**	**191,064**	**228,875**	**1,476,313**
Transactions with owners					
Distribution to reserves	-	-	135,545	(135,545)	-
Total transactions with owners	-	-	135,545	(135,545)	-
Profit for the year	-	-	-	241,255	241,255
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	241,255	241,255
At 31 December 2017	**545,987**	**510,387**	**326,609**	**334,585**	**1,717,568**

Statement of cash flows

			(In 000 MKD)
		Year ended 31 December	
	Notes	2017	2016
Operating activities			
Profit before taxation		265,150	188,026
Adjustment for:			
Amortization and depreciation		63,197	59,920
Additional / (Release of) impairment provision on financial assets, net		(37,982)	(39,550)
Impairment losses on foreclosed assets		6,165	33,437
Additional / (Release of) impairment provision and special reserve, net		(1,677)	604
Dividend income		(1,427)	(1,198)
(Gain) / loss from foreclosed assets sold		(4,681)	(1,921)
(Gain) from property and equipment sold		(492)	(15)
Interest income		(812,207)	(750,855)
Interest expense		155,874	188,752
Other corrections		5,635	22,723
(Loss) before changes in operating assets and liabilities		(362,445)	(300,077)
Changes in operating assets and liabilities			
Loans and advances to banks		(214,994)	(80,006)
Obligatory reserves in foreign currency		(479)	(69,441)
Loans and advances to customers		(1,390,669)	(1,029,402)
Foreclosed assets		20,392	(19,713)
Other receivables		(138,979)	103,793
Due to banks		444,315	(84,727)
Due to customers		1,045,765	1,236,487
Other liabilities		45,911	13,361
Profit/ (Loss) after changes in operating assets and liabilities		**(551,183)**	**(229,725)**
Proceeds from interest		808,197	747,795
Interests (paid)		(169,948)	(182,162)
Income tax (paid)		(20,462)	(8,700)
Net cash (used in) / from operating activities		**66,604**	**327,208**
Investment activities			
(Purchase) of property, plant and equipment and intangible assets, net		(36,327)	(39,601)
Sale of investment securities, net		1,225	-
Other inflows from investment activities		1,427	1,198
Net cash from investments activities		**(33,675)**	**(38,403)**
Financial activities			
Proceeds from borrowings		548,020	580,349
(Repayment of) borrowings		(424,448)	(441,236)
(Repayment of) subordinated liabilities		-	-
Net cash from / (used in) financial activities		**123,572**	**139,113**
Net change in cash and cash equivalents		**156,501**	**427,918**
Cash and cash equivalents, beginning of the year		**3,271,671**	2,843,753
Cash and cash equivalents, end of the year	**13**	**3,428,172**	**3,271,671**

Notes to the Financial Statements

1 General information

Universal Investment Bank, Skopje (hereinafter "the Bank") is a Shareholding Company incorporated in the Republic of Macedonia. The address of its registered head office is: "St. Maksim Gorki" 6, 1000 Skopje, Republic of Macedonia.

The Bank is licensed to perform all banking activities in accordance with the law. The main activities include commercial lending, receiving of deposits, payment operation services in the country and abroad, foreign exchange deals, trust activities and other services.

The Bank's shares are quoted on the Macedonian Stock Exchange, at segment mandatory listing for companies with special reporting obligations. The quotation code is the following:

Code of shares	ISIN
UNI (ordinary share)	MKBLBA101011

The total number of employees in the Bank as at 31 December 2017 and 2016 is 387 and 397 employees, respectively.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1 Basis for preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) that were issued by the International Accounting Standards Board (IASB). Financial statements have been prepared in accordance with the concept of historical cost convention, except for securities available for sale that are measured at fair value and foreclosed assets that are measured at the lower of cost or fair value less costs to sale. The basis for measuring each kind of asset, liability, income and expense are disclosed further within this Note.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank's Management to exercise judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The financial statements have been prepared as at and for the years ended 31 December 2017 and 2016. The financial statements are presented in Macedonian Denar ("MKD"), which is the Bank's functional currency. Current and comparative data stated in these financial statements are expressed in Denar thousands. Where necessary, comparative figures have been adjusted to conform to the changes in presentation for the current year.

2.2 Changes in accounting policies and disclosures

a) New and revised standards that are effective for annual periods beginning on or after 1 January 2016

The Bank has not adopted any new standards or amendments that have a significant impact on the Bank's results or financial position.

The standards and amendments that are effective for the first time in 2016 (for entities with a 31 December 2016 yearend) and could be applicable to the Bank are:

- 'Annual Improvements to IFRSs' 2012-2014 cycle
- 'Disclosure Initiative' (Amendments to IAS 1)
- 'Clarification of Acceptable Methods of Depreciation and Amortization' (Amendments to IAS 16 and IAS 38)
- 'Agriculture: Bearer Plants' (Amendments to IAS 16 and IAS 41)
- 'Accounting for Acquisitions of Interests in Joint Operations' (Amendments to IFRS 11)
- 'Equity Method in Separate Financial Statements' (Amendments to IAS 27)
- 'Investment Entities: Applying the Consolidation Exception' (Amendments to IFRS 10, IFRS 12 and IAS 27).

These amendments do not have a significant impact on these financial statements and therefore disclosures have not been made.
In addition, IFRS 14 'Regulatory Deferral Accounts' is also effective from 1 January 2016. However it is only applicable to first time adopters of IFRS and therefore is not applicable to the Bank.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank before the date of their adoption or are effective but they don't have material impact on the Bank's financial statements.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 9 "Financial Instruments"

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2018. The Bank's management assessed the impact of this new standard on the Bank's financial statements. The effects of the application of this standard are given in note 32 below.

2.2 Changes in accounting policies and disclosures

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. The change those not have material impact on the Banks assets and liabilities.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period
- changes the measurement and presentation of certain components of defined benefit cost
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The change those not have material impact on the Banks financial statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The Amendments are effective for annual periods beginning on or after 1 January 2015 and are required to be applied retrospectively.

Management does not anticipate a material impact on the Bank's consolidated financial statements from these Amendments.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2014 and interim periods within those annual periods.

The change those not have material impact on the Banks financial statements.

2.2 Changes in accounting policies and disclosures

Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Bank are summarized below:

Clarification of the requirements for opening statement of financial position:

• clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
• addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:
• clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
• requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Tax effect of distribution to holders of equity instruments:

• addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognizing the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
• clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

Segment information for total assets and liabilities:

• clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2014.

The change those not have material impact on the Banks financial statements.

Annual Improvements 2011-2013 (the Annual Improvements)

The annual improvements 2011-2013 (annual improvements) made certain minor changes in several IFRSs. The changes affecting the Bank are shown below:

Changes in IFRS 1 - clarification in the part of the effective first application of IFRS.
Changes in IFRS 3 - explanations in the scope of the exclusion of joint venture investments.
Changes in IFRS 13 - scope of portfolio exclusions.
IAS 40 - clarifications for the connection of IFRS 3 and IAS 40.

2.2 Changes in accounting policies and disclosures

These changes have no significant effects on the financial statements for the year ended on 31 December 2017.

Adoption of 'Transfer of revaluation surplus to retained earnings' (Amendments to IAS 16, paragraph 41)

During 2012, the bank has decided to retrospectively adopt paragraph 41 from IAS 16 'Transfer of revaluation surplus to retained earnings' which allows a part from the revaluation reserves related to the use of property, plant and equipment to be transferred to retained earnings/ (accumulated loss). In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

This change has been also addressed in the financial statements for the year ended at 31 December 2017.

2.3 Foreign currency transactions

Transactions in foreign currencies are translated to Macedonian Denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian Denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Macedonian Denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Macedonian Denars at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising from retranslation are recognized in profit or loss.

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD).The exchange rates used for translation at 31 December 2017 and 2016 were as follows:

	2017	**2016**
	MKD	MKD
1 EUR	61.4907	61.4812
1 USD	51.2722	58.3258

2.4 Off-setting

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

2.5 Interest income and expenses

Interest income and expense are recognized in profit or loss using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, (transaction costs, and discounts or premiums) that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis.

2.6 Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, guarantees, letters of credit, domestic and foreign payment operations and other services, are recognized as the related services are performed.

Other fees and commission expenses relate mainly to financial service fees, which are expensed as the services are received.

2.7 Dividends

Dividend income is recognized when the right to receive income is established. Dividends are reflected as a component of net trading income, or dividend income based on the underlying classification of the equity instrument.

2.8 Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2.9 Current and deferred income tax

Current tax expense at 10% rate is paid to profit for the year which is determined as the difference between total revenues and total expenses for the period, increased with the non – recognized expenses for tax purposes adjusted for tax credit and less declared revenue. The tax base is reduced for the amount of income from dividends realized through participation in the capital of another taxpayer - resident of the Republic Macedonia, stipulating they are subject to tax expense by the taxpayer who pays the dividend. Taxpayers that will pay dividends and other distributions from the retained earnings created in the period from 2009 to 2013 will also have the obligation to calculate and pay tax for those distributions.

