KOMERCIJALNA BANKA AD SKOPJE

Independent Auditors' Report and Consolidated financial statements For the year ended 31 December 2018

This is an English translation of the original Report in the Macedonian language

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Independent Auditor's Report

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Unofficial translation from the original Macedonian Independent Auditors' report to the shareholders of Komercijalna Banka AD Skopje

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Komercijalna Banka AD Skopje ("the Bank"), as set out on pages 3 to 167, which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and reserves and consolidated cash flows statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing adopted and published in the Official Gazette of the Republic of North Macedonia no. 79 from 11 June 2010. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

KPMG Macedonia DOO Skopje, a Macedonian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
Registered with the Trade Register of the Republic of North Macedonia with EMBS: 5078598
Tax No. MK4030996107850
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the regulations prescribed by the National Bank of the Republic of North Macedonia.

Other matter

The consolidated financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor, who expressed an unmodified opinion on those consolidated financial statements on 1 March 2018.

Report on other legal and regulatory requirements

Annual report on the activities of the Bank prepared in accordance with the requirements of article 384 of the Trading Companies Law

As required under article 34(d) from the Law on Auditing, we report that the historical financial information disclosed in the annual report of the Bank, prepared by management as required under article 384(7) of the Trading Companies Law, is consistent, in all material aspects, with the consolidated annual account of the Bank and the financial information disclosed in the audited consolidated financial statements of the Bank as at and for the year ended 31 December 2018. Management is responsible for the preparation of the consolidated annual account of the Bank which was approved by the Supervisory Board of the Bank on 27 February 2019 and for the preparation of the annual report of the activities of the Bank which was approved by the Supervisory Board of the Bank on 27 February 2019.

Skopje, 1 March 2019

Certified auditor
Gordana Nikushevska

KPMG Macedonia DOO
Managing Director
Gordana Nikushevska

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT
For the period from 1 January 2018 to 31 December 2018

	Note	*in thousands of Denars*	
		current year 2018	previous year 2017
Interest income		2,993,065	3,562,264
Interest expense		(521,526)	(491,892)
Interest income/(expense), net	6	**2,471,539**	**3,070,372**
Fee and commission income		1,281,973	1,162,629
Fee and commission expense		(359,182)	(300,583)
Fee and commission income/(expense), net	7	**922,791**	**862,046**
Net trading income	8	5,617	23,472
Net income from other financial instruments at fair value	9	7,269	-
Foreign exchange gains/(losses), net	10	139,861	119,459
Other operating income	11	1,418,012	1,071,994
Share of profit of associates	24	64,187	55,128
Impairment losses of financial assets and special reserve for off-balance sheet exposures, net	12	(793,856)	(2,452,094)
Impairment losses of non-financial assets, net	13	(413,040)	(102,456)
Personnel expenses	14	(986,986)	(872,243)
Depreciation and amortization	15	(166,718)	(179,023)
Other operating expenses	16	(646,517)	(656,715)
Share of loss of associates	24	-	-
Profit/(loss) before tax		**2,022,159**	**939,940**
Income tax expense	17	(215,944)	(94,632)
Profit for the year from continuing operations		**1,806,215**	**845,308**
Profit/(loss) from group of assets and liabilities held for sale			
Profit/(loss) for the year		**1,806,215**	**845,308**
Profit/(loss) for the year attributable to*:			
Shareholders of the Bank		1,795,029	836,478
Non-controlling interest		11,186	8,830
Earnings per share	41		
basic earnings per share (in Denars)		788	367
diluted earnings per share (in Denars)		788	367

* only for consolidated financial statements

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period from 1 January 2018 to 31 December 2018

	Note	*in thousands of Denars* Current year 2018	Previous year 2017
Profit/(loss) for the year		**1,806,215**	**845,308**
Other gains/(losses) for the period (before tax)			
Other gains/(losses) for the period not recognized in the Income statement (before tax)			
Revaluation reserve for equity assets available for sale		-	-
- unrealized net- changes in fair value of equity assets available for sale		-	-
- realized net gains/(losses) from equity assets available for sale, reclassified to Other reserves		-	-
Changes in the bank's creditworthiness for financial liabilities measured at fair value		-	-
Income tax on other gains/(losses) not recognized in the income statement	17	-	-
Total other gains/(losses) in the period not recognized in the income statement		-	-
Other gains/ (losses) in the period which are, or might be reclassified in the Income statement (before tax)			
Revaluation reserve for debt assets available for sale			
- unrealized net- changes in fair value of debt assets available for sale		**7,867**	**3,600**
- realized net gains/(losses) from debt assets available for sale, reclassified to Income Statement		-	-
- additional impairment to debt assets available for sale		-	-
- release of impairment to debt assets available for sale		-	-
Revaluation reserve for foreclosed assets on the basis of uncollected receivables		-	-
- revaluation reserve recognized during the year		-	-
- reduction of revaluation reserve, reclassified in to Profit and loss		-	-
Reserve for instruments for hedging net-investment in international operations risk		-	-
- unrealized net-changes in fair value of hedging instruments of Cash flow risk		-	-
- realized net gains/(losses) on hedging instruments of cash flow, reclassified in the Income statement		-	-
Reserve for instruments to protect against the risk of net investments in foreign operations		-	-
Foreign exchange reserve of investment in foreign operations		-	-
Share in other gains/(losses) of associates not recognized in the income statement	24	-	-
Other gains/(losses) not recognized in the income statement		-	-
Income tax on other gains/(losses) which are or might be reclassified to the income statement	17	-	-
Total other gains/ (losses) in the period that are or might be reclassified to the Income Statement		**7,867**	**3,600**
Total other gains/(losses) in the period		**7,867**	**3,600**
Total comprehensive income for the year		**1,814,082**	**848,908**
Total comprehensive income for the year, attributable to*:		1,802,896	
Shareholders of the Bank		11,186	840,078
Non-controlling interest		**1,814,082**	8,830

* only for consolidated financial statements

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

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CONSOLIDATED BALANCE SHEET**
At 31 December 2018

	Note	*in thousands of denars*		
		current year 31.12.2018	previous year 31.12.2017	Previous year*** 01.01.2017
Assets				
Cash and cash equivalents	18	48,796,328	37,208,775	-
Held-for-trading assets	19	40,196	481,925	-
Financial assets at fair value through profit or loss upon initial recognition	20	331,829	-	-
Derivative assets held for risk management	21	-	-	-
Loans and advances to banks	22.1	2,515,919	5,834,393	-
Loans and advances to other customers	22.2	46,406,938	45,366,241	-
Investments in securities	23	12,310,071	10,738,425	-
Investments in associates (accounted using the "equity method")	24	274,037	235,164	-
Income tax receivable (current)	30.1	-	498	-
Other receivables	25	692,766	1,320,785	-
Assets pledged as collateral	26	-	-	-
Foreclosed assets	27	179,522	776,851	-
Intangible assets	28	38,574	40,422	-
Property and equipment	29	2,807,553	2,865,784	-
Deferred tax assets	30.2	-	-	-
Non-current assets held-for-sale and disposal group	31	-	268	-
Total assets		**114,393,733**	**104,869,531**	**-**
Liabilities				
Trading liabilities	32	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	33	-	-	-
Derivative liabilities held for risk management	21	-	-	-
Due to banks	34.1	350,536	448,997	-
Due to other customers	34.2	99,036,735	91,228,581	-
Debt instruments issued	35	-	-	-
Borrowings	36	928,925	1,237,823	-
Subordinated debt	37	-	-	-
Special reserve and provisions	38	502,921	243,427	-
Income tax payable (current)	30.1	127, 301	9,528	-
Deferred tax liabilities	30.2	-	-	-
Other liabilities	39	973,507	628,217	-
Liabilities related to disposal group	31	-	-	-
Total liabilities		**101,919,925**	**93,796,573**	**-**
Equity and reserves				
Subscribed capital	40	2,279,067	2,279,067	-
Share premium		771,527	771,527	-
Treasury shares		-	-	-
Other equity instruments		-	-	-
Revaluation reserves		17,638	9,771	-
Other reserves		7,556,651	7,146,302	-
Retained earnings/(Accumulated losses)		1,819,867	845,419	-
Total equity and reserves, attributable to the shareholders of the Group		**12,444,750**	**11,052,086**	**-**
Non-controlling interest*		29,058	20,872	-
Total equity and reserves		**12,473,808**	**11,072,958**	**-**
Total liabilities and equity and reserves		**114,393,733**	**104,869,531**	**-**
Contingent liabilities	42	16,872,083	18,333,394	-
Contingent assets	42	-	-	-

* only for consolidated financial statements
** this statement is also known as "Statement of Financial Position"
*** this column is filled only if the Group: retrospectively applies accounting policy, makes retrospective correction of prior year errors or makes retrospective reclassification of items in the financial statements.

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

The consolidated financial statements were authorised by the Supervisory Board of the Bank on 27 February 2019.

Signed on behalf of Komercijalna Banka AD Skopje:

Ph.D. Maja Stevkova Sterieva	Ilija Iloski	Hari Kostov
Chief Finance Officer	Chief Operating Officer	Chief Executive Officer

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES
For the period from 1 January 2018 to 31 December 2018

	Equity					Revaluation reserves				Other reserves			Retained earnings					
In thousands of Denars	Subscri-bed capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for foreclosed assets	Revalua-tion reserve on financial assets available for sale	Reserves for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accu-mulated losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controlling interest *	Total equity and reserves
As at January 1, 2017 (previous year)	**2,279,067**	**771,527**	**-**	**-**	**-**	**6,171**	**-**	**-**	**-**	**455,813**	**-**	**6,252,960**	**788,330**	**-**	**-**	**10,553,868**	**12,042**	**10,565,910**
Opening balance restatement																		
As at January 1, 2017 (previous year), restated	**2,279,067**	**771,527**	**-**	**-**	**-**	**6,171**	**-**	**-**	**-**	**455,813**	**-**	**6,252,960**	**788,330**	**-**	**-**	**10,553,868**	**12,042**	**10,565,910**
Total comprehensive income for the year																		
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	836,478	-	-	**836,478**	**8,830**	**845,308**
Other gains/(losses) during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets available for sale																		
Debt instruments																		
-unrealized changes in fair value (net)	-	-	-	-	-	3,600	-	-	-	-	-	-	-	-	-	**3,600**	-	**3,600**
-realized changes in the fair value (net), transferred to the Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-additional impairment to debt assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-release of inpairment for debt assets availabl for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments																		
-unrealized changes in fair value (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-realized changes in the fair value (net), transferred to Other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (continued)
For the period from 1 January 2018 to 31 December 2018

	Equity					Revaluation reserves				Other reserves			Retained earnings					
In thousands of denars	Subscri-bed capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for foreclosed assets	Revalua-tion reserve on financial assets available for sale	Reserves for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumula-ted losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controlling interest *	Total equity and reserves
Changes in fair value of instruments for hedging cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of instruments for hedging net-investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/(losses) of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the bank's creditworthiness for financial liabilities measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized gains/(losses) recognized directly in equity	-	-	-	-	-	**3,600**	-	-	-	-	-	-	-	-	-	**3,600**	-	**3,600**
Total comprehensive income for the year	-	-	-	-	-	**3,600**	-	-	-	-	-	-	**836,478**	-	-	**840,078**	**8,830**	**848,908**
Transactions with the shareholders, recognized directly in equity and reserves																		
Share issued in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	437,529	(437,529)	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(341,860)	-	-	**(341,860)**	-	**(341,860)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves (describe separately)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with shareholders, recognized directly in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	**437,529**	**(779,389)**	-	-	**(341,860)**	-	**(341,860)**
As at December 31, 2017 (previous year)/ January 1, 2018 (current year)	**2,279,067**	**771,527**	-	-	-	**9,771**	-	-	-	**455,813**	-	**6,690,489**	**845,419**	-	-	**11,052,086**	**20,872**	**11,072,958**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (Continued)
For the period from 1 January 2018 to 31 December 2018

	Equity					Revaluation reserves				Other reserves			Retained earnings					
In thousands of Denars	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for foreclosed assets	Revaluation reserve on financial assets available for sale	Reserves for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controlling interest *	Total equity and reserves
As at December 31, 2017 (previous year)/January 1, 2018 (current year)	**2,279,067**	**771,527**	**-**	**-**	**-**	**9,771**	**-**	**-**	**-**	**455,813**	**-**	**6,690,489**	**845,419**	**-**	**-**	**11,052,086**	**20,872**	**11,072,958**
Opening balance restatement																		
As at January 1, 2018 (current year), restated	**2,279,067**	**771,527**	**-**	**-**	**-**	**9,771**	**-**	**-**	**-**	**455,813**	**-**	**6,690,489**	**845,419**	**-**	**-**	**11,052,086**	**20,872**	**11,072,958**
Total comprehensive income for the year																		
Profit/(loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,795,029**	**-**	**-**	**1,795,029**	**11,186**	**1,806,215**
Other gains/(losses) in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt instrumens																		
-unrealized changes in fair value (net)	**-**	**-**	**-**	**-**	**-**	**7,867**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,867**		**7,867**
-realized changes in the fair value (net), transferred to the Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-additional impairment to debt assets available for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-release of inpairment for debt assets availabl for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity instruments																		
-unrealized changes in fair value (net)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-realized changes in the fair value (net), transferred to Other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of available for sale assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of instruments for hedging cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (Continued)
For the period from 1 January 2018 to 31 December 2018

	Equity					Revaluation reserves				Other reserves			Retained earnings					
In thousands of denars	Subscri-bed capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve for foreclosed assets	Revalua-tion reserve on financial assets available for sale	Reserves for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumu-lated losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controlling interest *	Total equity and reserves
Changes in fair value of instruments for hedging net-investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/(losses) of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the bank's creditworthiness for financial liabilities measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized gains/(losses) recognized directly in equity	**-**	**-**	**-**	**-**	**-**	**7,867**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,867**	**-**	**7,867**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**7,867**	**-**	**-**	**-**	**-**	**-**	**-**	**1,795,029**	**-**	**-**	**1,802,896**	**11,186**	**1,814,082**
Transactions with the shareholders, recognized directly in equity and reserves																		
Share issued in the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allocation of statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	410, 349	(410, 349)	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(410,232)	-	-	(410,232)	(3,000)	(413,232)
Purchase of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sale of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other changes in equity and reserves (describe separately)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transactions with shareholders, recognized directly in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	410, 349	(820,581)	-	-	(410,232)	(3,000)	(413,232)
As at December 31, 2018 (current year)	**2,279,067**	**771,527**	**-**	**-**	**-**	**17,638**	**-**	**-**	**-**	**455,813**	**-**	**7,100,838**	**1,819,867**	**-**	**-**	**12,444,750**	**29,058**	**12,473,808**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from 1 January 2018 to 31 December 2018

	Note	*in thousands of Denars*	
		Current year 2018	Previous year 2017
Operating cash flows			
Profit/(Loss) before tax		**2,022,159**	**939,940**
Adjusted for:			
Minority share, included in the consolidated income statement*		(11,186)	(8,830)
Depreciation of:			
Intangible assets	15/28	12,959	12,829
Property and equipment	15/29	153,758	166,194
Capital gain from:			
Sale of intangible assets			-
Sale of property and equipment	11	(1,509)	(4,229)
Sale of foreclosed assets	11	(988,866)	(672,045)
Capital loss from:			
Sale of intangible assets			-
Sale of property and equipment	16		-
Sale of foreclosed assets	16		-
Interest income	6	(2,993,065)	(3,562,264)
Interest expense	6	521,526	491,892
Trading income, net	8	(12,886)	(23,472)
Impairment losses of financial assets and special reserve for off-balance sheet exposures, net	12		
Additional impairment losses and special reserve		3,140,226	4,959,901
			(2,507,808)
Release of impairment losses and special reserve		(2,346,370)	
Impairment losses of non-financial assets, net			
Additional impairment losses	13	413,040	102,456
Release of impairment losses		-	-
Provisions			
Additional provisions	38	10,148	11,706
Release of provisions	38	(1,612)	(1,258)
Dividend income	11	(5,478)	(5,793)
Share of profit /(loss) of associates		(64,187)	(55,128)
Other adjustments		14,380	3,253
Interest received		2,994,124	3,577,228
Interest paid		(527,520)	(523,814)
Profit from operations before changes in operating assets:		***2,329,641***	***2,900,758***
(Increase)/decrease of operating assets:			
Trading assets		128,228	(52,128)
Derivative assets held for risk management			
Loans and advances to banks		3,005,935	4,188,689
Loans and advances to other customers		(1,565,718)	(2,434,822)
Assets pledged as collateral		-	-
Foreclosed assets		1,173,155	360,684
Obligatory deposit in foreign currency		(383,056)	69,396
Obligatory deposit held with NBRM according to special regulations		-	-
Other receivables		603,251	(798,517)
Deferred tax assets		-	-
Non-current assets held-for-sale and disposal group	31	-	(268)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
For the period from 1 January 2018 to 31 December 2018

	Note	*in thousands of denars*	
		Current year 2018	Previous year 2017
Increase/(decrease) in operating liabilities:			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Due to banks		(95,893)	(168,719)
Due to other customers		7,811,453	4,113,925
Other liabilities		343,478	82,893
Liabilities directly related to group or assets for disposal		-	-
Net cash flow from operating activities before taxation		***13,350,474***	***8,261,891***
(Paid)/received income tax		(97,673)	(122,181)
Net cash flow from operating activities		**13,252,801**	**8,139,710**
Cash flow from investing activities			
(Investments in securities)		(10,700,822)	(10,865,924)
Inflows from sale of investment in securities		9,134,179	7,192,951
(Outflows from investment in subsidiaries and associates)		-	-
Inflows from disposal of investment in subsidiaries and associates		-	-
(Purchase of intangible assets)		(11,111)	(14,344)
Inflows from sale of intangible assets		-	-
(Purchase of property and equipment)		(95,527)	(63,838)
Inflows from sale of property and equipment		1,509	4,271
(Outflows from non-current assets held-for-sale)		-	(268)
Inflows from non-current assets held-for-sale		295	-
(Other outflows from investing activity)		-	-
Other inflows from investing activity		31,612	41,590
Net cash flow from investing activities		**(1,639,865)**	**(3,705,562)**
Cash flow from financing activities			
(Repayment of debt securities issued)		-	-
Issued debt securities		-	-
(Repayment of borrowings)		(380,916)	(1,037,898)
Increase of borrowings		72,145	625,199
(Repayment of issued subordinated debts)		-	-
Issued subordinated debts		-	-
Inflows from issued shares/equity instruments during the period		-	-
(Purchase of treasury shares)		-	-
Disposal of treasury shares		-	-
(Dividends paid)		(411,420)	(341,860)
(Other financing outflows)		-	-
Other financing inflows from financing		-	-
Net cash flow from financing activities		***(720,191)***	***(754,559)***
Effect from allowance for impairment of cash and cash equivalents	18	2	71
Effect from foreign exchange differences of cash and cash equivalents		-	-
Net increase/(decrease) of cash and cash equivalents		**10,892,747**	**3,679,660**
Cash and cash equivalents as of January, 1		**32,245,604**	28,565,944
Cash and cash equivalents as of December, 31	**18**	**43,138,351**	**32,245,604**

***** only for consolidated financial statements

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

Note

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Introduction

a) General Information

Komercijalna Banka AD Skopje (hereinafter "the Bank"), is a shareholding company having its registered office in the Republic of North Macedonia. The headquarters of the Bank are located on St. Orce Nikolov 3, 1000 Skopje. The Bank operates in the Republic of North Macedonia with a network of branches and sub-branches. These consolidated financial statements include the Bank and its subsidiary KB Publikum Invest AD Skopje ("KB Publikum") (together referred to as the "Group").

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

- Collecting deposits and other recurrent sources of funds;
- Financing in the country and abroad, including factoring and financing commercial transactions;
- Issuance and administration of payment instruments (cards, cheques, travellers cheques, bills of exchange);
- Foreign exchange operations;
- Domestic and international payment operations, including purchase/sale of foreign currency funds;
- Fast money transfer;
- Issuing payment guarantees, backing guarantees and other forms of security;
- Providing services of renting safe deposit boxes, depositories and depot;
- Trade in instruments on the money market;
- Trading in foreign currency funds;
- Trading in securities;
- Rendering services of custody bank to investments and pension funds;
- Safeguarding of securities for clients;
- Intermediating in selling insurance policies;
- Data collection and analysis of companies' credit rating;
- Sale of shares in investment funds;
- Other financial services defined by law, which can be performed only by a bank.

The shares of the Bank are listed on the official market in the segment of super-listing on the Macedonian Stock Exchange on the Market of joint stock companies with consolidated reporting requirements, and is one of the ten companies which comprise the Macedonian Stock Exchange index MBI-10. The ID quotation code is the following:

Code	ISIN code
KMB (common share)	MKKMBS101019

KB Publikum is licensed to establish and manage open and closed investment funds. The company manages four open investment funds, KB Publikum – balanced, KB Publikum – bonds, KB Publikum – cash and KB Publikum – MBI 10. These funds do not have a status of legal entities and do not perform specific activities.

The consolidated financial statements of the Group for the year ending 31 December 2018 were authorised for issue by the Supervisory Board on 27 February 2019.

1. Introduction (continued)

b) Basis of Preparation of the Consolidated Financial Statements

Accounting Standards used for preparation of the Consolidated Financial Statements

Financial statements of the Group have been prepared in accordance with the Company Law ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 42/10, 48/10, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14,138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18 and 120/18), Law on Banks („Official Gazette of the Republic of Macedonia " no. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), law regulation passed by the National Bank of the Republic of North Macedonia (hereinafter "NBRNM"), the Decision on the Methodology for recording and valuation of accounting items and for the preparation of financial statements (further referred to as "the Methodology") ("Official Gazette of the Republic of Macedonia" no. 83/17) and the Decision on the types and content of the financial statements of banks ("Official Gazette of the Republic of North Macedonia" no. 83/17 and 149/18), issued by the NBRNM.

Standards in Issue not yet Adopted

On the date when these financial statements were authorized for issue by the Board of Directors, a new Decision on the methodology for credit risk management ("Official Gazette of the Republic of Macedonia" 149/2018) was published by the NBRNM, which is applicable from 1st July 2019. This decision covered the part of the Methodology that refers to determining impairment and special reserve for off-balance sheet exposure.

Presentation of Consolidated Financial Statements

These financial statements represent consolidated financial statements of the Group. The Bank has investments in associates and it also prepares separate financial statements in accordance with the Methodology.

The consolidated financial statements of the Group have been presented in accordance with the form prescribed in Decision on the types and content of the financial statements of banks.

Pursuant to the changes in the Methodology from 2018, the Group made reclassification in the presentation of the comparative figures in the Income Statement and the Statement of cash flows, in the following item positions:

- In the Income Statement, the special reserve for off-balance sheet exposure in net amount of 70,827 thousand denars was reclassified from "Other operating expenses" (Note 16) into "Impairment losses of financial assets and special reserve for off-balance sheet exposures, net" (Note 12)
- In the Statement of Cash Flows, the following adjustments to the profit before tax, in the part operating cash flows the following changes were made:
    - *Impairment losses of financial assets and special reserve for off-balance sheet exposures, net: (1)* Additional impairment losses and special reserve increased by 244,701 thousand denars, (2) the release of impairment losses and special reserve was increased by 173,874 thousand denars, with net effect of 70,827 thousand denars;
    - *Provisions:* (1) Additional provisions were decreased by 244,701 thousand denars and (2) the released provisions were decreased by 173,874 thousand denars, with net effect of 70,827 thousand denars.

The Group's Management estimates the influence of the new and the changes in NBRNM regulations and their interpretation on the consolidated financial statements, as well as the requirements on the form and contents in accordance with the Decision on the types and content of the financial statements of banks and in accordance with the Methodology.

The presentation of the consolidated financial statements in accordance with the accounting standards applicable in the Republic of North Macedonia requires the use of best estimates and reasonable assumptions by the Group's management, which affects the presented values of assets and liabilities, and the revenues and expenses in the reporting period.

Introduction (continued)

b) Basis of Preparation of the Consolidated Financial Statements (continued)

Presentation of Consolidated Financial Statements (continued)

These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for estimation of the carrying amounts of assets and liabilities for which no other data is available. Actual results in subsequent period may differ from these estimates.

The estimates and assumptions are reviewed on a continuous basis. The revised accounting estimates are recognized in the period for which the estimate has been revised if it affects only that period, or in the period of the estimate and future periods if the revised estimate affects both periods – the current and future period.

Information regarding the critical judgments in the implementation of the accounting policies with the most significant impact on the amounts disclosed in the consolidated financial statements are presented in d).

The Group's consolidated financial statements have been prepared in accordance with the accounting policies disclosed in the Introduction in c) to the consolidated financial statements.

Reporting and functional currency

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

c) Summary of Significant Accounting Policies

The accounting policies presented below have been applied consistently to all periods presented in these financial statements, except for matters disclosed in Note 1.e).

Basis of consolidation

i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is acquired by the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

ii) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquired entity's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii) Subsidiaries

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which the control commences until the date when the control ceases.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when the control was lost.

v) Equity-accounted investees

The Group's interest in equity-accounted investments comprise of investments in an associate.

Associates are those entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies. Investments in associates are measured using the equity method. They are recorded initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss of equity-accounted investments, until the date on which significant influence ceases. Distributions from associates are accounted as reductions of the carrying amount of the investment.

vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Interest Income and Expense

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

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

Fee and Commission Income

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

Dividend Income

Dividend income is recognized when the right to receive payment is established for all shareholders who participate in income distribution. Dividends are presented as part of net trading income or dividend income depending on the classification of the instrument.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions

Transactions denominated in foreign currencies have been translated into Denars at rates set by the NBRNM at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the translation of assets and liabilities denominated in foreign currencies are recognized in the income statement in the period in which they occurred.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

Official exchange rates applicable as at 31 December 2018 and 2017 for euro (EUR) and American dollar (USD) are as follows:

	2018 MKD	2017 MKD
1 EUR	61.49	61.49
1 USD	53.69	51.27

Financial assets and financial liabilities

(i) Recognition and initial measurement

Financial assets and liabilities are recognised at the settlement date, representing the date when the assets in delivered by/from the Group.

A financial asset or a financial liability is initially measured at fair value plus for items not measured at fair value through profit or loss, transaction costs directly related to the acquisition or issue.

(ii) Classification

Financial assets – policy applicable from January 1, 2018

A financial asset is the asset that is:
- a monetary asset,
- equity instruments issued by another legal entity,
- contractual right to receive money or other financial asset from another person,
- contractual right to exchange financial instruments with another person under conditions that are potentially favourable to the Group.

Financial assets can be classified in one the following categories:
- financial assets measured at amortized cost,
- financial assets measured at fair value through other comprehensive income, and
- financial assets measured at fair value through profit or loss.

The Group classifies the financial assets at initial recognition.

The classification of financial assets is based on the following 2 criteria:
- belonging to the financial asset in an appropriate business model for managing financial assets of the Group, and
- characteristics of the contractual cash flows of the financial asset (fulfilment of the SPPI requirement).

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Determining the business model of the Bank

The assessment of the business model of the Group is carried out at a level of the business process, not by separate instrument. The Group may have several business processes for managing financial instruments. The Group can use and manage a particular type of financial instrument in different ways, so that one type of financial instrument can appear in different business processes of the Group for managing financial instruments.

The assessment of the business model is performed by the Group's management on the basis of relevant and available external and internal factors relevant to the manner of managing financial instruments.

The assessment of the business model is performed by the Group's key management on the basis of relevant and available external and internal data, relevant to the manner of managing financial instruments, especially: the manner in which the business model's success/ accomplishments are monitored and reported to the Group's management; identification of risks that affect the fulfillment of the business model and how they are managed; the manner in which the management of the Bank's prices are established; etc.

Depending on the manner of managing the financial assets, three business models are identified:
- Business model hold to collect principal and interest,
- Business model hold to collect principal and interest and sale,
- Business model for managing through the realization of their fair value (the so-called residual model).

Business model – "Hold to collect"

The goal of this business model is to keep the asset (or portfolio of assets) to collect contractual cash flows, and the asset (or portfolio) belongs to "hold to collect" business model.

Moreover, although the purpose of this business model is to keep the financial asset to maturity, if certain financial instruments have been sold before their agreed maturity (early sales) or their modification occurs, it is not a direct indicator of the change of the business model. The following aspects of the sales assessment in the "hold to collect" model are taken into account: historical frequency, time and value of sale, reason for sale (e.g. deterioration of the credit risk of the asset, sale due to concentration in a separate segment according to certain limits for concentration, sale for the purpose of liquidity management, sale due to regulator's provisions, sales upon a decision of the Bank for which the reason for it should be documented, the conditions in the environment, the amount, frequencies, etc.).

Business model - "Hold to collect and sell"

When the Bank holds the funds in order to achieve a certain goal through the collection of contractual cash flows and the sale of financial assets, the asset belongs in the "hold to collect and sell" business model (also known as the FVOCI business model).
The goal of this business model is achieved by collecting cash flows and selling financial assets, i.e. the purpose of this business model is that the Bank keeps financial assets for managing every day liquidity needs, maintaining a certain profit on interest proceeds, matching the duration of the financial assets to financial liabilities (maturity matching) and similar.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Business model - fair value through profit or loss

If a financial asset or a group of financial assets is held by the Bank for the purpose of trading and realizing gains or the financial assets cannot be included in the "Hold to collect" or "Hold to collect and sell" business model, then they belong in the business model "Fair value through profit or loss", (hereinafter text: FVPL).

The purpose of this business model is the Bank to manage the financial assets through active trading, dependent on market conditions, dependent on the level of liquidity of the securities, in order to profit from the changes in the fair value of the assets. The Group manages these assets in order to realize their market / fair value and the decisions when managing them are based on their market / fair value.
FVPL is other, so-called residual category in which financial instruments may be included if they do not belong in the business models "hold to collect" or "hold to collect and sell".

Analysis of the contractual cash flows of the instrument - whether they represent solely payment of principal and interest – SPPI

After determining the belonging to a separate business model for managing financial assets, it is determined whether the contractual terms of the financial asset lead to cash flows, at certain dates, which are only payments of principal and interest on the outstanding principal (called "SPPI test").
SPPI condition can only be considered for debt financial assets.

The principal is the fair value of the financial asset at the initial recognition.

Interest represents compensation for the time value of the money and credit risk. However, interest can take into account other basic risks (for example, liquidity risk), as well as costs (for example, costs for servicing or administrative costs) related to keeping a financial asset for a specified period of time, as well as profits margin.

The analysis of whether the SPPI condition is met is made at the initial recognition of each / group debt financial asset. The analysis of whether the SPPI condition is met is based on the contractual terms of the instrument and all cash flows determined in the agreement are taken into account. For those debts financial assets which arise from a particular product for which the Bank has a typical contract (or contractual terms) which applies to all separate claims for that product, the Bank whether the SPPI condition is met analyses makes at the product level and not by separate financial asset.