Deferred tax expense is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rates that are currently valid are used in determination of deferred tax expense. Deferred tax expense is charged or credited in the profits and losses except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.10 Financial assets and liabilities

Recognition

Regular purchases and sales of financial assets and liabilities are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value adjusted for (for an item not subsequently measured at fair value through profit or loss), transaction costs that are directly attributable to its acquisition or issue.

Classification

The Bank classifies its financial assets into the following categories: loans and receivables, held to maturity and available for sale (see accounting policies 2.12, 2.13 and 2.14).

The Bank's financial liabilities include deposits, borrowings and other liabilities (see accounting policy 2.21).

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the Statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Measurement at amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Financial assets and liabilities (continued)

Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value can be assessed differently, depending on whether or not the asset or liability is traded in an active market.

Active market: Fair value

A financial asset is considered to be traded in an active market if the published prices are readily and regularly available from the Stock Exchange, dealers, brokers, over the counter, industry groups or regulatory agencies and those prices represent the current and regular market transactions on normal, commercial basis. The appropriate quoted market price for an asset held or a liability that is to be issued is usually the current market (buying) price; for an asset that is about to be acquired or a liability held it is the current selling price.

Absence of an active market: Valuation techniques

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique in the following order:

- Application of information on negotiated prices for recent (from the past 6 months), normal commercial transactions for the same financial instrument between informed, willing parties
- If the previous valuation technique cannot be applied (there is no information available on the negotiated prices for recent transactions concerning the same financial instrument) then to determine the fair value the current market price of another, basically same, instrument should be used (in regards to the currency or the same or similar maturity date);
- If the information for fair value of the previous two techniques is inappropriate or cannot be applied, the fair value of the financial instrument is determined through analysis of the discounted cash flows or other alternative models for price determination.

The analysis of discounted cash flows is an important and frequently applied technique for determining the fair value of many assets and liabilities. One of the most important factors in the application of this technique is the determination of an appropriate discount rate.

Discount rate should include:

- Uncertainties and risks from cash flow assessment, related to certain asset or liability, due to the fact that those risks and uncertainties will change
- The measurement purpose.

If the fair value of equity instruments not traded in an active market and the derivatives related to them which have to be settled with unquoted equity instruments cannot be reliably measured, those instruments should be carried at their cost.

2.11 Impairment of financial assets

The Bank assesses, on a monthly basis, whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank analyses impairment evidence on loans, receivables and securities on individual basis. All individually significant loans and receivables are analyzed on an individual basis.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency of payments by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities as a difference between the cost and fair value are recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term liabilities.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.13 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

2.14 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit and loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are measured at amortized cost using the effective interest method. If the Bank buys debt securities classified as held-to-maturity, with discount or premium, the amount of the obtained discount or premium will be recorded on the discount or premium accounts within the appropriate group of accounts for investments in held-to-maturity securities. Other commissions and fees that are integral part of the effective interest rate, as well as transaction costs directly related to the transaction, are recorded on the accumulated amortization accounts within the appropriate group of investing accounts for held-to-maturity debt securities.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

2.15 Foreclosed assets

Foreclosed assets include property and equipment acquired through foreclosure proceedings, in full or partial recovery of a related loan and is disclosed in assets acquired through foreclosure proceedings. These assets are initially measured at the lower of the appraised value, less estimated costs to sell, chargedto the Bank and the cost of the foreclosed asset. The appraised value is determined by local certified appraiser on the date of foreclosure. The cost is the value stated in an enactment passed by a competent body from where the legal grounds for acquiring the right of the ownership arises.

After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount and fair value less estimated costs to sell.

2.16 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

2.16 Property and equipment

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. No depreciation is charged for construction in progress. Depreciation rates, based on the estimated useful lives for the current and comparative period are as follows:

	2017	2016
Buildings	2,5%	2,5%
Equipment	14.3-25%	14.3-25%
Vehicle	25%	25%

Depreciation methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.

2.17 Intangible assets

Recognition and measurement

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit and loss as incurred.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. No amortization is charged for assets under development. The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

	2017	2016
Software	10%	10%
Rights and licenses	10%	10%

2.18 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that continually generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a proportional basis. The recoverable amount of an asset or a cash generating unit (CGU) is the greater amount of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.19 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and, except for the leased assets, they are not recognized in the Bank's Statement of financial position.

2.20 Deposits, borrowings and other liabilities

Deposits, borrowings and other liabilities are the Bank's sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, borrowings and other liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

2.21 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

2.22 Employee benefits

Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

2.22 Employee benefits

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits
In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement and jubilee awards. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

2.23 Share capital and reserves

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are recognized as a deduction from equity.

Repurchase of share capital
Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold subsequently the amount received is recognized as an increase on equity, and the resulting surplus or deficit of the transaction is transferred to/from share premium.

Reserves
Reserves are generated throughout the period, based on distribution of profit in accordance with legal regulation and the Decisions made by the Bank's Assembly and changes if fair value of available for sale financial assets.

Dividends
Dividends are recognized as a liability in the period in which they are declared.

2.24 Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.25 Segment reporting

A segment is a component of the Bank that can be distinguished and engaged in either the provision of products or services (operating/business segment) or the provision of products and services for certain economic areas (geographic segment) and is subjected to risks and rewards different from other segments. The Bank reports by primary operating segments.

2.26 Events after the reporting date

Events after the reporting period that provide additional information about the Bank's position at the Statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3 Financial risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Managing Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Managing Board has established the Asset and Liability Committee ("ALCO"), Credit Committee and Risk Management Committee established by the Supervisory Board which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Managing Board and Supervisory Board respectively.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and the Bank`s compliance with the requirements of the NBRM related to risk management. In addition, the Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, issued guarantees and letters of credits and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual debtor's default risk, country and sector's risk).

3.1 Credit risk

Management of credit risk

The Managing Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to EUR 500 thousand. All credit exposures over EUR 500 thousand must be approved by the Supervisory Board. Separate Bank's Credit departments (Department for Corporate Loans, Department for Retail loans and Credit Card Department) in close cooperation with the Risk Management Department are responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk.* Credit departments assess all credit exposures in excess of designated limits, prior to facilities being committed to customers.
- *Limiting concentrations of exposure* to geographies and industries (for loans and advances), and by issuer, credit rating assessment by respective institutions, market liquidity and country (for investment securities).
- *Banks's credit risk grading* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of six grades reflecting various degrees of risk of default and the availability of collateral.
- *Reviewing compliance* with agreed exposure limits, including those for industries, country risk and product types. Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Risk Management Committee, and appropriate corrective action is taken.

Credit departments are required to implement credit policies and procedures and in assistance with the Risk Management Department are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of Credit departments' processes are performed by the Internal Audit.

3.1 Credit risk

Analysis of maximum exposure to credit risk before collateral held

in Denar thousand	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Securities available for sale		Other receivables		Commitments and contingencies		Total	Total
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Neither, past due nor impaired	2,635,150	2,464,583	295,034	80,000	276,626	311,926	-	-	29,626	8,856	35,591	29,515	3,272,028	2,894,880
Past due, but not impaired:														
- Up to 30 days	-	-	11	10	313	4,967	-	-	-	-	-	-	324	4,977
- Up to 90 days	-	-	-	-		-	-	-	-	-	-	-	-	-
- Over 90 days	-	-	-	-		-	-	-	-	-	-	-	-	-
Individually impaired	-	-	-	-	10,857,742	9,487,450	13,106	15,703	19,999	28,099	1,295,200	1,201,088	12,186,047	10,732,340
Net carrying value before provision for impairment	**2,635,150**	**2,464,583**	**295,045**	**80,010**	**11,134,681**	**9,804,343**	**13,106**	**15,703**	**49,626**	**36,955**	**1,330,791**	**1,230,603**	**15,458,399**	**13,632,197**
(Provision for impairment)	-	-	-	-	(111,385)	(196,352)	-	(1,372)	(7,684)	(5,614)	(1,882)	(3,560)	(120,951)	(206,898)
Net carrying value less provision for impairment	**2,635,150**	**2,464,583**	**295,045**	**80,010**	**11,023,297**	**9,607,991**	**13,106**	**14,331**	**41,941**	**31,341**	**1,328,909**	**1,227,043**	**15,337,448**	**13,425,299**

3.1 Credit risk

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system.

Past due, but not impaired loans

Loans and securities where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security/ collateral available and/ or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. As at 31 December 2017 and 2016, there are no loans with renegotiated terms.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

The general indicators used in establishing the need for allowance for impairment losses include:

- information on the financial difficulties of the client;
- information on breach of contract, including default or late payment of due liabilities;
- certainty that the client will go under bankruptcy proceedings;
- disappearance of an active market for a particular claim or financial instrument, or
- data suggesting that there is a decrease of the estimated future cash flows for group of credit exposures, compared to initial recognition, although the decrease cannot be related to individual credit exposure, including:
    - adverse changes in the client's creditworthiness (e.g. increased number of late payments), or deterioration of the national or local economic conditions that affect the payment of liabilities by the client (e.g. an increase of the unemployment rate in the geographical area of the client, reduction of the price of property that serves as The Bank calculates impairment and makes a special reserve within five internal rating grades).