In the event of a change in the contractual cash flows of an existing financial asset, the Bank on the date of the modification will evaluate / verify whether the condition of the SPPI is met with the new modified contractual terms.
Accordingly, the results obtained will determine whether the financial asset will continue to be classified and measured at amortized cost (if the SPPI condition is met again) or it will be determined that in the course of its future life time, the financial asset will have to be measured at fair value (if the SPPI condition is not met).

The financial assets are generally divided into:
- Debt financial assets, and
- Equity financial assets.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Debt financial assets

Debt financial assets are classified and measured in the following categories:

- Financial assets measured at amortized cost,
- Financial assets that are measured at fair value through other comprehensive income,
- Financial assets that are measured at fair value through profit or loss.

Financial assets measured at amortized cost
In this category, the Group classifies financial assets that meet the following criteria:

- manages the financial assets for the purpose of collecting contractual cash flows, and
- in accordance with the contractual terms of the asset, the solely payment of principal and interest (SPPI) condition is met.

The financial assets included in this category are initially recognized at fair value and subsequently measured at amortized cost.

Financial assets that are measured at fair value through other comprehensive income

In this category, the Group classifies financial assets that fulfil the following criteria:

- manages the financial asset for the purpose of collecting contractual cash flows and / or for sale, and
- in accordance with the contractual terms of the asset, the solely payment of principal and interest (SPPI) condition is met.

The financial assets included in this category are initially recognized and subsequently measured at fair value.

Financial assets that are measured at fair value through profit or loss

In this category, the Group classifies financial assets with the purpose of trading and settling cash flows from their sale.
This is also a residual category, i.e. the Group in this category also classifies all those financial assets that do not fulfil the criteria of the other two categories.
The Group owns these financial assets for the purpose of trading and realizing profit from changes in the fair value of the asset.
The financial assets included in this category are measured at fair value.

Equity financial assets

The decision on the classification of equity instruments is made for an individual instrument, only in the case of initial recognition of the instrument, and then reclassification is not allowed.

The equity instruments are classified and measured at fair value (they do not have contractual cash flows on the basis of principal and interest, i.e. they do not fulfil the SPPI requirement).

Equity instruments held for trading

The equity instruments held by the Group for trading will be compulsory measured at fair value and any changes in fair value will be recorded in the profit or loss.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(ii) Classification (continued)

Equity financial assets (continued)

Other equity instruments

For equity instruments that are not traded, the Group may, at initial recognition, choose whether changes in the fair value (realized and unrealized / calculated) will be recorded in profit or loss or in revaluation reserves within other comprehensive income. Further, the amounts in the Revaluation Reserves can only be reclassified to another category of reserves, but can never be recognized in profit or loss.

For the Group's investments in equity instruments of certain specific institutions for which there is no active market and whose ownership is determined by law and / or is related to the possibility of using the services that are carried out by these institutions, it can be considered that their cost value reflects their fair value.

Financial assets – policy applicable before January 1, 2018

Before 1 January 2018, the Group classified financial assets in one of the following categories:

- Loans and advances,
- Held-to-maturity,
- Available-for-sale,
- At fair value through profit or loss

Financial liabilities

The Group classifies its financial liabilities as calculated at amortized cost.

(iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to the cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Modification of financial assets and liabilities

Financial assets

Policy applicable from January 1, 2018

If during the life of the financial instrument there are changes in contractual cash flows (other than impairment) that do not cause derecognition of the financial asset and for which the Group has determined that they still meet the requirements to be classified and measured at amortized cost at the date of the change, the Group determines the new carrying amount of the modified asset, equal to the present value of future modified cash flows, discounted using the initial / original effective interest rate.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(iv) Modification of financial assets and liabilities (continued)

Financial assets (continued)

The Group recognizes the difference between the new carrying amount of the modified asset and the carrying amount of the asset before the change in contractual cash flows as gain or loss from the change in the profit or loss in the accounting records as interest income/expense, as well as in the balance sheet on the accounts for accumulated depreciation.

As an exception, in cases of change only for the remaining contractual term for collection of receivables, change only to the adjustable interest rate, early repayment close to the contractual repayment period or insignificant / minor subscription fees, the Group does not determine the new accounting value of the modified asset (it should not make a new calculation of the effective interest rate, that is, the allocation of the accumulated depreciation) and should not recognize the gain or loss from the change in the Profit or loss, because those changes are insignificant. In the event of early repayment close to the maturity date, the Group fully capitalizes the entire remaining amount of accumulated depreciation on the due date of early repayment. In the cases of change only for the remaining agreed deadline for collection of claims, a change only to the adjustable interest rate or insignificant amount of subscription fees, the Group continues to distinguish the accumulated depreciation in accordance with the initially established amortization plan.

Policy applied before January 1, 2018

If the conditions of the financial asset were modified as a result of financial difficulties and the asset was not derecognised then the impairment loss was measured using the interest rate before the modification.

Financial liabilities
The Group derecognises financial liabilities when the terms of the liability are modified and the cash flows of the financial liability are fundamentally different. In such a case, a new liability is recognized on the basis of the modified fair value terms. The difference between the carrying amount of the liability that is derecognised and the new liability is recognized in the profit and loss account.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the applicable accounting regulation, or for gains and losses arising from a group of similar transactions.

(vi) Fair value measurement

Measuring at fair value assumes that the asset or liability is exchanged among market participants, in a common transaction, in accordance with current market conditions at the measurement date. Fair value of financial assets and liabilities is determined in different ways depending if the asset or liability are traded in the active market or not.

An active market is a market where transactions are carried out with the asset or liability with sufficient frequency and volume to provide pricing information for the asset or liability.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

The corresponding quoted market price for the asset or liability is the one that is within a range between the purchase and selling price, which best represents fair value in the given circumstances. Typically used is the current: the purchase price of the asset which is kept or the liability that should be issued, or retail/offered price for the asset that will be acquired or liability that is kept; the average market price or other price in accordance with the usual, accepted market practice.

If there is no active market for the financial asset or liability in order to determine the fair value of the asset or liability, the Group applies valuation techniques that have most available data, giving preference to data that can be validated on the market.

The common valuation techniques include: market approach (quoted prices are used or other relevant information from market transactions with the same or similar assets or liabilities), cost approach (known as the current replacement cost, representing the amount that would be required to replace the current asset) and income approach (discounted value of current market expectations for future amounts, cash flows or income and expense, of the asset or liability).

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and nostro accounts, that represent demand deposits and placements with other banks and financial institutions, account balances with the NBRNM and other financial assets such as treasury and government securities, as highly liquid assets with maturity up to three months from the date of acquisition and insignificant changes to fair value.

In preparing the Statement of Cash flows, the obligatory reserve in foreign currency and the restricted deposits are excluded from Cash and cash equivalents.

Held-for-trading Financial Assets

Held-for-trading financial assets, are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized and subsequently measured at fair value and the transaction costs are directly recognized in the income statement.

All the respective realized and unrealized gains and losses are included under net trading income. Interest, if realized, during the period of ownership of these securities, is recognized as net trading income in the income statement. The purchase and disposal of securities held-for-trading is recognized at settlement date, which represents the date when the asset is delivered to the Group.

Financial assets at fair value through profit or loss, designated as such at initial recognition

At initial recognition, any financial asset can be designated as a financial asset at fair value through profit or loss, except for unquoted equity instruments and those financial instruments that do not have a quoted market price and whose fair value cannot be reliably measured.
In this category, the Group records the investments in shares in open investment funds and initially recognizes and subsequently measures them according to their fair value. All related realized and unrealized gains and losses are included in net trading income.

Financial Assets available-for-sale

Financial assets available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices. This portfolio comprises of equity securities issued by financial institutions and enterprises, where the Group does not exercise control, as well as debt securities issued by the Republic of North Macedonia. Financial assets available for sale include investment in subsidiary recorded at cost.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and financial liabilities (continued)

(vi) Fair value measurement (continued)

Financial Assets available-for-sale (continued)

Financial assets available-for-sale are recognised at their fair value, except those for which there is no active market and quoted prices and whose fair value cannot be reliably measured, in which case they are measured at cost less impairment.

Unrealized gains and losses arising on changes in the fair value of available-for-sale financial assets are recognized in revaluation reserves.
At the time of derecognition of debt financial assets available-for-sale, cumulative gains / losses previously recognized in revaluation reserves are derecognised from equity, and net gains or losses are recognized in the income statement in the item "Other operating income / Other operating expenses".
Income based on interest, dividend, and foreign exchange gains and losses on available-for-sale financial assets are recognized in the income statement for the current period.

Financial Assets held-to-maturity

Financial Assets held-to-maturity are debt financial assets which the Group manages for the purpose of collecting contractual cash flows and which, according to the contractual terms of the asset, fulfil the SPPI requirement. These securities are measured at amortized cost using the effective interest rate method.

Loans and Receivables

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

Impairment of Financial Assets

The Group, at least once a month, assesses whether there is objective evidence that financial assets or group of financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

The Group considers evidence of impairment for loans and receivables and investment securities on individual basis.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets (continued)

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or receivable by the Group on terms that the Group 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 relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses on assets carried at amortised 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 recognised in the income statement and reflected in an allowance account against loans and receivables.

Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income statement.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in equity to profit or loss. The cumulative loss that is removed from the equity and recognised in profit or loss is the difference between the costs, less any impairment loss previously recognised in the income statement. Changes in the allowance account which are result of the time value of money are recognised as part 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 recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity.

Impairment Losses on Loans and Receivables

Allowances for impairment and un-collectability are determined if there is objective evidence that the Group cannot collect all amounts due on a claim according to the original contractual terms. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items are presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the income statement.

The allowances for impairment and un-collectability of loans and any other on and off-balance items are determined according to the regulation of the NBRNM ruling on each balance sheet date, according to which the Group is liable to classify the assets and off-balance sheet items in groups, according to their specific level of risk and to estimate the outcome of potential losses which are calculated by applying objective and subjective metrics, as of December 31, 2017 and December 31, 2016 by applying the following percentages:

Risk Category	Percentage
A	0% - 5%
B	5.1% - 20%
C	20.1% - 45%
D	45.1% - 70%
E	70.1% - 100%

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Impairment Losses on Loans and Receivables (continued)

The allowances for impairment and un-collectability are determined on the basis of the degree (size) of the risk of un-collectability or specific country risk in case of a loss due to large Bank exposure towards a specific country on the basis of the following principles:

- Separate loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and un-collectability are measured and determined for the difference between the carrying amount of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows;

- Losses on impairment and un-collectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and un-collectability are reviewed and tested at least quarterly, and any further changes in the amount and timing of expected future cash flows in comparison to previous assessments result in changes in allowances for losses on impairment and un-collectability recorded in the income statement;

- The loan which is considered uncollectable is impaired against the relevant allowance for losses on impairment and un-collectability. Further collections are recorded as reduction of losses on impairment and un-collectability in the income statement;

- In case of loans granted to borrowers in countries with increased risk of difficulties for servicing external debt, the political and economic circumstances are assessed and additional allowances for sovereign risk are allocated.

For the financial statements' purposes, the Group presents the Credit Risk Groups (Group 1, 2, 3) from the Methodology for recording and valuation of accounting items and for the preparation of financial statements from the Decision on the methodology for interest risk management in the following manner:

- Within Group 1, credit risk exposure classified in the risk category "A";
- Within Group 2, credit risk exposure classified in the risk categories "B" and "C", having no non-performing credit exposure status;
- Within Group3, credit risk exposures which possess non-performing credit exposure status.

Financial Liabilities

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

Deposits from Banks and Other Financial Institutions and Customers

These financial liabilities are initially recognized at fair value, net of transaction costs incurred. Subsequently they are measured at amortized cost, while applying an effective rate method.

Borrowings

Borrowings are initially recognized at fair value including all transaction costs incurred. Subsequent measurement is at amortized cost, using the effective interest rate method. Interest for the Group's borrowings is included in interest expenses and are recognized on accrued basis.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Property and equipment

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

The useful life of certain categories of property and equipment are as follows:

Buildings	40 years
Furniture and equipment	4-20 years

Depreciation methods, useful lives and residual value are reviewed at each reporting date.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss, in the caption “Other operating income” or “Other operating expense”. The Group annually reviews its property and equipment for impairment. When/If the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Intangible Assets

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

Intangible assets should be deregistered in their disposal or when future economic benefits are not expected from their use or disposal. Income and losses arising from the sale of intangible assets are determined as the difference between the net proceeds of the disposal and the carrying amount of the asset are recognized in the income statement in the position "Other operating income" or "Other operating expenses

Impairment of Non-financial Assets

The carrying amounts of the Group’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 recognised if the net value of an asset or a cash generating unit, to which the asset belongs, exceeds its recoverable amount. For asset that does not generate a large amount of independent cash flows, the recoverable amount is determined for cash-generating units to which the asset is allocated.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or groups. Impairment losses are recognised in profit or loss.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Impairment of Non-financial Assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is reversed if there is an indication that the loss no longer exists or 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 amortisation) if no impairment loss had been recognized in the previous years.

Foreclosed assets

Foreclosed assets include property and equipment obtained through foreclosing procedures in order to fulfil customers' liabilities, fully or partially, for the appropriate credit and are displayed in the item foreclosures based on outstanding receivables (foreclosures). Foreclosed properties are initially recognized at a lower than estimated value, reduced for the expected selling cost which are borne by the Group and the value of the foreclosed property referred to in the act which is passed by the competent authority, from which the legal basis for ownership rights arises. The appraised value is determined by a certified valuator.

At the date of the assets initial recognition, the Group is obliged in accordance to the Decision on accounting and regulatory treatment of foreclosed assets (Official Gazette of RM No. 50/13 and No. 26/17) to reduce the value of the foreclosed asset in the balance sheet by at least 20% of the initial recognized value.

After the initial recognition, at least once in a twelve-month period, the Group performs a valuation of the foreclosed property and determines a difference with the carrying amount. Simultaneously the Group calculates 20% of the carrying amount of the foreclosed property and compares it with the difference between the estimated and carrying amount. The greater amount is recognized in the income statement as impairment loss.

If a foreclosed property becomes a property of the Group for own use, the value at which the asset will be recognised is at the lower of the latest valuation determined by a certified valuator and the carrying amount of the asset at the date of the change in use (determined at that date in accordance with the Decision for accounting and regulatory treatment of foreclosed assets).

Foreclosed assets on the basis of uncollected claims are derecognized during the sale or when they are permanently withdrawn from use (no future economic benefits are expected). The realized amount over, or below the carrying amount less the impairment loss recognized in past periods, is recognized as income in the position "Other operating income", i.e. as an expense in the position "Other operating expenses", on the day of sale.

Managed funds for and on behalf of third parties

The Group acts as a fiduciary and in other fiduciary matters provides services for and on behalf of third parties such as legal entities, individuals, investment and pension funds and other institutions for which it keeps and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Managed funds are not assets of the Group and are not recognized in the financial statements. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee them.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Provisions

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

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

Employee benefits

(i) Defined contribution plans

The Group contributes to its employees' post retirement plans as prescribed by the Macedonian legislation. Contributions, based on salaries, are made to the national organisations 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 recognised as an expense in the income statement when they are due. In addition to pension contributions the Group also pays contributions for: health insurance, professional additional contribution, contribution for employment in case of unemployment, contribution for past work with increased term. The Group does not have additional liabilities related to these plans.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Short-term employee benefits include: salaries, compulsory social security contributions, short term paid absences (paid annual holiday, sick leaves) and non-monetary benefits (health insurance).

(iii) Other long-term employee benefits

In accordance with the Macedonian regulations the Group pays two average monthly net salaries paid in the Republic of Macedonia in the preceding three months to its employees at the moment of retirement and jubilee awards in accordance with the criteria stated in the General collective contract.