A risk category includes credit exposure that meets the following criteria:

- claims on the European Central Bank and the central governments and central banks of countries whose claims pursuant to the methodology for determining the capital adequacy have a risk weight of 0% and that meet the criteria of indent 4 of this subitem;
- part of credit exposure that is secured by first-rate collateral instruments, if the instrument is activated within 60 days of the date of maturity of the exposure;
- financial position and cash flows of the client allows its further operation and opportunity to cover the current and future liabilities to the bank;
- liabilities based on credit exposure are settled within the maturity period or with a delay of 31 days, or
- in the last twelve months, no claim on the client has been restructured.

3.1 Credit risk

Notwithstanding paragraph 1, indent 4 of this subitem, the bank may classify in A risk category, any credit exposure settled with a delay of more than 31 days, if the total amount not collected for more than 31 days is lower than Denar 500 and the delay is no longer than 60 days.

B risk category includes credit exposure that meets the following criteria:

- the client shows financial weaknesses, but its cash flows are sufficient for regular settlement of due liabilities;
- liabilities based on credit exposure are commonly settled with a delay of 60 days, or 90 days as an exception, if the delay only occasionally ranges from 61 to 90 days, or
- in the last six months, the credit exposure has not been restructured.

C risk category includes credit exposure that meets the following criteria:

- cash inflows of client are unsuitable for regular settlement of liabilities;
- there is an inadequate maturity structure between the sources of funding of the program/project for which financial support has been requested from the bank and proceeds generated from the program/project;
- the bank does not hold the necessary and updated information to assess the creditworthiness of the client;
- the credit exposure is restructured;
- liabilities based on credit exposure are commonly settled with a delay of up to 120 days, or 180 days as an exception, if the delay only occasionally ranges from 121 to 180 days;
- the client - nonfinancial entity has claims based on financial loan on entity enjoying a credit rating equal to or lower than CCC+ (according to the rating of "Standard & Poor's" or "Fitch") or Caa1 (according to the rating of "Moody's") or on entity enjoying a higher credit rating, but its domicile country's credit rating equals to or is lower than CCC+(according to the rating of "Standard & Poor's" or "Fitch") or Caa1 (according to the rating of "Moody's"), or
- the client - nonfinancial entity has claims based on financial loan on entity for which no credit rating has been established, but its domicile country's credit rating equals to or is lower than B- (according to the rating of "Standard & Poor's" or "Fitch") or B3 (according to the rating of "Moody's") or its domicile country's credit rating has not been established yet.

Notwithstanding paragraph 1 of this subitem, the bank may not classify credit exposure to the client under paragraph 1, indents 6 and 7 of this subitem in C risk category, if:

- the exposure is based on a customs guarantee or bid guarantee;
- the financial loan does not exceed Denar 31,000,000 (in case of foreign currency financial loan, the Denar equivalent of the loan shall be taken into consideration), or
- the financial loan is equal to or greater than Denar 31,000,000, and the bank's exposure is greater than the amount of financial loan and the bank has calculated impairment or allocated special reserve, at least in the amount exceeding 20% of the amount of financial loan, whereby the credit exposure or the client meets the criteria for classification in another risk category.

3.1 Credit risk

D risk category includes credit exposure that meets the following criteria:

- the client is illiquid;
- the collection of credit exposure depends on the use of collateral;
- the liabilities based on credit exposure are commonly settled with a delay of up to 240 days, or 300 days, as an exception, if the delay only occasionally ranges from 241 to 300 days;
- the client (including governments and central banks) enjoys a credit rating equal to or lower than CCC+ (according to the rating of "Standard & Poor's" or "Fitch") or Caa1 (according to the rating of "Moody's");
- the client's credit rating is higher than the rating referred to in indent 4 of this subitem, but its domicile country's credit rating is equal to or lower than CCC+ (according to the rating of "Standard & Poor's" or "Fitch") or Caa1 (according to the rating of "Moody's"), or
- the client has not been given any credit rating, but its domicile country's credit rating is equal to or lower than B- (according to the rating of "Standard & Poor's" or "Fitch") or B3 (according to the rating of "Moody's") or its domicile country has not been given any credit rating yet.

Notwithstanding paragraph 1 of this subitem, the bank may not classify the credit exposure of paragraph 1, indents 4, 5 and 6 of this subitem in D risk category, in case of off-balance claim based on customs guarantee or bid guarantee.

E risk category includes credit exposure that meets the following criteria:

- liabilities based on credit exposure are commonly settled with a delay of over 241 days;
- the client has undergone bankruptcy or liquidation proceedings;
- the client denies the existence of credit exposure (in court or out-of-court proceedings), or
- the bank expects to collect only an insignificant portion of credit exposure to the client.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans and advances to customers by internal rating grades:

in Denar thousand

2017	Loans and advances to customers	
	Gross	Impairment provision
Risk category A	10,358,725	(11,554)
Risk category B	334,333	(19,418)
Risk category C	84,182	(20,423)
Risk category D	24,129	(13,120)
Risk category E	56,373	(46,870)
	10,857,742	(111,385)
2016		
Risk category A	8,684,421	(12,030)
Risk category B	566,685	(35,928)
Risk category C	67,831	(16,643)
Risk category D	58,274	(27,284)
Risk category E	110,239	(104,467)
	9,487,450	**(196,352)**

3.1 Credit risk

Write-off policy

The Bank writes off a loan/ investment debt security balance (and any related allowances for impairment) when the Supervisory Board determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Bank can also write off a loan/security balance (and any related allowances for impairment) on the base of a court decision when all other means for collection had expired.

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage, movable property, and other registered securities over assets, cash deposits, lien over shares, guarantees, administrative blockage and other forms of collateral. Estimates of fair value are based on the value of collateral assessed at the time of lending.

According to the Credit policy, depending on pledged collateral the Bank has the following types of loans:

- Mortgage loans;
- Loans with lien of movable property;
- Lombard loans with pledged shares;
- Loans with pledged shares;
- Loans with guaranties from third parties;
- Loans with administrative blockage;
- Loans covered by cash deposit;
- Other types of loans, including rights of tangible and intangible assets with determined price.

Value of collateral (fair value) estimated for the purposes of protection against credit risk

in Denar thousand

2017	Loans and receivables from customers	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment			
First-class security instruments			
- cash deposits (in a depot and/or limited to bank account)	262,972	88,809	366,205
-bank guarantees	14,424	-	14,424
-corporate guarantees	-	-	-
Property and equipment under pledge	12,283,684	962,150	13,245,834
Pledge of movable property	432,617	-	432,617
Other types of security	-	-	-
	12,993,697	**1,050,959**	**14,044,656**

Credit risk (continued)

in Denar thousand

2016	Loans and receivables from customers	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment			
First-class security instruments			
- cash deposits (in a depot and/or limited to bank account)	224,334	164,058	388,392
-bank guarantees	10,294	-	10,294
-corporate guarantees	-	-	-
Property and equipment under pledge	11,105,703	980,576	12,086,279
Pledge of movable property	308,270	-	308,270
Other types of security	-	-	-
	11,648,601	**1,144,634**	**12,793,235**

3.1 Credit risk

Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as at 31 December 2017 and 2016:

in Denar thousand	Cash and cash equivalents		Loans and advances to Banks		Loans and advances to customers		Securities available for sale		Securities held to maturity		Other receivables		Commitments and contingencies		Total assets	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Republic of Macedonia	1,645,710	1,619,157	295,045	80,010	10,850,145	9,386,203	13,106	14,331	-	-	39,934	30,904	1,327,650	1,225,809	14,171,590	12,356,414
EU members	976,089	789,653	-	-	173,152	221,788	-	-	-	-	475	366	1,259	1,234	1,150,975	1,013,041
OECD member countries (without European countries members of OECD)	3,633	39,522	-	-	-	-	-	-	-	-	-	11	-	-	3,633	39,533
Other European countries	9,718	16,251	-	-	-	-	-	-	-	-	1,532	60	-	-	11,250	16,311
Other countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2,635,150	2,464,583	295,045	80,010	11,023,297	9,607,991	13,106	14,331	-	-	41,941	31,341	1,328,909	1,227,043	15,337,448	13,425,299

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as at 31 December 2017 and 2016:

In Denar thousand	Loans and advances to customers		Loans and advances to banks		Securities available for sale		Securities held to maturity		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total assets	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Non residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishery	196,646	193,237	-	-	-	-	-	-	-	-	351	328	6,456	6,569	203,453	200,134
Mining	26,419	123,338	-	-	-	-	-	-	-	-	7	12	1,384	694	27,810	124,044
Food industry	189,564	150,270	-	-	-	-	-	-	-	-	94	63	23,370	15,172	213,028	165,505
Textile industry clothing and footwear manufacturing	244,297	212,875	-	-	-	-	-	-	-	-	220	162	69,930	46,153	314,447	259,190
Chemical industry, production of building materials, production and processing of fuel, pharmaceutical industry	132,479	102,011	-	-	-	-	-	-	-	-	86	65	11,372	11,175	143,937	113,251

	Loans and advances to customers		Loans and advances to banks		Securities available for sale		Securities held to maturity		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total assets	
In Denar thousand	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Production of metals, machinery, tools and equipment	91,861	91,374	-	-	-	-	-	-	-	-	84	122	15,593	7,618	107,538	99,114
Other manufacturing Industry	187,788	184,180	-	-	-	-	-	-	-	-	185	128	22,483	25,530	210,456	209,838
Supply of electricity, gas, steam and air conditioning	15,740	13,134	-	-	-	-	-	-	-	-	37	39	412	109	16,189	13,282
Water supply, waste water disposal, waste management and environment sanitation	21,266	39,896	-	-	-	-	-	-	-	-	80	82	418	5,158	21,764	45,136
Construction	728,287	583,954	-	-	-	-	-	-	-	-	221	271	361,004	346,279	1,089,512	930,504
Wholesale and retail trade, repair of motor vehicles and motor-cycles	1,061,919	917,060	-	-	-	-	-	-	-	-	1,135	1,286	190,726	181,153	1,253,780	1,099,499
Transport and storage	271,429	216,948	-	-	-	-	-	-	-	-	297	286	93,145	68,157	364,871	285,391
Facilities for lodging and food service activities	230,573	164,012	-	-	-	-	-	-	-	-	222	191	15,931	20,006	246,726	184,209
Information and communication	48,226	20,206	-	-	-	-	-	-	-	-	1,201	997	21,776	27,771	71,203	48,974
Financial and insurance activities	192,240	221,467	295,045	80,010	13,106	14,331	-	-	2,635,150	2,464,583	29,841	22,373	4,453	1,641	3,169,834	2,804,405
Activities related to real estate	73,866	36,298	-	-	-	-	-	-	-	-	13	13	388	431	74,267	36,742
Technical and scientific activities	95,451	117,157	-	-	-	-	-	-	-	-	980	430	22,559	21,855	118,990	139,442
Administrative and auxiliary service activities	68,244	82,762	-	-	-	-	-	-	-	-	88	82	5,594	11,113	73,926	93,957
Public administration and defense, compulsory social insurance	-	-	-	-	-	-	-	-	-	-	3	3	-	-	3	3
Education	2,194	1,868	-	-	-	-	-	-	-	-	34	35	256	436	2,484	2,339
Health and social care activities	38,838	35,671	-	-	-	-	-	-	-	-	75	66	1,323	2,923	40,236	38,660
Art, entertainment, recreation	5,527	451	-	-	-	-	-	-	-	-	50	47	848	893	6,425	1,391
Other service activities	27,261	25,365	-	-	-	-	-	-	-	-	89	104	580	611	27,930	26,080
Individuals	7,073,182	6,074,457	-	-	-	-	-	-	-	-	4,499	4,156	458,908	425,596	7,538,635	6,504,209
Total	**11,023,297**	**9,607,991**	**295,045**	**80,010**	**13,106**	**14,331**	**-**	**-**	**2,635,150**	**2,464,583**	**41,941**	**31,341**	**1,328,909**	**1,227,043**	**15,337,448**	**13,425,299**

3.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset received.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury and Dealing Department receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury and Dealing Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted monthly to the NBRM.

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, required meeting business goals and targets set in terms of the overall Bank strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk represents the risk for the Bank of becoming incapable of providing sufficient funds for settlement of its short-term liabilities when such liabilities fall due, or to provide such funds at much higher costs.

The Bank is exposed to daily withdrawals of funds from its available cash sources of current accounts, matured deposits, approved loans and other withdrawals.

The tables below analyses the Bank's liabilities and off balance sheet items, grouped according to their maturity based on the remaining period from the reporting date to the contracted maturity date at 31 December 2017 and 2016. The amounts are presented on a gross basis, i.e. not taking into account the amounts of accumulated amortization, impairment provision and allocated special reserve.

3.2 Liquidity risk

in Denar thousand

31 December 2017	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to banks	476,884	-	308,803	-	-	785,687
Due to customers	5,453,845	1,430,405	3,538,746	2,106,672	56,611	12,586,279
Borrowings	62,882	1,062	177,470	549,372	129,574	920,361
Other liabilities	116,336	206	-	-	14,716	131,258
	6,109,947	**1,107,635**	**4,296,399**	**2,521,973**	**117,292**	**14,423,584**
Total assets (contractual maturities)	**4,421,003**	**578,366**	**2,506,193**	**5,005,383**	**3,073,521**	**15,584,466**

Off balance sheet items	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Guarantees	5,862	123,466	251,433	188,970	8,500	578,231
Letter of credits	5,029	10,825	4,581	-	-	20,435
Other	71,926	141,324	495,486	4,211	-	712,947
	82,817	**275,615**	**751,500**	**193,181**	**8,500**	**1,311,612**

in Denar thousand

31 December 2016	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities						
Due to banks	32,484	-	308,755	-	-	341,239
Due to customers	4,571,923	1,106,623	3,807,911	2,051,444	17,149	11,555,050
Borrowings	60,843	79	179,650	470,529	85,427	796,528
Other liabilities	76,583	933	83	-	14,716	92,315
	4,741,833	**1,107,635**	**4,296,399**	**2,521,973**	**117,292**	**12,785,132**
Total assets (contractual maturities)	**3,906,432**	**490,966**	**2,252,827**	**4,490,970**	**2,601,462**	**13,742,657**

Off balance sheet items	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Guarantees	38,592	91,889	295,220	92,037	19,000	536,738
Letter of credits	-	22,285	-	-	-	22,285
Other	74,698	123,561	437,880	7,609	-	643,748
	113,290	**237,735**	**733,100**	**99,646**	**19,000**	**1,202,771**

3.3 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Exposure to interest rate risk – non-trading portfolios

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is sensitive to changes in interest rates because for the majority of the interest-bearing assets and liabilities, the Bank has the right to simultaneously change the interest rates. When interest rates are decreasing, margins earned will also narrow, as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The table below analyses the Bank's interest rate gap position as at 31 December 2017 and 2016. The interest bearing assets/ liabilities are grouped according to the remaining period until the next change in interest rates.

3.3 Market risks

Analysis of interest rate gap position (excluding portfolio held for trading and derivatives, if any)

in Denar thousand

As at 31 December 2017	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	**Total**
Assets						
Cash and cash equivalents	2,660,242	-	-	-	-	2,660,242
Loans and advances to banks	295,000	-	-	-	-	295,000
Loans and advances to customers	477,908	575,651	4,019,652	5,122,190	804,103	10,999,503
Other receivables	-	-	-	-	-	-
	3,433,150	575,651	4,019,652	5,122,190	804,103	13,954,746
Liabilities						
Due to banks	476,750	-	307,454	-	-	784,204
Due to customers	4,700,965	292,705	7,283,547	211,504	-	12,488,720
Borrowings	102,971	1,968	172,501	528,457	112,633	918,528
Other liabilities	-	-	-	-	-	-
	5,280,685	294,673	7,763,501	739,961	112,633	14,191,452
Net interest rate gap position	**(1,847,535)**	**280,978**	**(3,743,848)**	**4,382,229**	**691,470**	**(236,707)**
As at 31 December 2016						
Assets						
Cash and cash equivalents	2,464,583	-	-	-	-	2,464,583
Loans and advances to banks	80,006	-	-	-	-	80,006
Loans and advances to customers	444,043	487,978	2,374,794	5,436,878	781,038	9,524,731
Other receivables	-	-	-	-	-	-
	2,988,632	**487,978**	**2,374,794**	**5,436,878**	**781,038**	**12,069,320**
Liabilities						
Due to banks	31,733	-	307,406	750	-	339,889
Due to customers	3,781,606	-	5,449,532	2,211,818	-	11,442,956
Borrowings	59,340	79	179,650	470,529	85,427	795,025
Other liabilities	-	-	-	-	-	-
	3,872,679	**79**	**5,936,588**	**2,683,097**	**85,427**	**12,577,870**
Net interest rate gap position	**(884,047)**	**487,899**	**(3,561,794)**	**2,753,781**	**695,611**	**(508,550)**

Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2017, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2017 would respectively decrease/increase by approximately Denar 4,734 thousand (2016: Denar 10,171 thousand).

3.3 Market risks

Foreign currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. The Denar is pegged to the Euro and the monetary projections envisage stability of the exchange rate of the Denar against Euro.