In accordance with the Methodology, these benefits are considered as defined pension benefit plans. The carrying amount of the Group’s liabilities arising from employee benefits are calculated at the end of the reporting period. The balance of these liabilities at the end of the reporting period presents the discounted amount of future payments

Other liabilities

Other liabilities include liabilities that do not belong and are not presented in any other item of liabilities in the Statement of financial position.

Other liabilities are recorded at nominal value in accordance with the regulations and decisions of the Group and mainly includes suppliers payable, other liabilities, accrued deferred liabilities and deferred income.

Off-balance sheet records

The Group keeps off-balance sheet records of commitments and contingent liabilities for transactions that currently do not meet the recognition criteria as an asset or liability, and can generate future inflows and outflows of funds and are a source of information in operations, for determining the risk in operations and possible future liabilities. Off-balance sheet records are recognized on the day of the event.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Equity and reserves

The equity is comprised of:

- share capital which is equal to the nominal value of all shares (subscribed and paid-in capital)
- increase in equity due to realized difference between the nominal value of shares and the amounts for which they were sold (share premiums)
- revaluation reserves
- Other reserves, and
- Retained earnings/ accumulated losses from previous years.

Revaluation reserves

Revaluation reserves include the revaluation reserves for assets available for sale where the gains and losses from the changes in the fair value of the financial instruments available for sale are recorded. These reserves are comprised of the net cumulative change in the fair value of the assets, which changes in the fair values are recognized directly in equity.

Statutory reserves

Under local statutory legislation, the Group is required to set aside 5 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/10 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the statutory reserve exceeds the minimum required level and when all losses are covered, the statutory reserve can also be used for distribution of dividends, based on a decision of the shareholders' meeting, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's Statute.

Other reserves

Other reserves are formed in addition to statutory reserve, based on decisions by the bodies of the Bank for distribution of profit, and can be used to cover certain losses or for other expenses. The maintenance of the level of Bank`s reserves is determined by the fulfilment of the capital requirements prescribed by NBRNM regulation according to which these positions should be fully and in any time available for covering the risks and losses that can occur from the Bank`s operations, as well as well as liabilities under the Trade company law.

Earnings per share

The Group displays earnings per share in the Statement of Profit and Loss and Other Comprehensive Income if ordinary shares are subject to public trading on the market or if it is in the process of issuing ordinary shares to public markets.

Basic earnings per share is part of the profit or loss attributable to shareholders – holders of ordinary shares for the effects of all ordinary shares in circulation during the period.

Basic earnings per share is calculated when the net gain or loss attributable to holders of ordinary shares is divided by the weighted average number of ordinary shares in circulation during the period. The weighted average number of shares in circulation during the period is calculated when the number of shares in circulation at the beginning of the period is adjusted for the number of shares issued or repurchased over the period, multiplied by (time weight) the number of days during which the shares are in circulation - in relation to the total number of days in the year.

Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Earnings per share (continued)

The diluted earnings per share in the Group is identical to the basic earnings per share due to the non-existence of issued potential ordinary shares, the effect of which is correction of the net profit attributable to the holders of ordinary shares.

Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date of 10%, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, unused tax credit and deductible temporary differences to the extent for which is probable that the future taxable profits against which the asset can be utilized. Deferred tax assets are estimated at the end of each reporting period and reduced to the extent that is no longer probable that these tax revenues will be realized. Any such reduction should be reversed to the extent that it is probable that sufficient taxable profit will be available. Unrecognised deferred tax assets are assessed at the end of each reporting period and recognised to the extent it is probable that future taxable income will be sufficient against which the asset can be utilised.
Income tax expense comprises of current tax and is recognised in the income statement.

Leases

The Group leases assets as operating leases. Rental income and expenses are recognized in the income statement on a straight-line basis over the term of the lease.

d) Critical Accounting Judgments and Estimates

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

Fair Value of Financial Instruments

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

The Group applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

Introduction (continued)

d) Critical Accounting Judgments and Estimates (continued)

Fair Value of Financial Instruments (continued)

In the Republic of North Macedonia sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are.

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

Allowance for Impairment of Loans

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

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

Useful Lives of Tangible and Intangible Assets

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

Financial Crisis

Development on the financial markets may affect future cash flows of the Group that otherwise would be expected under the regular public interest. As a result, future cash flows are subject to possible fluctuations and whether the fluctuations are significant relative to the previously expected cash flows remains uncertain.

Assessment of control of investments

The management makes an assessment to determine if the control indicators listed in the accounting policies section c). point out that the Group has control over certain investment or investment fund.

Investment funds

The Group act as a fund manager to four investment funds. Determining whether the Group has control over the investment funds is usually focused on evaluating the total economic interest of the Group with the funds (including any transferred interest and expected management provisions) and investors rights. Assets of investment funds are legally separated from the Group's assets. If the operation of the Group cease, the assets of the investment funds belong to the holders of stakes in the investment funds. Also, the Group has a low aggregate economic interest in the funds. As a result, the Group concluded that it acts as an agent to the investors in all cases, and therefore does not consolidate these funds.

Introduction (continued)

(e) Changes in the Accounting Policies

In the year ended 31 December 2018, the Group changed its accounting policy related to the classification and measurement of financial assets and liabilities based on the changes in the NBRNM's Methodology (Chapters: 3.1 to 3.6, relating to classification and measurement). The effects of the change are given in Note 1. In addition to this, there were no other changes in accounting policies, accounting estimates and errors correction.

f) Compliance with Law Regulations

At the date of the financial reports, there are no non-compliances with the regulations prescribed by the NBRNM in regards to the solvency and capital adequacy of the Bank, its limits of exposure, investments, liquidity and open foreign currency position.

1 Classification of financial assets and financial liabilities

A Classification of financial assets and financial liabilities

	at fair value through profit or loss		At fair value through other comprehensive inome			
In denar thousands	Held for trading	At fair value at initial recognition	Debt instruments	Equity instruments	**At amortized cost**	**Total**
2018 (current year)						
Financial assets						
Cash and cash equivalents	-	-	-	-	48,796,328	48,796,328
Held-for-trading assets	40,196	-	-	-	-	40,196
Financial assets at fair value through profit or loss upon initial recognition	-	331,829	-	-	-	331,829
Derivative assets held for risk management	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	2,515,919	2,515,919
Loans and advances to other customers	-	-	-	-	46,406,938	46,406,938
Investments in securities	-	-	8,852,308	64,947	3,392,816	12,310,071
Other receivables	-	-	-	-	692,766	692,766
Total financial assets	**40,196**	**331,829**	**8,852,308**	**64,947**	**101,804,767**	**111,094,047**
Financial liabilities						
Trading liabilities	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Deposits from banks	-	-	-	-	350,536	350,536
Deposits from other customers	-	-	-	-	99,036,735	99,036,735
Debt instruments issued	-	-	-	-	-	-
Borrowings	-	-	-	-	928,925	928,925
Subordinated debt and hybrid instruments	-	-	-	-	-	-
Other liabilities	-	-	-	-	973,507	973,507
Total financial liabilities	**-**	**-**	**-**	**-**	**101,289,703**	**101,289,703**

1 Classification of financial assets and financial liabilities (continued)

A.a. Classification of financial assets and liabilities, according to the Methodology before 01 January 2018

In denar thousands	Held for trading	At fair value at initial recognition	Held to maturity	Loans and receivables	Available for sale	Other receivables, at amortized cost	Total
2017 (previous year)							
Financial assets							
Cash and cash equivalents	-	-	-	-	-	37,208,775	37,208,775
Held-for-trading assets	481,925	-	-	-	-	-	481,925
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	5,834,393	-	-	5,834,393
Loans and advances to other customers	-	-	-	45,366,241	-	-	45,366,241
Investments in securities	-	-	-	-	-	-	-
- measured at fair value	-	-	-	-	8,839,390	-	8,839,390
- measured at amortized cost	-	-	1,899,035	-	-	-	1,899,035
Other receivables	-	-	-	-	-	1,320,785	1,320,785
Total financial assets	**481,925**	**-**	**1,899,035**	**51,200,634**	**8,839,390**	**38,529,560**	**100,950,544**
Financial liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management							
Deposits from banks	-	-	-	-	-	448,997	448,997
Deposits from other customers	-	-	-	-	-	91,228,581	91,228,581
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	1,237,823	1,237,823
Subordinated debt and hybrid instruments	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	628,217	628,217
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**93,543,618**	**93,543,618**

This is an English translation of the original Report in the Macedonian language

1 Classification of financial assets and financial liabilities (continued)
B. Classification of financial assets and liabilities as at 01 January 2018 (date of initial application of IFRS 9)
B.1. Comparison of the classification and the ending and the initial accounting value of financial assets and financial liabilities on December 31, 2017 and on January 1, 2018.

	Classification (the category of the financial instrument should be listed descriptively)		Carrying value	
	Previous category (as at 31.12.2017)	New category (as at 1.1.2018)	Ending carrying value on 31.12.2017	initial carrying value on 1.1.2018
Financial assets	*description*		*In denar thousands*	
Cash and cash equivalents	Cash and cash equivalents	Financial assets measured at amortized cost	37,208,775	37,208,775
Trading assets				
Debt securities	Financial assets at fair value through profit or loss	Financial assets measured at fair value through profit or loss	96,431	15,155
Equity instruments	Financial assets at fair value through profit or loss	Financial assets measured at fair value through profit or loss	385,494	59,231
Derivatives held for trading				
Financial assets at fair value through profit or loss upon initial recognition				
Debt securities	Financial assets at fair value through profit or loss	Financial assets measured at fair value through profit or loss, designated as such on initial recognition	-	324,561
Equity instruments			-	-
Loans and advances to banks			-	-
Loans and advances from other customers			-	-
Derivative assets held for risk management			-	-
Loans and advances from banks	Loans and advances	Financial assets measured at amortized cost	5,834,393	5,834,393
Loans and advances from other customers	Loans and advances	Financial assets measured at amortized cost	45,366,241	45,366,241
Investment securities				
Debt securities				
- measured at fair value through other comprehensive income	Financial assets available for sale	Financial assets at fair value through other comprehensive income	8,774,465	8,774,465
-measured at amortized cost	Financial assets held to maturity	Financial assets measured at amortized cost	1,899,035	1,982,013

1 Classification of financial assets and financial liabilities (continued)
B. Classification of financial assets and liabilities as at 01 January 2018 (date of initial application of IFRS 9) (continued)
B.1. Comparison of the classification and the ending and the initial accounting value of financial assets and financial liabilities on December 31, 2017 and on January 1, 2018. (continued)

	Classification (the category of the financial instrument should be listed descriptively)		Carrying value	
	Previous category (as at 31.12.2017)	New category (as at 1.1.2018)	Previous category (as at 31.12.2017)	Initial carrying value on 1.1.2018
Financial assets	*description*		*In denar thousands*	
Equity instruments				
- measured at fair value through other comprehensive income	Financial assets available for sale	Financial assets at fair value through other comprehensive income	64,925	64,925
Other receivables	Loans and advances	Financial assets measured at amortized cost	1,320,785	1,320,785
Total financial assets			**100,950,544**	**100,950,544**
Financial liabilities				
Trading liabilities				
Deposits from banks	-	-	-	-
Deposits from other customers	-	-	-	-
Issued debt securities	-	-	-	-
Other financial liabilities	-	-	-	-
Derivatives held for trading	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition				
Deposits from banks	-	-	-	-
Deposits from other customers	-	-	-	-
Issued debt securities	-	-	-	-
Subordinated debt	-	-	-	-
Other financial liabilities	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	deposits	Financial liabilities measured at amortized cost	448,997	448,997
Deposits from other customers	deposits	Financial liabilities measured at amortized cost	91,228,581	91,228,581
Issued debt securities				
Borrowings	borrowings	Financial liabilities measured at amortized cost	1,237,823	1,237,823
Subordinated debt and hybrid instruments	-	-	-	-
Other liabilities	Other liabilities	Financial liabilities measured at amortized cost	628,217	628,217
Total financial liabilities			**93,543,618**	**93,543,618**

1 Classification of financial assets and financial liabilities (continued)

B.2. Reconciliation of ending and initial carrying value of financial assets and financial liabilities as at 31.12.2017 and1.1.2018г.

In denar thousands	Ending carrying value as at 31.12.2017	Effect from initial application of the Methodology as at 1.1.2018	Initial carrying value as at 1.1.2018
Financial assets			
At amortized cost			
Cash and cash equivalents	37,208,775		37,208,775
Loans and advances to banks	5,834,393		5,834,393
Loans and advances to other customers	45,366,241		45,366,241
Investments in securities			
Debt instruments	1,899,035		1,982,013
- reclassified from/to assets held to maturity		82,978	
- reclassified from/to assets available for sale			
- reclassified from/to assets held for trading			
Other receivables	1,320,785		1,320,785
Total financial assets at amortized cost	***91,629,229***	***82,978***	***91,712,207***
At fair value through other comprehensive income			
Investment securities			
Debt instruments	8,774,465		8,774,465
- reclassified from/to assets held to maturity			
- reclassified from/to assets available for sale			
- reclassified from/to assets held for trading			
Equity instruments	64,925		64,925
- reclassified from/to assets available for sale			
- reclassified from/to assets held for trading			
Total financial assets at fair value through other comprehensive income	***8,839,390***	***-***	***8,839,390***
At fair value through profit or loss			
Trading assets			
Debt instruments	96,431		15,155
- reclassified from/to assets held to maturity		-	
- reclassified from/to assets available for sale		-	
- reclassified from/to assets held for trading		(81,276)	
Equity instruments	385,494		59,231
- reclassified from/to assets available for sale			
- reclassified from/to assets held for trading		(326,263)	
Derivatives held for trading		-	
Financial liabilities at fair value through profit or loss upon initial recognition	-	324,561	324,561
Derivative liabilities held for risk management			
Total financial assets at fair value through profit or loss	***481,925***	***(82,978)***	***398,947***
Total financial assets	***100,950,544***	***-***	***100,950,544***

1 Classification of financial assets and financial liabilities (continued)

B.2. Reconciliation of ending and initial carrying value of financial assets and financial liabilities as at 31.12.2017 and1.1.2018 (continued)

In denar thousands	Ending carrying value as at 31.12.2017	Effect from initial application of the Methodology as at 1.1.2018.	Initial carrying value as at 1.1.2018
Financial liabilities			
At amortized cost			
Deposits from banks	448,997	-	448,997
Deposits from other customers	91,228,581	-	91,228,581
Issued debt securities	-		-
- reclassified from/to trading liabilities		-	
- reclassified from/to liabilities at FVTPL		-	
Borrowings	1,237,823		1,237,823
- reclassified from/to trading liabilities		-	
- reclassified from/to liabilities at FVTPL		-	
Subordinated debt and hybrid instruments	-		-
- reclassified from/to trading liabilities		-	
- reclassified from/to liabilities at FVTPL		-	
Other liabilities	628,217	-	628,217
Total financial liabilities at amortized cost	***93,543,618***	**-**	***93,543,618***
At fair value through profit or loss			
Trading liabilities	-		-
- reclassified from/to liabilities at FVTPL		-	
- reclassified from/to liabilities to amortized cost		-	
Financial liabilities at fair value through profit or loss upon initial recognition	-		-
- reclassified from/to trading liabilities		-	
- reclassified from/to liabilities to amortized cost		-	
Derivative liabilities held for risk management	-	-	-
Total financial liabilities at fair value through profit or loss	**-**	**-**	**-**
Total financial liabilities	**-**	**-**	**-**

2. Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve identifying, undertaking, measuring, monitoring and control of separate risks or their combination. Taking risk is core business activity and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group has established Strategy for undertaking and managing risks, adopted by the Supervisory Board that is revised regularly. The Strategy defines the main objectives and general directions in undertaking and managing risks, general approach to the risk management, general approach to the internal determining and assessment of the necessary capital adequacy, general review of the business strategy of the bank, as well as the possible changes in the Group's business strategy and acceptable level of risk the Group can be exposed to during its operations.