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2017 and 2016:

in Denar thousand	MKD	EUR	USD	Other currencies	Total
As at 31 December 2017					
Assets					
Cash and cash equivalents	2,380,041	1,274,042	179,977	257,263	4,091,323
Loans and advances to customers	5,485,920	5,425,769	111,608	-	11,023,297
Loans and advances to banks	295,045	-	-	-	295,045
Investment securities	13,106	-	-	-	13,106
Other receivables	30,755	10,162	979	45	41,941
Total Assets	8,204,867	6,709,973	292,564	257,308	15,464,712
Liabilities					
Due to banks	2,671	761,469	21,547	-	785,687
Due to customers	7,049,670	5,023,999	265,098	247,512	12,586,279
Borrowings	-	920,361	-	-	920,361
Other liabilities	62,090	63,955	4,378	834	131,257
Total Liabilities	7,114,431	6,769,784	291,023	248,346	14,423,584
Net foreign currency position	1,090,436	(59,811)	1,541	8,962	1,041,128
As at 31 December 2016					
Total Assets	**6,711,169**	**6,333,163**	**279,152**	**215,479**	**13,538,963**
Total Liabilities	**6,198,343**	**6,100,061**	**282,202**	**204,526**	**12,785,132**
Net foreign currency position	**512,826**	**233,102**	**(3,050)**	**10,953**	**753,831**

The following table shows the sensitivity of the Bank of an increase of the Denar compared to foreign currencies. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or the other equity which appears in case the Denar increases its value compared to the foreign currencies by 1% and/or 5%, When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousands).

in Denar thousand	Change in 2017	Change in 2016	Profit or loss 2017	Profit or loss 2016
EUR	1%	1%	(598)	2,331
USD	5%	5%	77	(153)
Other currencies	1%	1%	90	110

3.4 Operating risk

Operating risk is present in all activities, processes and organizational structures that are part of the business activities of the Bank.

An active management with operational risk requires identification of all operational risks on which the Bank is exposed and taking of adequate measures for their optimization. The Bank's departments and branches in cooperation with the Risk Management Department prepare lists with operational activities on a monthly basis.

All the operational activities are subject to registration in the centralized Register for the operational activities.

The Bank's operations are constantly subject to other risks which are defined as operating risks. These risks relate to deficiencies or errors in the operation of internal processes, systems or to human errors or are due to external events.

3.5 Segment reporting

Operating segments

The Bank has two operational segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services and are managed separately based on the Bank's management structure. The Supervisory Board reviews at least monthly the Management report that obtains information regarding the business. The following summary describes the operations in the Bank's reportable segments:

- Corporate Banking (legal entities) – Includes the following: different loans' products for corporate clients, issuing business credit cards, payment operations in the country and abroad for residential and non-residential legal entities, operations on foreign exchange market, inter-banking borrowings, brokerage services, trade with securities issued by the State etc.

- Retail Banking (individuals) – Includes the following activities: different types of loans for individuals, issuing debit and credit cards, payment operations in the country and abroad for residential and non-residential individuals, brokerage services, safe renting, operations on foreign exchange market etc.

Also, the Bank has activities regarding services of POS terminal network and ATMs that were not specified in the above mentioned activities.

3.5 Segment reporting

Operating segments (continued)

in Denar thousand	Retail banking		Corporate banking		Non-allocated		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Income and expenses								
Net interest income /(expenses)	396,794	305,639	259,539	256,464	-	-	656,333	562,103
Net fee and commission income	91,472	85,613	33,554	31,729	-	-	125,026	117,342
Other operating income	38,429	28,925	20,352	19,039	-	-	58,781	47,964
Release of imp.prov. /Impairment (losses), net	(1,908)	8,105	39,890	31,445	-	-	37,982	39,550
Depreciation and amortization	(39,491)	(34,504)	(23,706)	(25,416)	-	-	(63,197)	(59,920)
Impairment losses on non-financial assets, net	(3,852)	(19,254)	(2,313)	(14,183)	-	-	(6,165)	(33,437)
Investment costs for property and equipment	(21,063)	(18,728)	(12,644)	(13,795)	-	-	(33,707)	(32,523)
Other expenses	(301,789)	(260,886)	(208,114)	(192,167)	-	-	(509,903)	(453,053)
Profit before tax per segment	**158,592**	**94,910**	**106,558**	**93,116**	**-**	**-**	**265,150**	**188,026**
Income tax							(23,895)	(19,004)
Profit for the year							**241,255**	**169,022**
Total assets per segment	7,025,800	6,078,567	7,545,212	6,674,371	-	-	14,571,012	12,752,938
Non-allocated assets per segment	-	-	-	-	1,592,637	1,526,202	1,592,637	1,526,202
Total assets	7,025,800	**6,078,567**	7,545,212	**6,674,371**	1,592,637	**1,526,202**	**16,163,649**	**14,279,140**
Total liabilities per segment	9,096,922	8,711,419	5,416,280	4,141,405	-	-	14,513,202	12,852,824
Non-allocated liabilities per segment	-	-	-	-	(67,121)	(49,997)	(67,121)	(49,997)
Total liabilities	9,096,922	**8,711,419**	5,416,280	**4,141,405**	(67,121)	**(49,997)**	**14,446,081**	**12,802,827**

Geographic segments

in Denar thousand	Republic of Macedonia	EU member countries	Other countries	Non-allocated	**Total**
2017					
Total income	881,874	(48,307)	(1,413)	3,462	**835,616**
Total assets	14,971,548	1,177,219	14,879	3	**16,163,649**
2016					
Total income	777,925	(51,978)	(693)	2,155	**727,409**
Total assets	13,189,810	1,033,470	55,857	3	**14,279,140**

3.6 Fair value estimation

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value

The Bank groups assets and liabilities into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2017	Level 1	Level 2	Level 3	**Total**
Assets				
Securities available for sale	13,106	-	-	13,106

31 December 2016	Level 1	Level 2	Level 3	**Total**
Assets				
Securities available for sale	14,331	-	-	14,331

Financial instruments not measured at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented in the Statement of Financial Position at their fair value.

	31 December 2017		31 December 2016	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	4,091,323	4,091,323	3,805,290	3,805,290
Loans and advances to banks	295,045	295,045	80,010	80,010
Loans and advances to customers	11,023,297	11,023,297	9,607,991	9,607,991
Other receivables	41,941	41,941	31,341	31,341
Financial liabilities				
Due to banks	785,687	785,687	341,239	341,239
Due to customers	12,586,279	12,586,279	11,555,050	11,555,050
Borrowings	920,361	920,361	796,528	796,528
Other liabilities	131,257	131,257	92,315	92,315

Fair value estimation (continued)
Financial instruments not measured at fair value (continued)

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value, considering that they include cash, bank accounts and bank deposits with short - term maturity.

Loans and advances to customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating interest rates and their fair value is determined by discounting of future cash flows using the market interest rate. The fair value approximates their carrying value.

Investment securities

Investment securities include short term interest bearing assets held to maturity. Their fair value approximates their carrying value.

Other financial assets

The fair value of other financial assets is considered to approximate their respective carrying values by definition and due to their short-term nature.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest- bearing deposits, is the amount repayable on demand.

The fair value of the term deposits with variable interest rates approximates their carrying values as at the Statement of Financial Position date.

Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

Other liabilities

Carrying value of other liabilities approximates their fair value with relation to their short-term maturity.

3.7 Financial instruments by categories

Net carrying amounts of the financial assets and liabilities of the Bank recognized at the date of the Statement of financial position for the presented periods are classified as follows:

31 December 2017

Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	4,091,323	-	-	4,091,323
Loans and advances to banks	-	295,045	-	-	295,045
Loans and advances to customers	-	11,023,297	-	-	11,023,297
Investment securities	-	-	13,106	-	13,106
Other receivables	-	41,941	-	-	41,941
	-	**15,451,606**	**13,106**	**-**	**15,464,712**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	785,687	785,687
Due to customers	12,586,279	12,586,279
Borrowings	920,361	920,361
Other liabilities	131,257	131,257
	14,423,584	**14,423,584**

31 December 2016

Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	3,805,290	-	-	3,805,290
Loans and advances to customers	-	80,010	-	-	80,010
Investment securities	-	9,607,991	-	-	9,607,991
Investment securities	-	-	14,331	-	14,331
Other receivables	-	31,341	-	-	31,341
		13,524,632	**14,331**	**-**	**13,538,963**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	341,239	341,239
Due to customers	11,555,050	11,555,050
Borrowings	796,528	796,528
Other liabilities	92,315	92,315
	12,785,132	**12,785,132**

3.8 Capital management

Regulatory capital

The Bank's lead regulator NBRM sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by the local regulators.

In implementing capital adequacy requirements, the Bank maintains a prescribed ratio of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets, sum of capital requirements for currency risk and sum of capital requirements for operating risk.

The Bank's own funds are a sum of core capital, supplementary capital, less deductions, as follows:

- Core capital, which includes ordinary and non-cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the Statement of financial position and confirmed by a Decision of the Bank's Shareholders' Assembly or accumulated loss from previous years, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.
- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.
- The total of core capital and supplementary capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

When determining the amount of own funds, the Bank shall observe the following restrictions:

- The amount of the supplementary capital cannot exceed the amount of the core capital.
- The sum of the nominal value of subscribed and paid-in ordinary shares, the share premium of such shares and the amount of reserves and the retained earnings, less the deductions from the core capital and supplementary capital previously described, should exceed the sum of other positions which are part of the Bank's core capital.

The amount of subordinated instruments which are part of the supplementary capital shall not exceed 50% of the amount of core capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital management (continued)

The Bank has complied with all externally imposed capital requirements throughout the period. There were no significant changes in the Bank's approach to capital management during the year.

As at 31 December 2017 and 2016 the Bank capital adequacy ratio is in compliance with the prescribed ratio.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory own capital. The process of allocating capital to specific operations and activities is monitored independently of those responsible for the operation, by the Supervisory Board.

4 Critical accounting estimates and judgments

The most important areas in need of estimates and judgments include:

Allowance for impairment for loans and receivables

Assets carried at amortized costs are evaluated for impairment losses as disclosed in Note 2.11.

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

Allowance for impairment of available-for-sale equity investments

The Bank determines that available for sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investor, industry and sector performance, changes in technology, and operational and financing cash flows.

Determining fair value

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2.10. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

Impairment of non-financial assets

Impairment losses are recognized in the amount for which the carrying value of an asset or cash-generating unit exceeds its recoverable amount. In determining the recoverable amount, Management estimates expected prices, cash flows from each cash generating unit and determines the appropriate interest rate for calculating the present value of those cash flows.

5 Net interest income

Structure of interest income and expenses according to type of financial instruments

	2017	2016
Interest income		
Loans and advances to customers	776,370	716,221
Investment securities	29,536	28,448
Cash and cash equivalents	4,784	5,509
Loans and advances to banks	1,517	677
	812,207	***750,855***
Interest expense		
Due to customers	143,876	176,398
Borrowings	8,650	7,070
Due to banks	3,348	5,284
	155,874	***188,752***
Net interest income	***656,333***	**562,103**

6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities

	2017	2016
Fee and commission income		
Loans and credit cards	97,794	68,371
Payment operations		
- Domestic	99,189	107,121
- International	26,244	24,784
Visa and MasterCard	38,068	41,282
Letters of credit and guarantees	18,034	19,099
Money transfer	4,105	5,301
Other	16	113
	283,450	***266,071***
Fee and commission expenses		
Credit cards	131,472	120,378
Payment operations		
- Domestic	16,543	17,573
- International	9,680	10,284
Other	729	494
	158,424	***148,729***
Net fee and commission income	**125,026**	**117,342**

7 Other operating income

	2017	2016
Rent income	1,655	1,650
Gains form equipment sold	5,222	1,936
Dividends received	1,427	1,198
Release of impairment provisions and special reserve, net (Note 24)	1,677	-
Other income from payment operations	6,374	5,536
SWIFT	2,118	2,119
Collected written-off receivables	6,355	3,932
Income from release of impairment provision of non performing interest	4,524	3,078
Other	4,598	7,135
	33,950	**26,584**

8 Additional/ Release of impairment provision on financial assets, net

	2017	2016
(Charge) / recovery for:		
Loans and advances to customers (Note 15)	41,928	44,300
Other receivables (Note 21)	(3,946)	(4,750)
	37,982	**39,550**

9 Personnel expenses

	2017	2016
Net salaries and contributions	170,954	159,474
Social and health contributions	79,558	75,483
Other employee benefits	12,531	11,350
	263,043	**246,307**

10 Other operating expenses

	2017	2016
Materials and services	92,445	95,004
Rent expenses	54,466	54,725
Deposit insurance premiums	41,043	40,640
Impairment losses on foreclosed assets	6,165	33,437
Administrative and marketing expenses	31,853	21,076
Software license expenses	12,581	11,122
Property and employee insurance premiums	4,052	3,755
Impairment provisions and special reserve, net (Note 25)	0	604
Losses from sold foreclosed assets	-	-
Litigation expenses	358	1,733
Losses from sold equipment	0	-
Other expenses	16,811	10,610
Other	26,958	-
	286,732	**272,706**

11 Income tax expense

	2017	2016
Current income tax expense	23,996	16,105
Deferred income tax (income) / expense	(101)	2,899
	23,895	**19,004**

Reconciliation of the income tax expense as per the Statement of comprehensive income for the years ended 31 December 2017 and 2016 is as follows:

	In %	2017	In %	2016
Profit before taxation		265,150		188,026
Income tax calculated at rate of 10% (2016: 10%)	*10%*	*26,515*	*10%*	*18,803*
Non-deductible expenses for tax purposes	0.60	1,598	0.70	1,321
Tax-exempt income	(1.59)	(4,218)	(0.60)	(1,120)
		23,895		**19,004**
Effective tax rate	9,01		**10.11**	

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Loans and advances to customers	-	-	(2,595)	(2,899)	(2,595)	(2,899)
Other	2,696	-	-	-	2,696	-
	2,696	**-**	(2,595)	**(2,899)**	**101**	**(2,899)**

11 Income tax expense

Movement of temporary differences during the years is as follows:

	Loans and advances to customers
At 31 December 2015/ 01 January 2016	**1,125**
Recognized in profit or loss during 2016	2,899
At 31 December 2016	**4,024**
Recognized in profit or loss during 2017	(101)
At 31 December 2017	**3,923**

12 Earnings per share

The basic and diluted earnings per share are computed when the net profits for the year (belonging to the common shareholders) is divided with the weighted average number of shares during the year.

	2017	2016
Net-profit attributable to shareholders	241,255	169,022
Net-profit attributable to holders of ordinary shares	241,255	169,022
Issued ordinary shares at 1 January	545,987	545,987
Effect from change of ordinary shares during the year	-	-
Weighted average number of shares	545,987	545,987
Basic and diluted earnings per share (in Denars)	**442**	**310**

13 Cash and cash equivalents

	2017	2016
Current accounts and deposits with foreign banks	987,904	843,890
Account and balances with the NBRM, except for obligatory foreign currency reserves	655,960	549,842
Placement with banks with maturity up to 3 months	650,055	750,042
Cash in hand	261,575	258,741
Current accounts and deposits with domestic banks	28,363	130,924
Treasury bills which can be traded on the secondary market	844,315	738,232
Included in cash and cash equivalents for the purpose of the Statement of cash flows	**3,428,172**	**3,271,671**
Obligatory foreign currency reserves	532,561	532,082
Restricted deposits	130,590	1,537
	4,091,323	**3,805,290**

According to the Decision on obligatory reserve (Official Gazette of the Republic of Macedonia No.87/16), the basis for the reserve requirement is determined as an average of the Bank's liabilities for each calendar day of the preceding month. The reserve requirement for banks in Denars shall be calculated as a sum of 8% for liabilities in domestic currency, 50% for liabilities in domestic currency with FX clause and 30% for liabilities in foreign currency. The reserve requirement base for banks' liabilities denominated in domestic currency, shall be reduced by the amount of the claims on the basis of newly approved loans to nonfinancial companies and investments in debt securities in domestic currency issued by nonfinancial companies. The bank fulfills the reserve requirement in denars, if the average daily balance of the assets on the bank account with the National Bank and the funds of the Bank on the account for the Reserve Guarantee Fund of the Clearing House AD Skopje, for the period of fulfillment, is at least equal to the calculated reserve requirement. The banks' reserve requirement in foreign currency is set at 70% of the amount calculated as a sum of 15% for liabilities in foreign currency and 13% for liabilities to non-resident financial companies in foreign currency with contractual maturity up to one year). The daily balance of the bank's allocated funds on the foreign currency account of the National Bank abroad is at least equal to 95% of the calculated obligatory reserve in euros.

13 Cash and cash equivalents

The average daily balance of the bank's allocated funds on the Euro account in the MIPS, for the fulfillment period, is at least equal to 5% of the calculated obligatory reserve in euros.

The base from the foreign currency liabilities shall be presented in Euros and in Denars, as well, by applying the middle exchange rate of the National Bank valid on the last day of the calendar month.
The reserve requirement maintenance period is from 11th in the current month until 10th in the following month.
The interest rate on the obligatory reserve in Denars and in foreign currency was nil during 2017 and 2016.
As at 31 December 2017, treasury bills issued by the National Bank of the Republic of Macedonia mature within 28 days (2016: 28 days) and bear interest of 3.25% p.a. (2016: 3.75% p.a.), and are classified as held-to-maturity.