The Shareholders Assembly appoints the members of the Supervisory Board and the Audit Committee. Supervisory Board has overall responsibility for the establishment and oversight of the Group's risk management framework. Supervisory Board has established the Board of Directors, Credit Committee and Risk Management Committee. These bodies are responsible for monitoring and developing risk management policies in specific areas. The Group has established organizational structure, with clearly defined competences and responsibilities among organizational parts of the Group where credit risk is originated and managed.

The most important types of risk are credit risk, liquidity risk, market risk (risk of change in the interest rates in the banking book, currency risk and other market risks) and operational risk.

2. Risk Management (continued)

2.1 Credit Risk

The Group is exposed to credit risk which represents the risk of financial loss due to customer's default on their contractual obligations. Credit risk is the most important risk for the Group's operations, therefore the management carefully manages the Group's exposure to credit risk. The exposure to this risk arises primarily from lending activities and advances, as well as activities related to off-balance sheet financial instruments, such as loan commitments to enterprises and households, guarantees and letters of credit.

2.1.1 Credit Risk Management

The Group has established an organizational structure, with clearly defined competences and responsibilities of the Supervisory Board and the Board of Directors regarding credit risk management.

The organization of the credit risk management is established on the following levels of hierarchy:

- Strategic level - the risk management function shall be performed by the members of Supervisory Board and the Board of Directors; Risk Management Committee and Audit Committee;
- Macro level - the risk management function at the level of business unit, or business line shall be performed by other persons with special rights and responsibilities performing managing function and/or by special organizational unit responsible for monitoring the credit risk management.

Credit risk management at the business unit level in the Group includes each Division where credit risk is undertaken, as well as the persons with special rights and responsibilities that perform the management function in the respective Division. The duties of these organizational units of the Bank are regulated by the appropriate Policies adopted from the Group's Supervisory Board. A special organizational unit in the Group competent for credit risk management is the Risk Management and Planning Division – Credit Risk Management Department.

2.1.2 Control of Risk Exposure, Limits and Risk Protection Policies

The Group manages and controls the concentration of credit risk to any number of clients, some categories of clients, industries, currencies structure, geographic location, collateral instruments and other bases. The Group manages the level of credit risk taken by setting limits on the amount of acceptable risk of exposure to aforementioned concentrations.

Initially, when approving loans and loan commitments, various Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure based on defined criteria. The Group has implemented different practices to mitigate credit risk in lending, including mortgages and other collateral instruments. Given that the collateral itself is not sufficient to generate cash flows, it is considered to be a secondary creditworthiness evaluation factor. The value and quality of the collateral depends of the type of collateral (immovable, movable property, inventory, accounts receivables) and the probability of activation in order of claim. For part of the credit exposures classified in risk grades D and E which the Group expects to collect through foreclosure of the property, and the property meets the criteria as defined in the Decision on credit risk management, the Group takes into consideration the value of the property in determining the present value of the expected future cash flows from those exposures. Collateral is divided into two types: first class, providing high liquidity which is considered 100% when calculating net realizable value and other collateral.

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.2 Control of Risk Exposure, Limits and Risk Protection Policies (continued)

More significant types of collateral, for loans and other exposures, include:

a) Legal entities:

- Cash;
- Real estate property;
- Equipment and motor vehicles;
- Inventory;
- Receivables;
- Guarantees issued by banks and legal entities;
- Securities, including: debt securities issued by the Government of the Republic of North Macedonia, NBRNM and securities issued by other entities.

b) Individuals:

- Real estate property;
- Passenger vehicles;
- Deposits;
- Securities, including: debt securities issued by the Government of the Republic of North Macedonia, NBRNM and securities issued by other legal entities.

2.1.3 Policies for calculation of impairment loss/ allowance for impairment

The impairment losses are identified losses of the Group credit portfolio that incurred t the balance sheet date and for which there is objective evidence of impairment. The Group calculates the impairment provision after making the classification of credit exposure in the appropriate risk category.

According to the Group policies, impairment and provisioning are defined on an individual basis, for all credit risk exposures which are considered individually significant, for all exposures to credit risk of the Group.

Exposures Classified on an Individual Basis

Classification in the risk category of individually significant exposures are made on the basis of the assessment (score), based on certain parameters, including creditworthiness of the client, orderly settlement of obligations and the quality of collateral.

Impairment/special reserve for individually assessed items are determined by evaluating the loss generated on the date of the balance sheet, which is the difference between the carrying amount and present value of estimated future cash flows. The effective interest rate is used to discount future cash flows. Credit exposures to banks and investments in equity securities, debt instruments, as well as exposures classified as nonperforming are classified on an individual basis.

2.1.4. Methodologies of assessment of credit risk.

The Methodology of the Group for the system of internal rating of clients developed through score model includes a selection of criteria for assessment of credit risk of clients classified on individual bases, in a form of score scheme.

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.A Analysis of total exposure to credit risk

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of Denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Exposure to credit risk, classified in Group 1																		
Carrying value before impairment loss/ special reserve	2,512,279	5,830,283	41,005,812	39,857,721	8,852,308	8,839,390	3,392,816	1,899,035	37,794,595	26,989,289	8,660	6,605	613,471	1,219,071	14,162,773	15,120,676	108,342,712	99,762,069
(Impairment loss and special reserve)	-	-	(437,903)	(389,906)	-	-	-	-	(62)	(64)	(101)	(64)	(131)	(1,679)	(55,895)	(57,729)	(494,091)	(449,442)
Carrying value less impairment loss/ special reserve	**2,512,279**	**5,830,283**	**40,567,909**	**39,467,816**	**8,852,308**	**8,839,390**	**3,392,816**	**1,899,035**	**37,794,534**	**26,989,225**	**8,558**	**6,540**	**613,340**	**1,217,392**	**14,106,878**	**15,062,946**	**107,848,621**	**99,312,626**
Exposure to credit risk, classified in Group 2																		
Carrying value before impairment loss/ special reserve	5,072	5,850	5,906,885	4,903,740	-	-	-	-	-	-	2,698	5,973	7,009	1,783	566,988	854,855	6,488,652	5,772,201
(Impairment loss and special reserve)	(1,400)	(1,615)	(617,044)	(508,944)	-	-	-	-	-	-	(342)	(705)	(740)	(164)	(44,984)	(82,705)	(664,509)	(594,132)
Carrying value less impairment loss/ special reserve	**3,672**	**4,235**	**5,289,841**	**4,394,796**	**-**	**-**	**-**	**-**	**-**	**-**	**2,356**	**5,268**	**6,269**	**1,619**	**522,005**	**772,151**	**5,824,143**	**5,178,069**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.A Analysis of total exposure to credit risk (continued)

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of Denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Exposure to credit risk, classified in Group 3																		
Carrying value before impairment loss/ special reserve	828	-	5,615,330	8,181,575	-	-	-	-	-	-	19,426	20,703	62,323	113,344	686,004	70,530	6,383,911	8,386,152
(Impairment loss and special reserve)	(828)	-	(4,887,258)	(6,491,313)	-	-	-	-	-	-	(15,510)	(19,348)	(61,091)	(85,335)	(336,682)	(42,962)	(5,301,368)	(6,638,957)
Carrying value less impairment loss/ special reserve	**-**	**-**	**728,073**	**1,690,262**	**-**	**-**	**-**	**-**	**-**	**-**	**3,916**	**1,355**	**1,232**	**28,009**	**349,322**	**27,569**	**1,082,543**	**1,747,195**
Total carrying value of receivables with credit risk before impairment loss/ special reserve	**2,518,178**	**5,836,133**	**52,528,027**	**52,943,036**	**8,852,308**	**8,839,390**	**3,392,816**	**1,899,035**	**37,794,595**	**26,989,289**	**30,784**	**33,281**	**682,802**	**1,334,198**	**15,415,765**	**16,046,061**	**121,215,275**	**113,920,422**
(Total Impairment loss and special reserve)	**(2,227)**	**(1,615)**	**(5,942,204)**	**(7,390,162)**	**-**	**-**	**-**	**-**	**(62)**	**(64)**	**(15,953)**	**(20,117)**	**(61,962)**	**(87,177)**	**(437,560)**	**(183,396)**	**(6,459,968)**	**(7,682,531)**
Total carrying value of receivables with credit risk less impairment loss/ special reserve	**2,515,951**	**5,834,518**	**46,585,823**	**45,552,874**	**8,852,308**	**8,839,390**	**3,392,816**	**1,899,035**	**37,794,534**	**26,989,225**	**14,830**	**13,163**	**620,841**	**1,247,020**	**14,978,205**	**15,862,666**	**114,755,307**	**106,237,891**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.A.a Analysis of total exposure to credit risk as at 31.12.2017 (continued)

in thousands of Denars	Loans and advances to banks	Loans and advances to other customers	Investment in financial assets available-for-sale	Investment in financial held-to-maturity	Cash and cash equivalents	Fees and commission receivables	Other receivables	Off balance sheet exposures	Total
2017 (previous year)									
I. Carrying amount of exposure with an allowance for impairment/special reserve									
Carrying amount of individually significant exposures, before the allowance for impairment and the special reserve, on individual basis	**5,850**	**50,596,123**	-	-	**1,824**	**29,651**	**269,642**	**5,619,505**	**56,522,594**
Risk category A	-	37,510,808	-	-	1,824	2,975	154,515	4,694,119	42,364,241
Risk category B	-	4,306,023	-	-	-	5,365	1,601	816,538	5,129,525
Risk category C	5,850	884,606	-	-	-	1,018	287	41,032	932,793
Risk category D	-	1,730,302	-	-	-	2,124	49,985	48,954	1,831,366
Risk category E	-	6,164,383	-	-	-	18,169	63,254	18,862	6,264,668
(Allowance for impairment and special reserve, on individual basis)	(1,615)	(7,390,162)	-	-	(64)	(20,117)	(87,177)	(183,396)	(7,682,531)
Carrying amount of individually significant exposures, reduced by allowance for impairment and the special reserve, on individual basis	**4,235**	**43,205,961**	-	-	**1,760**	**9,534**	**182,464**	**5,436,109**	**48,840,063**
Carrying amount of exposures assessed on group basis, before allowance for impairment and the special reserve on group basis	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Individually insignificant exposures (portfolio of small-amount loans)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Individually significant exposures that are not impaired on individual basis									
(Allowance for impairment and special reserve, group basis)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Carrying amount of exposures assessed on group basis, less the allowance for impairment and the special reserve, group basis	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.A.a Analysis of total exposure to credit risk as at 31.12.2017 (continued)

in thousands of Denars	Loans and advances to banks	Loans and advances to other customers	Investment in financial assets available-for-sale	Investment in financial held-to-maturity	Cash and cash equivalents	Fees and commission receivables	Other receivables	Off balance sheet exposures	Total
2017 (previous year)									
II. Carrying amount of exposures without allowance for impairment/special reserve									
Past due receivables									
Aging structure of past due receivables for which there is no allowance for impairment									
up to 30 days	-	101,902	-	-	-	1,065	6	1,073,994	1,176,967
Carrying amount of receivables for which there is no allowance for impairment	-	101,902	-	-	-	1,065	6	1,073,994	1,176,967
Non-matured receivables									
Restructured receivables g	-	-	-	-	-	-	-	-	-
Other receivables	5,830,283	2,245,011	8,839,390	1,899,035	26,987,465	2,565	1,064,549	9,352,563	56,220,860
Carrying amount of undue receivables for which there is no allowance for impairment /special reserve	**5,830,283**	**2,245,011**	**8,839,390**	**1,899,035**	**26,987,465**	**2,565**	**1,064,549**	**9,352,563**	**56,220,860**
Total carrying amount of the credit risk receivables before the allowance for impairment and special reserve	**5,836,133**	**52,943,036**	**8,839,390**	**1,899,035**	**26,989,289**	**33,281**	**1,334,198**	**16,046,061**	**113,920,422**
(Total allowance for impairment and special reserve)	**(1,615)**	**(7,390,162)**	**-**	**-**	**(64)**	**(20,117)**	**(87,177)**	**(183,396)**	**(7,682,531)**
Total Carrying amount of the credit risk receivables less the allowance for impairment and special reserve	**5,834,518**	**45,552,874**	**8,839,390**	**1,899,035**	**26,989,225**	**13,163**	**1,247,020**	**15,862,666**	**106,237,891**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.B Value of Collateral (Fair Value) for Mitigating of Credit Risk

in thousands of denars	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Other receivables		Off balance sheet exposures		Tota	
	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Value of collateral of credit exposure																
First-class collateral instruments																
cash deposits (in depot and/or restricted in accounts held with the Bank)		-	1,621,552	1,119,180	-	-	-	-	-	189,736	51,236	43,864	236,959	442,818	1,909,747	1,795,599
government securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees		-	-	17	-	-	-	-	-	-	3,374	694	236,549	124,329	239,923	125,041
Guarantees from insurance companies and insurance policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (besides bank Guarantees and guarantees from insurance companies)		-	461,770	61,142	-	-	-	-	-	-	8	348	399,151	-	860,930	61,491
Guarantees from individuals	-	-	496,750	1	-	-	-	-	-	-	19	-	35,530	-	532,298	1
Mortgage on real estate		-			-	-	-	-	-	-						
property for private use (flats, houses)		-	17,252,002	17,433,672	-	-	-	-	-		510	16,788	843,745	999,698	18,096,258	18,450,159
business facility		-	32,314,246	34,731,604	-	-	-	-	-	-	97,896	23,989	6,043,371	5,932,847	38,455,512	40,688,440
Pledge over movables		-	10,021,286	15,140,210	-	-	-	-	-	-	31,706	12,428	2,053,223	3,399,721	12,106,215	18,552,359
Other types of collateral		-	2,841,453	887,266	-	-	-	-	-	-	1,146	364	769,096	492,567	3,611,695	1,380,197
Total value of collateral of credit exposure		**-**	**65,009,059**	**69,373,092**	**-**	**-**	**-**	**-**	**-**	**189,736**	**185,894**	**98,477**	**10,617,625**	**11,391,981**	**75,812,578**	**81,053,285**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.C Concentration of Credit Risk by Industry

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Industry																		
Non-residents		-	369,420	1		1,870		-		-	57	78	0	34	1,910,472	2,307,092	2,279,949	2,309,076
Agriculture, forestry and fishing		-	727,397	928,358		-		-		-	47	56	649	-	12,816	15,034	740,908	943,447
Ore and stone extraction		-	279,372	530,888		-		-		-	22	5	0	-	10,970	7,997	290,364	538,890
Processing industry		-	2,700,766	2,451,007		-		-		-	133	72	0	24	137,212	165,145	2,838,111	2,616,248
Wholesale and retail industry for clothing and footwear		-	829,553	704,980		-		-		-	112	85	268	166	323,376	320,180	1,153,310	1,025,411
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry		-	2,063,367	1,872,337		-		-		-	117	113	4	56	162,921	125,848	2,226,409	1,998,354
Production of metals, machines, tools and equipment		-	1,985,384	2,594,373		-		-		-	136	189	76	27,276	667,920	892,648	2,653,515	3,514,486
Other processing industry		-	488,890	551,436		-		-		-	1,423	1,311	3	6,132	117,664	137,981	607,980	696,860
Electricity supply, gas, steam and air conditioning		-	1,228,327	1,329,383		-		-		-	1,023	1,162	494	61,499	198,693	515,820	1,428,538	1,907,865
Water supply, disposal of wastewater, waste management and remediation activities on the environment		-	167,050	179,592		-		-		-	64	67	125	-	12,503	30,578	179,742	210,238
Construction		-	4,249,034	3,741,761		-		-		-	3,385	2,270	1,255	314	3,327,640	4,065,218	7,581,313	7,809,564