14 Loans and advances to banks

	2017	2016
Loans and advances to banks at amortized cost	295,045	80,010
	295,045	**80,010**

15 Loans and advances to customers

	2017	2016
Loans and advances to customers at amortized cost	11,023,297	9,607,991
	11,023,297	**9,607,991**

The structure of loans and advances to customers by type of debtor is as follows:

		2017		2016
	Short-term	Long-term	Short-term	Long-term
Corporate customers	924,287	2,752,550	946,424	2,261,923
Public sector	57	0	43	-
Financial institution other than banks	432	167,678	5,152	190,494
Retail customers:				
Principal				
Housing	4,915	1,194,256	18,159	1,071,094
Consumer	51,041	3,986,969	52,326	3,012,988
Vehicle	91	7,930	217	13,250
Credit cards	432,652	0	358,591	-
Other	347,102	1,085,148	314,117	1,331,642
Nonresident customers	114,996	61491	124,546	102,469
Other	32	3,055	4	904
	1,875,605	9,259,077	1,819,579	7,984,764
Current maturity	1,725,849	-1,725,849	1,440,142	(1,440,142)
	3,601,454	7,533,228	3,259,721	6,544,622
Less: provision for impairment	(74,515)	(36,870)	(162,805)	(33,547)
	3,526,939	**7,496,358**	**3,096,916**	**6,511,075**

At 31 December 2017 non-performing loans amounted to Denar 99,453 thousand (2016: Denar 196,394 thousands). Unrecognized interest relating to such loans amounted to Denar 4,294 thousand (2016: Denar 7,984 thousand).

15 Loans and advances to customers

The decreased amount of non-performing loans and interest payments in 2017 compared to 2016 is due to the change in the Decision on credit risk management according to which the bank is obliged to write off credit exposures if two years have passed from the date as of which the bank had been required to make impairment, or allocate special reserve in the amount of 100%. During 2017, the Bank in this respect has written off a total of 43,147 thousand denars due to non-performing loans and 658 thousand denars due to non-performing interest.

As at 31 December 2017 loans and advances to customers in amount of Denar 460,446 thousand (2016: Denar 789,581 thousand) are mortgaged as collateral for borrowings from MBDP (Note 24).

	2017	2016
Movements of provision for impairment		
Balance at 01 January	196,352	365,721
Charge/ (Release) of provision for impairment, net (Note 8)	(41,928)	(44,300)
Effect from foreign exchange differences	108	(210)
Write-off	(43,147)	(124,859)
Balance as at 31 December	**111,385**	**196,352**

16 Investment securities

	2017	2016
Available-for-sale investment securities	13,106	14,331
	13,106	**14,331**

The movement of the impairment provision for investment securities is as follows:

	2017	2016
Movements of provision for impairment		
Balance at 01 January	-	1,372
Balance at 31 December	**-**	**1,372**

17 Foreclosed assets

	2017	2016
Land	576	867
Buildings	87,585	120,352
Equipment	12,637	15,935
Residential facilities and apartments	18,794	16,590
Other	0	1,636
	119,592	**155,380**

As at 31 December 2017, the net carrying value of Bank's foreclosed assets amount to Denar 119,592 thousand (2016: Denar 155,380 thousand). As at 31 December 2017 their fair value less cost to sell is in the amount of Denar 249,081 thousand (2016: Denar 266,861 thousand).

In December 2014 the Bank's foreclosed assets in the amount of Denar 109,556 thousand were placed as initial capital in the newly founded legal entity, UNI Imoti dooel Skopje. The subsidiary was 100% in ownership of UNI Bank AD Skopje. In 2016, the subsidiary is liquidated by decision of the Central Registry number 35020160032174 of 22.12.2016, pursuant to Board Resolution for deletion from 12.12.2016. The assets of the subsidiary in the amount of Denars 70,116 thousand were returned to the Bank and recognized as foreclosed assets at their carrying amount as of the date of transfer.

17 Foreclosed assets

The valuation of foreclosed assets was performed by independent appraisers using Level 2 inputs to market approach. The market approach reflects observed prices for recent market transactions for similar properties and incorporates adjustments for factors specific to the assets in question, including plot size, location, encumbrances, current use, etc.

18 Intangible assets

	Software	Rights and licenses	Assets under development	Total
Cost				
At 01 January 2016	**138,610**	**64,252**	**24**	**202,886**
Additions during the year	2523	11,701	-	**14,224**
Transfers	-	-	-	**-**
At 31 December 2016 / 01 January 2017	**141,133**	**75,953**	**24**	**217,110**
Additions during the year	1,911	-	2482	**4,393**
Transfers	2162	-	(2162)	**-**
At 31 December 2017	**145,206**	**75,953**	**344**	**221,503**
Accumulated amortization				
At 01 January 2016	**65,560**	**35,266**	**-**	**100,826**
Amortization for the year	11,951	5,807	-	**17,758**
At 31 December 2016/01 January 2017	**77,511**	**41,073**	**-**	**118,584**
Amortization for the year	11,902	6,295	-	**18,197**
At 31 December 2017	**89,413**	**47,368**	**-**	**136,781**
Net carrying value				
At 01 January 2016	**73,050**	**28,986**	**24**	**102,060**
At 31 December 2016	**63,622**	**34,880**	**24**	**98,526**
At 31 December 2017	**55,793**	**28,585**	**344**	**84,722**

At 31 December 2017 and 2016, all intangible assets are owned by the Bank. The Bank has no encumbrances over its intangible assets.

19 Property and equipment

	Buildings	Equipment	Construction in progress	Total
Cost				
At 01 January 2016	460,681	372,295	11,914	844,890
Additions during the year	5733	11,486	8,175	25,394
(Disposals and write offs)	-	(270)	-	(270)
Transfer	1,355	9038	(10,393)	-
At 31 December 2016/01 January 2017	**467,769**	**392,549**	**9,696**	**870,014**
Additions during the year	3817	17,815	11,476	33,108
(Disposals and write offs)	-	(5,716)	-	(5,716)
Transfers	33,697	10,908	(18,895)	25,710
At 31 December 2017	**505,283**	**415,556**	**2,277**	**923,116**
Accumulated depreciation				
At 01 January 2016	81,597	285,455	-	367,052
Depreciation for the year	11,641	30,521	-	42,162
(Disposals and write offs)	-	(268)	-	(268)
At 31 December 2016/01 January 2017	**93,238**	**315,708**	**-**	**408,946**
Depreciation for the year	12,413	32,587	-	45,000
(Disposals and write offs)	-	(5,034)	-	(5,034)
At 31 December 2017	**105,651**	**343,261**		**448,912**
Net carrying value				
At 01 January 2016	379,084	86,840	11,914	477,838
At 31 December 2016	374,531	76,841	9,696	461,068
At 31 December 2017	**399,632**	**72,295**	**2,277**	**474,204**

At 31 December 2017 and 2016, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property, plant and equipment. As at 31 December 2017 the Bank leases under operating lease terms building with net carrying amount of Denar 6,615 thousand (2016: Denar 5,977 thousand). The leases are cancellable and typically run for a shorter period.

20 Other receivables

	2017	2016
Fee and commission receivables	15,567	12,565
Prepaid expenses	12,288	15,022
Credit card receivables	26,770	18,573
Receivables for court cases	2,693	1,798
Advances for intangible assets	4,364	5,447
Advances for property and equipment	71	813
Inventories	3,340	3,566
Other receivables from litigations	-	-
Receivables from leased assets	-	-
Money transfer	1,329	1,773
Trade receivables	4	8
Employee receivables	36	8
Other	3,582	2,585
	70,044	**62,158**
Less: provision for impairment	(7,684)	(5,614)
	62,360	**56,544**

20 Other receivables

	2017	2016
Movements of provision for impairment		
Balance at 01 January	5,614	24,014
Additional provision for impairment / (Release) of provision for impairment, net (Note 8)	4,110	4,750
Foreclosed assets from non-collectable receivables	(164)	-
Effect from foreign exchange differences	-	1
Write-off	(1,876)	(23,151)
Balance at 31 December	**7,684**	**5,614**

The major part of the prepaid expenses in the amount of Denar 4,637 thousand (2016: Denar 6,557 thousand) relate to the lease of the business premises for the Bank's branches in Strumica. The total rent according the lease agreement was paid in advance in 2000, covering lease period of 20 years.