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.C Concentration of Credit Risk by Industry (continued)

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Wholesale and retail trade; repair of motor vehicles, motorcycles		-	8,847,446	8,956,017	-	-	-	-	-	-	1,369	1,398	4,183	153,136	3,459,887	3,147,270	12,312,884	12,257,821
Transport and warehousing		-	826,738	816,426	-	-	-	-	-	-	499	387	229	1,251	702,497	684,732	1,529,963	1,502,796
Accommodation facilities and food service industry		-	637,546	621,101	-	-	-	-	-	-	137	107	185	288	37,656	26,224	675,524	647,720
Information and communications		-	298,126	400,341	-	-	-	-	-	-	195	355	89	1,001	147,811	134,776	446,222	536,473
Finance and insurance activities	2,515,951	5,834,518	39,923	46,793	-	63,054	-	-	37,784,078	26,989,225	3,115	3,080	13,446	13,156	17,067	17,796	40,373,579	32,967,623
Activities related to real estate, renting and business activities		-	1,807,618	1,589,669	-	-	-	-	-	-	25	31	1,311	436	67,595	37,515	1,876,549	1,627,651
Professional, scientific and technical activities		-	1,880,938	1,083,355	-	-	-	-	-	-	157	114	9	1,241	581,192	120,312	2,462,295	1,205,021
Administrative and utility services		-	308,842	300,119	-	-	-	-	-	-	97	88	1,182	1,026	166,342	136,404	476,462	437,636
Public administration and defence; mandatory social security		-	1,526,703	1,573,210	8,852,308	8,774,465	3,392,816	1,899,035	10,456	-	202	112	61	161	2,644	2,644	13,785,189	12,249,626
Education		-	365,771	386,558	-	-	-	-	-	-	16	25	1	1	1,823	3,771	367,610	390,355
Health care and social work		-	1,022,749	1,107,243	-	-	-	-	-	-	141	143	-	-	11,926	24,089	1,034,815	1,131,476
Art, entertainment and recreation		-	215,912	300,421	-	-	-	-	-	-	127	89	6	3	49,600	49,223	265,645	349,736
Other service activities		-	202,109	239,490	-	-	-	-	-	-	100	75	521	658	7,003	6,578	209,732	246,801

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.C Concentration of credit risk by industry (continued)

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previou s year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Private households as employers, household activities that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	13,457,158	13,194,489	-	-	-	-	-	-	1,921	1,587	595,840	425,102	2,841,078	2,884,023	16,895,998	16,505,201
Individual merchants and individuals not regarded as merchants	-	-	59,687	53,526	-	-	-	-	-	-	210	163	904	554,059	1,898	3,769	62,699	611,517
Total	**2,515,951**	**5,834,518**	**46,585,823**	**45,552,874**	**8,852,308**	**8,839,390**	**3,392,816**	**1,899,035**	**37,794,534**	**26,989,225**	**14,830**	**13,163**	**620,841**	**1,247,020**	**14,978,205**	**15,862,666**	**114,755,307**	**106,237,891**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.D Concentration of Credit Risk by Geographic Location

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial held-to-maturity		Cash and cash equivalents		Fees and commission receivables		Other receivables		Off balance sheet exposures		Total	
in thousands of denars	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Geographic location																		
Republic of Macedonia	50,785	49,399	46,216,402	45,552,873	8,852,308	8,837,520	3,392,816	1,899,035	19,357,766	12,988,734	14,204	12,469	620,841	1,246,986	13,058,354	13,550,191	91,563,477	84,137,207
EU member countries	2,002,354	3,354,637	369,420	1	-	1,408	-	-	14,188,616	12,559,598	452	522	-	-	1,550	313,631	16,562,392	16,229,798
Europe (other)	-	1,967,702	-	-	-	-	-	-	3,804,545	1,219,619	94	91	-	34	1,918,301	1,998,844	5,722,940	5,186,290
OECD member countries (without European OECD member countries)	462,811	462,779	-	-	-	462	-	-	373,717	172,568	78	79	-	-	-	-	836,606	635,888
Other	-	-	-	-	-	-	-	-	69,890	48,705	2	2	-	-	-	-	69,891	48,707
(the exposure that represents more than 10% of total credit exposure)																		
Total	**2,515,951**	**5,834,518**	**46,585,823**	**45,552,874**	**8,852,308**	**8,839,390**	**3,392,816**	**1,899,035**	**37,794,534**	**26,989,225**	**14,830**	**13,163**	**620,841**	**1,247,020**	**14,978,205**	**15,862,666**	**114,755,307**	**106,237,891**

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.D Concentration of Credit Risk by Geographic Location (continued)

Credit exposure and receivables by geographic location of debtors show that the highest concentration is in the Republic of North Macedonia, amounting 79.79% as of December 31, 2018 (2017: 79.20%). Exposure to debtors located in EU member amounts to 14.43% as of December 31, 2018 (2017: 15.28%). Exposure to debtors located in Other European countries and OECD countries amounts to 5.78% of the total credit exposure of the Bank as of December 31, 2018 (2017: 5.53%).

Unimpaired exposures that are past due, amount to 1,283,849 thousands of denars as of December 31, 2018 (2017: 1,176,967 thousands of denars) and relate to receivables past due up to 30 days and are off-balance sheet exposures in the amount of 1,137,447 thousands of denars as of December 31, 2018 (2017: 1,073,994 thousands of denars). Undue unimpaired loans amount to 64,498,796 thousands of denars (2017: 56,220,860 thousands of denars) and mainly relate to cash and cash equivalents, off-balance sheet exposure, exposures to first class banks and clients that have first class collateral, i.e. cash deposits.

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.E Analysis of credit risk in assets measured at fair value through profit or loss

	Trading assets				Financial assets at fair value through profit and loss designated as such at initial recognition									
	Debt trading securities		Equity trading securities		Debt securities		Equity securities		Loans and advances to banks		Loans and advances to other customers		Total	
In thousands of denars	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017
Current value of financial assets measured at fair value														
Risk category														
Without credit rating	9,194	96,431	31,002	385,494	331,829	-	-	-	-	-	-	-	372,025	481,925
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Risk category	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carrying value	**9,194**	**96,431**	**31,002**	**385,494**	**331,829**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**372,025**	**481,925**

These investments refer to financial assets measured at fair value through profit or loss for which there is no credit rating issued by external credit rating agencies.

2.2. Liquidity Risk

Liquidity risk occurs when the Group cannot provide enough funds intended for settlement of its short-term liabilities at their maturity date, or to provide the necessary funds at very higher costs. Liquidity risk arises, from both improper management of unexpected changes in assets and the Bank's inability to convert the other assets into financial assets properly and on time, at minimal cost.

Process of Liquidity Risk Management

Liquidity risk management involves management of assets and liabilities in a way that enables frequent and timely payment of liabilities, both in normal or exceptionally conditions.

Exposure to liquidity risk depends on the separate categories in the balance sheet classified by maturity dates (residual maturity) and the level of reconciliation. Exposure to insolvency risk depends on the level of capital and reserves, i.e. the Group's own funds. The purpose of managing this risk is to maximize stability and profitability, by implementing optimal combination of maturity and foreign currency structure of assets and liabilities.

The Group is exposed to daily claims on its available cash resources from deposits, current accounts, and loan withdrawals. The Group does not seek to maintain cash resources to meet all of these potential claims, estimating that the really due liabilities (stability of deposit core) can be estimated with a degree of certainty.

2. Risk Management (continued)

2.2. Liquidity Risk (continued)

Process of Liquidity Risk Management (continued)

The Group has established Liquidity risk undertaking and managing policy, passed by the Supervisory board and the same is reviewed regularly. In the policy it is defined the manner of liquidity management through determination of basic goals, capacity assessment for taking a liquidity risk and assessment of risk profile, basic components of liquidity risk management system, basic components of process of maintaining appropriate level of liquidity and determination of acceptable instruments for protection from or decrease of liquidity risk.

The Group has established Procedures for identification, undertaking, assessment, monitoring and control of the liquidity risk. This act is issued by the Board of directors and is subject of regular revision. The Procedures define the proceedings (processes) for liquidity risk management in detail as: identification and undertaking the liquidity risk, assessment of the liquidity and liquidity risk, testing of the operational liquidity and liquidity stress-testing, monitoring, control and reporting for the liquidity and liquidity risk.

The Group uses the following methods to maintain an appropriate level of liquidity: adequate maturity structure of its assets (claims) and liabilities (commitments), liquidity ratios, internal liquidity indicators, level of concentration, movement and stability of liabilities and their concentration, stress-testing, liquidity planning on a daily basis, meeting the legal requirements for mandatory reserves in Denars and in foreign currency, analysis for operational liquidity in Denars and in foreign currency, own funds and capital adequacy and other procedures and methods.

The Group's management monitors the balances of the current accounts and deposits on a daily basis. Management based on their experience determines the critical days that affect the Group's liquidity or the significant dates that affect the outflow of funds. Based on the identification of available funds and the previously determined daily needs for money, the Group makes decision regarding the appropriate use of funds.

Reconciliation and the controlled mismatch of assets and liabilities is fundamental to the Group's management.

The Group manages liquidity risk by continuously monitoring the maturity of assets and liabilities.

In 2018 there are no changes in the regulation related to the management of the liquidity risk, just as it was in 2017.

Maturity analysis of financial assets and liabilities (including both balance sheet and off-balance items) as at December 31, 2018 and 2017 was made by remaining contractual maturity or the remaining period from the date of notification to the agreed maturity date. Amounts in the analysis are not reduced by the amounts of accumulated depreciation, impairment losses and allocated special reserve. There are indications of significant gaps for the period up to one month as at 31 December 2018 and 31 December 2017. The main reason for the above mentioned non-compliance is based on the fact that short-term sources of funds are used for approval of long-term loans. For the purposes of managing liquidity risk, the Group prepares expected maturity structure with expectations as an integrated element that indicates a stable liquidity position.

2. Risk Management (continued)

2.2. Liquidity Risk (continued)

Maturity Analysis of Financial Assets and Liabilities (Residual Maturity)

in thousands of denars	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
2018 (current year)							
Financial assets							
Cash and cash equivalents	36,329,618	7,490,506	-	4,976,266	-	-	48,796,390
Held-for-trading assets	-	-	5	423	-	39,768	40,196
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	331,829	331,829
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	54,495	707	1,507,942	260	491,960	462,811	2,518,175
Loans and advances to other customers	3,030,484	3,605,390	18,297,440	5,628,499	11,215,859	10,696,553	52,474,225
Investments in securities	532,558	1,578,321	7,468,751	1,850,769	782,368	97,304	12,310,071
Investments in associates	-	-	-	-	-	274,037	274,037
Income tax receivable (current)	-	-	-	-	-	-	-
Other receivables	641,944	22,645	103,482	1,166	786	658	770,681
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	**40,589,099**	**12,697,569**	**27,377620**	**12,457,383**	**12,490,973**	**11,902,960**	**117,515,604**
Financial liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due to banks	163,797	186,697	42	-	-	-	350,536
Due to other customers	57,294,951	9,747,732	22,684,477	6,135,016	3,098,893	75,666	99,036,735
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	77,741	1,014	214,626	351,020	231,781	53,400	929,582
Subordinated debt	-	-	-	-	-	-	-
Income tax payable (current)	8,099	119,202	--	--	--	--	127,301
Deferred tax liabilities	-	--	--	--	--	--	--
Other liabilities	964,619	5,466	3,344	78	--	--	973,507
Total financial liabilities	**58,509,207**	**10,060,111**	**22,902,489**	**6,486,114**	**3,330,674**	**129,066**	**101,417,661**
Off balance sheet items							
Off balance sheet assets	54,531	--	92,390	267,848	84,986	--	499,755
Off balance sheet liabilities	6,671,236	1,672,583	4,766,335	3,165,325	2,123	255,954	16,533,556
Liquidity gap	**(24,536,813)**	**964,875**	**(198,814)**	**3,073,792**	**9,243,162**	**11,517,940**	**64,142**

2. Risk Management (continued)

2.2. Liquidity Risk (continued)

Maturity Analysis of Financial Assets and Liabilities (Residual Maturity)

in thousands of denars	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
2017 (previous year)							
Financial assets							
Cash and cash equivalents	28,870,848	3,794,936	-	4,543,055	-	-	37,208,839
Held-for-trading assets	1,712	-	27,031	11,144	30,877	411,161	481,925
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	51,222	2,953,071	1,876,791	257	307,453	647,251	5,836,045
Loans and advances to other customers	2,637,350	3,068,799	20,101,303	5,389,367	11,114,981	10,585,622	52,897,422
Investments in securities	757,885	1,422,460	7,295,514	810,379	400,000	52,187	10,738,425
Investments in associates	-	-	-	-	-	235,164	235,164
Income tax receivable (current)	-	498	-	-	-	-	498
Other receivables	468,914	48,404	908,619	796	612	735	1,428,080
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	**32,787,931**	**11,288,168**	**30,209,258**	**10,754,998**	**11,853,923**	**11,932,120**	**108,826,398**
Financial liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due to banks	257,281	189,405	2,311	-	-	-	448,997
Due to other customers	50,545,858	10,121,494	21,984,927	5,801,357	2,768,820	6,125	91,228,581
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	96,976	1,339	242,549	299,688	520,753	77,322	1,238,627
Subordinated debt	-	-	-	-	-	-	-
Income tax payable (current)	-	9,528	-	-	-	-	9,528
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	622,968	4,320	894	35	-	-	628,217
Total financial liabilities	**51,523,083**	**10,326,086**	**22,230,681**	**6,101,080**	**3,289,573**	**83,447**	**93,553,950**
Off balance sheet items							
Off balance sheet assets	113,058	4,856	7,809	37,461	96,301	348,773	608,258
Off balance sheet liabilities	6,718,397	1,615,323	5,522,873	3,446,455	5,574	-	17,308,622
Liquidity gap	**(25,340,491)**	**(648,385)**	**2,463,513**	**1,244,924**	**8,655,077**	**12,197,446**	**(1,427,916)**

2. Risk Management (continued)

2.3 Market Risk

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

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of Denars	*in thousands of Denars*	*in thousands of Denars*	*in %*
2018 (current year)				
Amount before sensitivity analysis / stress-test		10,616,908	62,899,081	16.88
(as at December 31, 2018)				
Effects from scenario implementation				
Currency risk				
(list separately the various scenarios, including the basic features of the scenario)				
Stress-test scenarios				
a)Regular (normal) work conditions				
Scenario 1: Denar to depreciate by 5% compared to other currencies	23,526	10,640,434	65,450,589	16.26
Scenario 2: Denar to appreciate by 5% compared to other currencies	(23,526)	10,593,382	60,347,571	17.55
b) Extraordinary conditions				
Scenario 1: Denar to depreciate by 30% compared to other currencies	141,155	10,758,063	78,208,132	13.76
Scenario 2: Denar to appreciate by 30% compared to other currencies	(141,155)	10,475,753	47,590,027	22.01
Interest rate risk				
(list separately the various scenarios, including the basic features of the scenario)				
Stress-test scenarios				
a)Regular (normal) work conditions				
Scenario 1a (I option): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p.	239,788	10,856,696	62,899,081	17.26
Scenario 1a (II option): Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p.	(239,788)	10,377,120	62,899,081	16.50
Scenario 2a (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(285,141)	10,331,768	62,899,081	16.43
Scenario 2a (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	285,141	10,902,049	62,899,081	17.33

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
b) Extraordinary conditions				
Scenario 1b (I option): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p.	1,438,726	12,055,634	62,899,081	19.17
Scenario 1b (II option): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p.	(1,438,726)	9,178,182	62,899,081	14.59
Scenario 2b (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 2,75 p.p.	(784,136)	9,832,772	62,899,081	15.63
Scenario 2b (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 2,75 p.p.	784,136	11,401,044	62,899,081	18.13
c) Combination of Scenario 1 and Scenario 2 in the regular work conditions				
Scenario 3a): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(45,353)	10,571,555	62,899,081	16.81
Scenario 3b): Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(524,928)	10,091,980	62,899,081	16.04
Scenario 3c): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	524,928	11,141,836	62,899,081	17.71

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
Scenario 3d):Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	45,353	10,662,261	62,899,081	16.95
d) Combination of Scenario 1 and Scenario 2 in the extraordinary work conditions				
Scenario 3a): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 2,75p.p.	654,590	11,271,498	62,899,081	17.92
Scenario 3b): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 2,75p.p.	(2,222,863)	8,394,045	62,899,081	13.35
Scenario 3c): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 2,75p.p.	2,222,863	12,839,771	62,899,081	20.41
Scenario 3d): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 2,75p.p.	(654,590)	9,962,318	62,899,081	15.84

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
Risk from changes in market prices in investments in own shares (list separately the various scenarios, including the basic features of the scenario)				
_____				
_____				
_____				
_____				
Combined scenarios, if any (list separately the various scenarios, including the basic features of the scenario)				
_____				
_____				
_____				
_____				

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of Denars	*in thousands of Denars*	*in thousands of Denars*	*in %*
2017 (previous year)				
Amount before sensitivity analysis/ stress-test		10,205,032	63,824,118	15.99
(as at December 31, 2017)				
Effects from scenario implementation				
Currency risk				
(list separately the various scenarios, including the basic features of the scenario)				
Stress-test scenarios				
a)Regular (normal) work conditions				
Scenario 1: Denar to depreciate by 5% compared to other currencies	10,534	10,215,566	66,190,242	15.43
Scenario 2: Denar to appreciate by 5% compared to other currencies	(10,534)	10,194,498	61,457,995	16.59
b) Extraordinary conditions				
Scenario 1: Denar to depreciate by 30% compared to other currencies	63,205	10,268,237	78,020,861	13.16
Scenario 2: Denar to appreciate by 30% compared to other currencies	(63,205)	10,141,827	49,627,376	20.44
Interest rate risk				
(list separately the various scenarios, including the basic features of the scenario)				
Stress-test scenarios				
a)Regular (normal) work conditions				
Scenario 1a (I option): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p.	136,844	10,341,876	63,824,118	16.20
Scenario 1a (II option): Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p.	(136,844)	10,068,188	63,824,118	15.77
Scenario 2a (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(263,356)	9,941,676	63,824,118	15.58
Scenario 2a (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	263,356	10,468,388	63,824,118	16.40

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
b) Extraordinary conditions				
Scenario 1b (I option): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p.	821,064	11,026,096	63,824,118	17.28
Scenario 1b (II option): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p.	(821,064)	9,383,968	63,824,118	14.70
Scenario 2b (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 3,25 p.p.	(855,906)	9,349,126	63,824,118	14.65
Scenario 2b (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 3,25 p.p.	855,906	11,060,938	63,824,118	17.33
c) Combination of Scenario 1 and Scenario 2 in the regular work conditions				
Scenario 3a): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(126,512)	10,078,520	63,824,118	15.79
Scenario 3b): Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,00 p.p.	(400,200)	9,804,832	63,824,118	15.36
Scenario 3c): Interest rates on balance sheet items with variable interest rates to increase by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	400,200	10,605,232	63,824,118	16.62

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
Scenario 3d):Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,00 p.p.	126,512	10,331,544	63,824,118	16.19
d) Combination of Scenario 1 and Scenario 2 in the extraordinary work conditions				
Scenario 3a): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 3,25 p.p.	(34,841)	10,170,191	63,824,118	15.93
Scenario 3b): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 3,25 p.p.	(1,676,970)	8,528,062	63,824,118	13.36
Scenario 3c): Interest rates on balance sheet items with variable interest rates to increase by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 3,25 p.p.	1,676,970	11,882,002	63,824,118	18.62
Scenario 3d): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 3,25 p.p.	34,841	10,239,873	63,824,118	16.04

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

A. Sensitivity Analysis on the Changes of Market Risk on Assets and Liabilities (continued)

	Profit/Loss	Own funds	Risk weighted assets	Capital adequacy ratio
	in thousands of denars	*in thousands of denars*	*in thousands of denars*	*in %*
Risk from changes in market prices in investments in own shares (list separately the various scenarios, including the basic features of the scenario)				
_____				
_____				
_____				
_____				
Combined scenarios, if any (list separately the various scenarios, including the basic features of the scenario)				
_____				
_____				
_____				
_____				

This table presents a sensitivity analysis to changes in the market risk of the assets and liabilities of the Bank, because of the insignificant participation (below 1%) of the total assets of the subsidiary in the Group's assets. The Group does not carry stress tests from risk of changes in interest rates for investments in equity securities, as well as combined scenarios for changes in market risks.

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.1 Sensitivity Analysis of Assets and Liabilities on the Change in Market Risk (continued)

B. Analysis of Value Exposed to Market Risk in Trading Portfolio

	current year 2018				previous year 2017			
in thousands of Denars	As at December 31	Average value for the period	Highest value for the period	Lowest value for the period	As at December 31	Average value for the period	Highest value for the period	Lowest value for the period
Amount of interest-bearing instruments exposed to risk	-	-	-	-	-	-	-	-
Amount of foreign currency instruments exposed to risk	-	-	-	-	-	-	-	-
Amount of equity instruments exposed to risk	-	-	-	-	-	-	-	-
Variance (off-setting effect)								
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Pursuant to the “Decision on the Methodology for Determining Capital Adequacy," the Bank does not define capital required to cover market risks for trading portfolio, and consequently as at 31 December 2018 and 31 December 2017 the Bank had not performed analysis of value exposed to market risk in trading portfolio.

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.2 Sensitivity analysis of Changes in Interest Rates of Financial Assets and Liabilities (Excluding Trading Assets)

Interest rate risk considering the Group's portfolio is risk of loss arising from the unfavourable changes in the interest rates which influences the items in the Group's portfolio. The risk of change in the interest rates can also arise from the liquidity gap of assets and liabilities, which may have long term negative influence on Group's profitability and capital.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flow. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Assets and liabilities management is performed based on Group's sensitivity to changes in interest rates. The Group strives to maintain the net interest margin above the level defined as internal limit. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The exposure to this risk depends on the value of the balance and off-balance sheet items which are sensitive to interest rates, interest rates oscillation and the time period of the interest rate exposure.

The aim is maximization of the stability and profitability, through appliance of optimal structure and optimal interest rates in the banking activities' portfolio.

The Group has established Policy for undertaking and managing the risk of change in the interest rates in the banking activities that is adopted by the Supervisory Board and is subject of regular revision. The Policy defines the main objectives, assessment of the Group's capacity to take the risk of change in the interest rates as well as assessment of its risk profile, organizational structure of the interest rate risk management function, basic elements of the interest rate risk management (management system and management process), adequate instruments for protection or reduction of the interest rate risk, as well as elements in the process of internal assessment and evaluation of the required capital adequacy.

The Group has established Procedures for identification, assessment, measurement, monitoring and control or mitigation the risk of change in the interest rates in the banking book. This act is issued by Board of Directors and is reviewed on regular bases. The Procedures gives in detail the proceedings (processes) for interest rate risk management as: identification and undertaking of interest rate risk, measurement and monitoring of interest rate risk, control and reporting of the interest rate risk exposure.

Methods used to measure this risk include: analysis of the realized interest income and expense, weighted average interest rates, interest margin and net interest margin, analysis of the structure and dynamics of interest bearing assets and interest bearing liabilities and assets quality influence to Group's profitability, ratio of the interest bearing assets and interest bearing liabilities, interest rate gap, changing of the economic value of the portfolio of banking activities, analysis of compliance in the interest rates of financial assets and liabilities and the maturity (in)consistency of interest sensitive assets and liabilities positions, the risk of differences in the level of reference interest rates of instruments with similar characteristics, the risk of movement of the yield curve, risk arising from the options that are embedded in interest-bearing positions, simulation models, stress-testing and other are methods used to measure this risk.

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.2 Sensitivity analysis of Changes in Interest Rates of Financial Assets and Liabilities (Excluding Trading Assets) (continued)

A. Interest Rate Sensitivity Analysis

Schedules "VPV" prepared in accordance with the "Guidelines for implementing the Decision on managing the interest rate risk in the banking portfolio" for the years ended 31 December 2018 and 2017 are as follows:

in thousands of Denars

	Position	Currency	December 31, 2018
	1	2	3
1.1	NET WEIGHTED POSITION FOR CURRENCY MKD (FIR+VIR+AIR)	MKD	183,448
1.2	NET WEIGHTED POSITION FOR CURRENCY EUR (FIR+VIR+AIR)	EUR	(60,584)
1.3	NET WEIGHTED POSITION FOR CURRENCY MKD cl EUR (FIR+VIR+AIR)	MKD cl EUR	366,744
1.4	NET WEIGHTED POSITION FOR OTHER CURRENCIES (FIR+VIR+AIR)	other	(5,239)
2	**TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF THE BANKING PORTFOLIO**		**484,369**
3	OWN FUNDS		**10,616,908**
4	**TOTAL WEIGHTED VALUE/OWN FUNDS (2/3*100)**		**4.56%**

in thousands of Denars

	Position	Currency	December 31, 2017
	1	2	3
1.1	NET WEIGHTED POSITION FOR CURRENCY MKD (FIR+VIR+AIR)	MKD	175,696
1.2	NET WEIGHTED POSITION FOR CURRENCY EUR (FIR+VIR+AIR)	EUR	(58,798)
1.3	NET WEIGHTED POSITION FOR CURRENCY MKD cl EUR (FIR+VIR+AIR)	MKD cl EUR	887,113
1.4	NET WEIGHTED POSITION FOR OTHER CURRENCIES (FIR+VIR+AIR)	other	(6,160)
2	**TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF THE BANKING PORTFOLIO**		**997,851**
3	OWN FUNDS		**10,205,032**
4	**TOTAL WEIGHTED VALUE/OWN FUNDS (2/3*100)**		**9.78%**

The table above presents the sensitivity analyses of the Bank, due to the insignificant participation (under 1%) in total assets of the subsidiary in the assets of the Bank.

The reduction of the ratio is mainly as a result of the Guidelines for amending the Guidelines for implementation of the Decision on managing the interest rate risk in the banking activities ("Official Gazette of the Republic of Macedonia" No. 154/17) that came into force from 01.01.2018 and according to which the positions in which the interest rate is fixed for a certain period of time, and not for the entire period until their maturity date, will no longer have treatment in positions with a fixed interest rate assuming that the interest rate will remain fixed until the deadline but will be distributed depending on the type of interest rate that will be applied in the appropriate period of time.

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.2 Sensitivity analysis of Changes in Interest Rates of Financial Assets and Liabilities (Excluding Trading Assets) (continued)

B. Interest Rates gap analyses

in thousands of Denars	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total interest bearing assets/ liabilities
December 31, 2018 (current year)							
FINANCIAL ASSETS							
Cash and cash equivalents	34,412,250	7,486,265	-	-	-	-	**41,898,515**
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	**-**
Loans and advances to banks	52,788	512	1,507,771	-	-	-	**1,561,071**
Loans and advances to other customers	2,855,671	3,512,280	34,200,779	1,963,718	2,448,427	614,597	**45,595,472**
Investments in securities	522,358	1,578,627	7,475,053	1,832,978	782,298	32,523	**12,223,837**
Other interest sensitive assets	-	-	-	-	-	-	**-**
Total interest sensitive financial assets	**37,843,067**	**12,577,684**	**43,183,603**	**3,796,696**	**3,230,725**	**647,120**	**101,278,895**
FINANCIAL LIABILITIES							
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	**-**
Due to banks	53,689	184,772	-	-	-	-	**238,461**
Due to other customers	16,080,100	9,705,784	30,507,967	15,864	10,367	-	**56,320,082**
Debt instruments issued	-	-	-	-	-	-	**-**
Borrowings	75,066	1,014	311,539	222,393	190,247	3,058	**803,317**
Subordinated debt	-	-	-	-	-	-	**-**
Other interest sensitive liabilities	-	-	-	-	-	-	**-**
Total interest sensitive financial assets	**16,208,855**	**9,891,570**	**30,819,506**	**238,257**	**200,614**	**3,058**	**57,361,860**
Net balance sheet gap	**21,634,212**	**2,686,114**	**12,364,097**	**3,558,439**	**3,030,111**	**644,062**	**43,917,035**
Off balance sheet interest sensitive assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet interest sensitive liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net off-balance sheet gap	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net-gap	**21,634,212**	**2,686,114**	**12,364,097**	**3,558,439**	**3,030,111**	**644,062**	**43,917,035**

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.2 Sensitivity analysis of Changes in Interest Rates of Financial Assets and Liabilities (Excluding Trading Assets) (continued)

B. Interest Rates gap analyses (continued)

in thousands of Denars	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total interest bearing assets/ liabilities
December 31, 2017 (previous year)							
FINANCIAL ASSETS							
Cash and cash equivalents	23,048,183	3,794,141	-	-	-	-	26,842,324
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	50,873	2,952,148	1,876,426	-	-	-	4,879,447
Loans and advances to other customers	2,385,385	3,087,430	30,291,575	1,086,232	2,422,659	4,319,287	43,592,568
Investments in securities	735,367	1,421,307	7,299,158	800,844	400,000	-	10,656,676
Other interest sensitive assets	-	-	-	-	-	-	-
Total interest sensitive financial assets	**26,219,808**	**11,255,026**	**39,467,159**	**1,887,076**	**2,822,659**	**4,319,287**	**85,971,015**
FINANCIAL LIABILITIES							
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Due to banks	189,736	184,778	-	-	-	-	374,514
Due to other customers	14,186,251	10,137,540	29,678,034	1,845	504	-	54,004,174
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	94,174	1,339	293,235	293,352	385,775	43,171	1,111,046
Subordinated debt	-	-	-	-	-	-	-
Other interest sensitive liabilities	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Total interest sensitive financial assets	**14,470,161**	**10,323,657**	**29,971,269**	**295,197**	**386,279**	**43,171**	**55,489,734**
Net balance sheet gap	**11,749,647**	**931,369**	**9,495,890**	**1,591,879**	**2,436,380**	**4,276,116**	**30,481,281**
Off balance sheet interest sensitive assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet interest sensitive liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net off-balance sheet gap	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net-gap	**11,749,647**	**931,369**	**9,495,890**	**1,591,879**	**2,436,380**	**4,276,116**	**30,481,281**

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.3 Foreign Currency Risk

Foreign currency risk is risk of loss due to change in the cross-currency exchange rates and/or change in the value of the Denar against other foreign currencies.

The exposure to currency risk depends on the value of both balance and off balance sheet items denominated in foreign currency or in Denars with foreign currency clause, and fluctuation of cross-currency rates and/or rate of the Denar compared to other currencies.

The purpose of the Group is to maximize the stability and profitability, by obtaining optimal currency structure on both assets and liabilities.

The Group has established Policy for undertaking and managing market risk that is adopted by the Supervisory Board and is subject of regular revision. The Policy defines the main objectives, assessment of the Group capacity to undertake market risk as well as assessment of its risk profile, organizational structure of the market risk management function, main elements of the market risk management (system for market risk management and process for market risk management), acceptable instruments for protection or reduction of the market risk, internal control and main elements of the process for internal determining and assessment of the required capital adequacy of the Group.