21 Due to banks

		2017		2016
	Short-term	Long-term	Short-term	Long-term
Current accounts of domestic banks	30,990	-	2,427	-
Current accounts of foreign banks	31,119	-	13,150	-
Term deposits of domestic banks	92,284	-	-	-
Term deposits of foreign banks	616342	-	308,755	-
Restricted deposits of domestic banks	750	-	750	-
Other deposits	14,202	-	16,157	-
	785,687	**-**	**341,239**	**-**

22 Due to customers

	2017		2016	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Current accounts	1,344,659	0	1,441,065	-
Term deposits	870,540	39,715	421,103	30,305
Restricted deposits	11,741	85,755	57,803	51,868
Other deposits	9,612	0	12,628	-
	2,236,552	125,470	1,932,599	82,173
State				
Current accounts	2,864	0	3,457	-
Demand deposits	1	0	399	-
	2,865	0	3,856	-
Not-for-profit institutions				
Current accounts	95,365	0	73,776	-
Term deposits	4,621	7,000	5,323	-
Restricted deposits	271	1,300	121	1,300
Other deposits	807	0	1,069	-
	101,064	8,300	80,289	1,300
Financial institutions, other than banks				
Current accounts	33,938	0	63,418	-
Term deposits	118,505	442,392	202,431	201,648
Restricted deposits	5,565	7,361	5,533	6,244
Other deposits	34	0	35	-
	158,042	449,753	271,417	207,892
Citizens				
Current accounts	2,076,506	0	1,733,396	-
Demand deposits	413,207	0	98,271	-
Term deposits	3,451,957	2,651,869	3,817,276	2,653,707
Restricted deposits	46,005	239,570	65,327	207,032
Other deposits	19,255	0	24,614	-
	6,006,930	2,891,439	5,738,884	2,860,739
Nonresidents				
Current accounts	503,137	0	318,025	-
Term deposits	76,160	8,958	32,216	9,253
Restricted deposits	81	6,049	80	5,023
Other deposits	11,479	0	11,304	-
	590,857	15,007	361,625	14,276
Current maturity	1,326,686	(1,326,686)	1,097,787	(1,097,787)
	10,422,996	**2,163,283**	**9,486,457**	**2,068,593**

23 Borrowings

Structure of borrowings by type of borrowing and creditor's sector

	2017 Short-term	2017 Long-term	2016 Short-term	2016 Long-term
Banks	1,832	916,736	1,501	793,331
State	1,476	317	986	710
Current maturity	238,107	-238,107	238,085	(238,085)
	241,415	**678,946**	**240,572**	**555,956**

Borrowings by creditors

Borrowings by creditors

	2017 Short-term	2017 Long-term	2016 Short-term	2016 Long-term
Domestic sources:				
Macedonian Bank for Development Promotion in foreign currency	1,817	914,737	1,473	789,581
Macedonian Bank for Development Promotion in domestic currency	15	1,999	28	3,750
Ministry of Finance of RM	1,476	317	986	710
	3,308	**917,053**	**2,487**	**794,041**
Current maturity	238,107	-238,107	238,085	(238,085)
	241,415	**678,946**	**240,572**	**555,956**

At 31 December 2017, based on already signed Frame contracts with the Macedonian Bank for Development Promotion AD, Skopje ("MBDP"), the Bank has liabilities for borrowing in amount of 918.568 thousand Denars (2016: 794.832 thousand Denars). During 2017, the bank has withdrawn funds from different credit line with year of maturity 2017-2028 and interest rate 0.75- 1% per annum for borrowings in foreign currency and 0.5 – 3.5% for borrowings in domestic currency with foreign currency clause.

At 31 December 2017, the Bank has liabilities for borrowings in domestic currency with foreign currency clause based on signed borrowing agreement with the Ministry of Finance of the Republic of Macedonia – ZKDF in the amount of 1,793 thousand Denars (2016: 1,696 thousand denars). During 2017, based on already signed agreements, the Bank has withdrawn funds with maturity date as of 15.01.2019 and interest rate 3.5%.

24 Provision and special reserve

	Commitments and contingencies
Balance at 01 January 2016	2,957
Additional provision for impairment, net (Note 10)	604
Foreign exchange gain	(1)
Balance at 31 December 2016 (Note 25)	**3,560**
Balance at 01 January 2017	3,560
(Release) provision for impairment, net (Note 7)	(1,677)
Foreign exchange gain	(1)
Balance at 31 December 2017	**1,882**

25 Other liabilities

	2017	2016
Non allocated inflows	240	21,898
Trade payables	54,815	14,198
Fee and commission	7,766	6,266
Other taxes and contributions	7,920	2,573
Accrued expenses	1,990	128
Payments for initial investment	2,403	10,394
Subscriptions	39,641	18,724
Other	22,230	20,835
	137,005	**95,016**

26 Share capital

At 31 December 2017 the authorized share capital comprised ordinary shares 545,987 (2016: 545,987). Ordinary shares have a par value of MKD 1,000 (2016: MKD 1,000). All issued shares are fully paid.

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 shareholders' meetings of the Bank. (2016: one vote per share). All shares rank equally with regard to the Bank's residual assets.

	In Denars Nominal value per share		*Number of issued shares*				Total subscribed capital	
			ordinary shares		preference shares			
	ordinary shares	preference shares not for sale	2017	2016	2017	2016	2017	2016
At 1 January – fully paid	1,000	1,000	545,987	545,987	-	-	545,987	545,987
Changes during the year (conversion from preference to ordinary shares)	-	-	-	-	-	-	-	-
At 31 December – fully paid	**1,000**	**1,000**	**545,987**	**545,987**	**-**	**-**	**545,987**	**545,987**

26 Share capital

At 31 December 2017 and 2016, the following shareholders have ownership exceeding 5% of the total issued shares with a voting right:

	Share capital in Denar thousand		Voting right	
	2017	2016	2017	2016
Ivaylo Moutaftchiev, Republic of Bulgaria	198,994	198,994	36.45	36.45
Tzeko Minev, Republic of Bulgaria	198,994	198,994	36.45	36.45
	397,988	**397,988**	**72.90**	**72.90**

27 Commitments and contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category:

	2017	2016
Guarantees		
in MKD	528,315	488,500
in foreign currency	49,916	48,238
Letters of credit in foreign currency	20,435	22,285
Unused overdrafts on current accounts	406,081	359,133
Unused credit limits non- cancellable	306,865	284,615
	1,311,612	**1,202,771**
Provision for impairment (Note 24)	(1,882)	(3,560)
	1,309,730	**1,199,211**

Litigations

At 31 December 2017, legal proceedings raised against the Bank amount in total Denar 1,966 thousand (2016: Denar 3,585 thousand). As at the Statement of financial position date, the Bank did not recognize provision, since professional legal advice show that there is no possibility of significant losses. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Bank believes that no material liabilities are likely to result.

Taxation

The tax authorities may at any time inspect the books and records up to 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 circumstances, which may give rise to a potential material liability in this respect.

Capital commitments

As at the Statement of financial position date, there are no capital commitments that have not been recognized in the financial reports.

28 Fiduciary activities

The Bank manages assets for the benefit of third parties mainly intended for concluding loan agreements with legal entities. These assets are not owned by the Bank and have not been recognized in the Statement of financial position. The Bank is not exposed to credit risk from these placements. As at 31 December 2017, these assets amount to Denar 497,535 thousand (2016: Denar 497,578 thousand).

29 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as at 31 December 2017 and 2016. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as at 31 December 2017 and 2016.

30 Related party transactions

According to the Banking Law, related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares), affiliates and entities under common ownership, control and management with the Bank, or whose activities the Bank has an ability to control.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

As at 31 December 2017 and 2016, the balances and volume of transactions with related entities and Key management personnel are as follows:

	Other related parties		Key management personnel		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current accounts	89,020	82,797	-	-	89,020	82,797
Other assets	1518	18	2	15	1,520	33
Loans and other receivables	10436	56	25,332	22,648	35,768	22,704
	100,974	**82,871**	**25,334**	**22,663**	**126,308**	**105,534**
Liabilities						
Deposits	782,813	444,140	49,139	69,526	831,952	513,666
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	4,636	3,748	4	10	4,640	3,758
	787,449	**447,888**	**49,143**	**69,536**	**836,592**	**517,424**
Income						
Interest income	1,108	1,567	1,091	1,621	2,199	3,188
Fee and commission income	558	320	109	180	667	500
Other income	131	73	113	76	244	149
	1,797	**1,960**	**1313**	**1,877**	**3,110**	**3,837**
Expenses						
Interest expenses	3,844	5,169	685	1,017	4,529	6,186
Fee and commission expenses	41,811	36,887	-	-	41,811	36,887
Other expenses	37,707	39,855	16,705	22,671	54,412	62,526
Short term benefits	-	-	60,837	57,590	60,837	57,590
	83,362	**81,911**	**78,227**	**81,278**	**161,589**	**163,189**

31 Events after the reporting period

After 31 December 2017 – the reporting date, until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.

In accordance with the requirements of International Accounting Standard 10 (events after the balance sheet date), the Bank has the obligation to disclose non-adjusting events that occurred after the balance sheet date, or at the end of the period reporting and the date when the financial statements are approved for issue. As of January 1, 2018, the Bank made adjustments in accordance with the changes in the Methodology for recording and evaluating the accounting entries and for the preparation of the financial statements issued by the NBRM and the entry into force of the IFRS 9 standard, which replaced MSS 39. The abovementioned changes entered into force on 01.01.2018.

The Bank performed an assessment of all financial assets as of January 1, 2018. Depending on the business objective, the Bank performed its classification in an appropriate business model and determined the method of measuring the fair value of the financial instruments.

Debt instruments that are classified in the business model for the purpose of collecting the agreed cash flows and solely repaying the principal and interest are measured at amortized cost. In accordance with the requirements of IFRS 9, the Bank performed on 01.01.2018 a classification of the debt instruments portfolio in the category of financial assets measured at amortized cost, and the same has no impact on the Bank's balance sheets. The loan portfolio, in accordance with the selected business model and the conducted SPPI test, as of January 1, 2018, will continue to be measured at amortized cost. In order to comply with the requirements of IFRS 9, the Bank does not carry out transfer to different accounts because the classification has no impact on the Bank's financial statements.