The Group has established Procedures for identification, undertaking, measurement, following and control of foreign exchange risk issued by the Board of Directors and it is revised regularly. In the Procedures processes for managing foreign exchange risk are thoroughly described as follows: identification and undertaking foreign exchange risk, measurements and following, control and reporting for exposure to foreign exchange risk.

Methods used to measure foreign exchange risk includes: exposure to foreign exchange risk both by single positions and in total, foreign exchange structure of the balance sheet, foreign exchange structure of FX assets, stress test and other methods.

The Group's policy main principle for currency risk management is to achieve and maintain compliance of its claims in foreign currency (foreign currency assets) as a minimum, the amount of its total foreign currency liabilities (obligations in foreign currency). Also, this ratio is maintained from the perspective of maturity of liabilities and assets in foreign currency. This principle in the balance sheet provides that the Group is able to cover losses from foreign exchange differences arising from its liabilities by exchange rate differences arising from its assets, even under conditions of frequent changes in exchange rates. The tables below summarize the net foreign currency position of monetary assets and liabilities of the Bank as at 31 December 2018 and 2017.

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.3 Foreign Currency Risk (continued)

in thousands of denars	MKD	EUR	USD	list separately the currencies that represent more than 10% of total monetary assets/liabilities					Other currencies	Total
2018 (current year)										
Monetary Assets										
Cash and cash equivalents	24,553,322	15,965,908	5,358,126	-	-	-	-	-	2,918,972	**48,796,328**
Held-for-trading assets	39,773	423	-	-	-	-	-	-	-	**40,196**
Financial assets at fair value through profit or loss upon initial recognition	331,829	-	-	-	-	-	-	-	-	**331,829**
Derivative assets held for risk management	-	-	-	-	-	-	-	-	-	**-**
Loans and advances to banks	50,783	2,465,136	-	-	-	-	-	-	-	**2,515,919**
Loans and advances to other customers	29,037,101	17,344,307	25,530	-	-	-	-	-	-	**46,406,938**
Investments in securities	9,910,446	2,399,141	484	-	-	-	-	-	-	**12,310,071**
Investments in associates	274,037	-	-	-	-	-	-	-	-	**274,037**
Income tax receivable (current)	0	-	-	-	-	-	-	-	-	**-**
Other receivables	100,850	467,910	123,756	-	-	-	-	-	250	**692,766**
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	**-**
Deferred tax assets	-	-	-	-	-	-	-	-	-	**-**
Total Monetary Assets	**64,298,141**	**38,642,825**	**5,507,896**	**-**	**-**	**-**	**-**	**-**	**2,919,222**	**111,368,084**
Monetary Liabilities										
Trading liabilities	-	-	-	-	-	-	-	-	-	**-**
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-	-	-	**-**
Derivative liabilities held for risk management	-	-	-	-	-	-	-	-	-	**-**
Due to banks	210,648	14,656	56,537	-	-	-	-	-	68,695	**350,536**
Due to other customers	53,618,184	37,039,057	5,524,298	-	-	-	-	-	2,855,196	**99,036,735**
Debt instruments issued	-	-	-	-	-	-	-	-	-	**-**
Borrowings	123,591	805,334	-	-	-	-	-	-	-	**928,925**
Subordinated debt	-	-	-	-	-	-	-	-	-	**-**
Income tax payable (current)	127,301	-	-	-	-	-	-	-	-	**127,301**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	775,247	165,148	25,255	-	-	-	-	-	7,857	**973,507**
Total Monetary Liabilities	**54,854,971**	**38,024,195**	**5,606,090**	**-**	**-**	**-**	**-**	**-**	**2,931,748**	**101,417,004**
Net-position	**9,443,170**	**618,630**	**(98,194)**	**-**	**-**	**-**	**-**	**-**	**(12,526)**	**9,951,080**

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.3 Foreign Currency Risk (continued)

in thousands of denars	MKD	EUR	USD	list separately the currencies that represent more than 10% of total monetary assets/liabilities					Other currencies	Total
2017 (previous year)										
Monetary Assets										
Cash and cash equivalents	17,928,955	12,060,374	4,729,123	-	-	-	-	-	2,490,323	37,208,775
Held-for-trading assets	398,325	83,600	-	-	-	-	-	-	-	481,925
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	49,313	5,417,250	-	-	-	-	-	-	367,830	5,834,393
Loans and advances to other customers	28,974,974	16,138,038	253,229	-	-	-	-	-	-	45,366,241
Investments in securities	8,433,449	2,304,514	462	-	-	-	-	-	-	10,738,425
Investments in associates	235,164	-	-	-	-	-	-	-	-	235,164
Income tax receivable (current)	498	-	-	-	-	-	-	-	-	498
Other receivables	897,933	310,731	111,817	-	-	-	-	-	304	1,320,785
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Total Monetary Assets	**56,918,611**	**36,314,507**	**5,094,631**	**-**	**-**	**-**	**-**	**-**	**2,858,457**	**101,186,206**
Monetary Liabilities										
Trading liabilities	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-	-	-	-
Due to banks	112,207	117,602	73,288	-	-	-	-	-	145,900	448,997
Due to other customers	48,648,252	34,826,473	4,986,623	-	-	-	-	-	2,767,233	91,228,581
Debt instruments issued	-	-	-	-	-	-	-	-	-	-
Borrowings	124,779	1,113,044	-	-	-	-	-	-	-	1,237,823
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Income tax payable (current)	9,528	-	-	-	-	-	-	-	-	9,528
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	477,482	118,394	28,608	-	-	-	-	-	3,733	628,217
Total Monetary Liabilities	**49,372,248**	**36,175,513**	**5,088,519**	**-**	**-**	**-**	**-**	**-**	**2,916,866**	**93,553,146**
Net-position	**7,546,363**	**138,994**	**6,112**	**-**	**-**	**-**	**-**	**-**	**(58,409)**	**7,633,060**

2. Risk Management (continued)

2.3 Market Risk (continued)

2.3.4 Other Market Risks

Other market risks are risks of loss arising from the change in the price of trading financial instruments i.e. instruments that are part of the trading portfolio.

The exposure depends on the trading portfolio value and on the movement of the price of the financial instruments which constitute the portfolio.

The purpose of the Group is to maximize the stability and profitability, by applying the optimal structure of trading portfolio.

The Group has established Policy for undertaking and managing market risk that is issued by the Supervisory Board and is subject of regular revision. The Policy defines the main objectives, assessment of the Group capacity to undertake market risk as well as assessment of its risk profile, organizational structure of the market risk management function, main elements of the market risk management (system for market risk management and process for market risk management), acceptable instruments for protection or reduction of the market risk, internal control and main elements of the process for internal determining and assessment of the required capital adequacy of the Group.

The Group has established Procedures for identification, undertaking, assessment, monitoring and control of the market risk. This act is issued by the Supervisory Board and is subject of regular revision. The Procedures defines the proceedings (processes) for market risk management in detail as: identification and undertaking the market risk, assessment and monitoring, control and reporting for the market risk exposure.

Methods used to measure foreign exchange risk includes: analysis of each investment intended for trade, analysis of the trading book (type of the securities, market segmentation, market value, participation in the issuer capital etc.) currency structure, realized transactions of trading, fulfilling the law limits, fulfilling the internal limits and exceptions, trading results, daily monitoring of the trading book regarding the Group's total activities, stress-testing and other are methods that are used for market risk assessment.

As at 31 December 2018 and 2017, according to regulatory requirements, the Group does not determine capital required to cover the market risk for portfolio trading.

2.4 Operational Risks

The operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The operational risk includes the legal risk, the risk of money laundering and financing of terrorism, as well as IT risk and other operational risks.

Legal risk denotes current or prospective risk to the Group's profit and own funds, caused by violation or non-adherence to the legal framework, agreements, prescribed practices, ethics standards, or as a result of misinterpretation of the regulations, rules, agreements and other legal documents.

The Group has established a framework for managing operational risk based on a strategy, policy and methodology to manage this risk, and appropriate organizational structure and established process. It allows, within the framework of different processes of the Group, different risks to be identified resulting from these processes, their measurement and undertaking corrective actions, in order to avoid the potential negative effect on the Group's financial result and capital position. The appropriateness of the established framework for operational risk management is under regular revision.

2. Risk Management (continued)

2.4 Operational Risks (continued)

The identification and measurement of the operational risk is performed by the Group through analysis of collected data on loss events that have caused or might cause damage to the Group, analysis of the Group's key risk Indicators, by using the self-assessment method through qualitative approach, as well as through analysis of external loss data from other banks.

As at 30 September 2012 following the legal requirements the Group started to calculate the capital required for coverage of operational risk, applying the standardised approach. The amount of capital as at 31 December 2018 is presented under heading 3.1.1. Capital adequacy ratio report.

3. Capital Adequacy

According to the NBRNM's Decision for consolidated supervision, if the total assets of the subordinate entity are less than 1% of the assets of the parent entity, subordinate entity does not have to be included in the consolidated financial statements for purposes of consolidated supervision. Based on the above, capital adequacy is not determined on a consolidated basis.

3.1 Capital management

The Bank's objectives when managing capital, which is a broader concept than the "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by NBRNM;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

According to the law regulation, the Bank has to respect the following ratios:

- Common Equity Tier 1 Capital cannot be lower than 4.5% from the risk weighted assets (Common Equity Tier 1 Capital ratio),
- Tier 1 Capital cannot be lower than 6% from the risk weighted assets (Tier 1 Capital ratio) and
- The capital adequacy cannot be lower than 8%.

As at 31.12.2018 the Bank fulfills the legally prescribed capital requirements and the prescribed capital requirements for capital conservation buffer and for systemically important bank, which are fulfilled with the Common Equity Tier 1 Capital. According to the regulation, the Bank has no obligation to maintain countercyclical capital buffer.

Additionally, the Bank has established a Process of determining the internal capital (PIC) in accordance with the Decision on risk management specified by NBRNM. The Process of determining the internal capital is based on enacted Policies and Procedures and within the same reference frame, the Bank:

- Determines the required internal capital to cover the acceptable level of risk, in accordance with its risk profile and the size and complexity of current and future financial activities;
- Focuses on establishing a sustainable level of long term capital, while taking into account the influence of all material risks and similar.

3. Capital Adequacy (continued)

3.1 Capital management (continued)

Determination of Capital Adequacy

The Bank determines its own funds and the capital adequacy in accordance to the Methodology for determining the capital adequacy set by NBRNM. In accordance with the regulation, the credit risk weighted assets and the capital required for coverage of operational risks are calculated based on the standardised approach.

Capital adequacy ratio indicates the level of coverage of risk operations of the Bank and it is calculated as the relation between Bank's own funds and risk weighted assets.

a) Own funds are category that is in function of determination the rate of the capital adequacy and other regulatory and prudential limits. Own funds represent a total of core capital (Tier 1 Capital) and additional capital (Tier 2 Capital), where the core capital (Tier 1 Capital) consists of: Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1). As at 31 December 2018 and 2017 the Bank has only Common Equity Tier 1 Capital (CET1), which is a part of the Bank's core capital (Tier 1 Capital).

b) Risk weighted assets represent a sum of assets weighted according to credit risk, weighted assets by currency risk, weighted assets by operational risk and weighted assets by other risks.

- Risk weighted assets based on credit risk include the active balance and off-balance sheet position, which allocated in appropriate risk categories are weighted with appropriate risk weight depending on the credit quality rating of the debtor. The credit quality rating of the debtor is determined based on the prescribed regulation by NBRNM.
- Risk weighted assets based on currency risk are determined based on calculated capital necessary for coverage of currency risk, which the Bank determines based on the amount of the aggregate foreign currency position and the absolute amount of net-position in gold.
- Risk weighted assets based on operational risk are determined based on capital required for coverage of operational risks, which the Bank calculates using the standardised approach.
- Risk weighted assets based on other risks include the capital required for coverage the risk of changes in prices of commodities and the capital required for coverage market risks.

Determination of the capital adequacy according to the regulation is done on a quarterly basis, but depending on internal needs, and towards the effective risk management, other reports, analysis and simulations for potential changes of the rate of capital adequacy are made.

3. Capital Adequacy (continued)
3.1 Determination of Capital Adequacy
3.1.1 Capital Adequacy Ratio Report

		in thousands of Denars	
No.	**Description**	**Current year 2018**	**Previous year 2017**
I	**CREDIT RISK WEIGHTED ASSETS**		
1	Assets weighted according to credit risk using the standardised approach	55,387,374	56,135,497
2	Capital required for credit risk covering	4,430,990	4,490,840
II	**CURRENCY RISK WEIGHTED ASSETS**		
3	Aggregate foreign exchange position	483,572	210,977
4	Net-position in gold	-	-
5	Capital needed for currency risk covering	38,686	16,878
6	Assets weighted according to currency risk	483,572	210,977
III	**OPERATIONAL RISKS WEIGHTED ASSETS**	-	
7	Capital needed for operational risk covering using the base indicator approach	-	-
8	Capital needed for operational risk covering using the standardised approach	562,251	598,211
9	**Assets weighted according to operational risk**	7,028,135	7,477,644
IV	**OTHER RISKS WEIGHTED ASSETS**		-
10	Capital needed for covering the risk of changes in the prices of commodities	-	-
11	Capital needed for covering market risks (11.1+11.2+11.3+11.4+11.5)	-	-
11.1	Capital needed for covering position risk (11.1.1.+11.1.2+11.13+11.1.4)	-	-
11.1.1	Capital needed for covering the specific risk of investing in debt instruments	-	-
11.1.2	Capital needed for covering the general risk of investing in debt instruments	-	-
11.1.3	Capital needed for covering the specific risk of investing in equity instruments	-	-
11.1.4	Capital needed for covering the general risk of investing in equity instruments	-	-
11.2	Capital needed for covering settlement/delivery risk	-	-
11.3	Capital needed for covering counterparty risk	-	-
11.4	Capital needed for covering the surpass of exposure limits	-	-
11.5	Capital needed for covering market risks of positions in options	-	-
12	Capital needed for covering other risks (10+11)	-	-
13	Assets weighted according to other risks	-	-
V	**RISK WEIGHTED ASSETS**	**62,899,081**	**63,824,118**
14	Capital required to risk coverage	5,031,927	5,105,929
VI	**OWN FUNDS**	**10,616,908**	**10,205,032**
VII	**CAPITAL ADEQUACY (VI/V)**	**16.88%**	**15.99%**

3. Capital Adequacy (continued)
3.1 Capital management (continued)
3.1.2 Report on own funds

No.	Description	in thousands of Denars	
		Current year 2018	Previous year 2017
1	2	3	4
1	**Own funds**	**10,616,908**	**10,205,032**
2	**Tier 1 Capital**	**10,616,908**	**10,205,032**
3	**Common Equity Tier 1 Capital (CET1)**	**10,616,908**	**10,205,032**
3.1.	Positions of CET1	10,624,883	10,206,667
3.1.1.	Capital instruments of CET1	2,279,067	2,279,067
3.1.2.	Premium on capital instruments of CET1	771,526	771,526
3.1.3.	Mandatory reserve fund	7,556,652	7,146,303
3.1.4.	Retained unallocated earning	-	-
3.1.5.	(-) Accumulated loss from previous years	-	-
3.1.6.	Current profit or profit at the end of the year	-	-
3.1.7.	Comprehensive income or loss	17,638	9,771
3.2.	(-) Deductions of CET1	(7,975)	(1,635)
3.2.1.	(-) Loss at the end of the year or current loss	-	-
3.2.2.	(-) Intangibles	(7,975)	(1,635)
3.2.3.	(-) Deferred tax assets that rely on future profitability of the bank	-	-
3.2.4.	(-) Investments in own capital instruments from CET1	-	-
3.2.4.1.	(-) Direct investments in own capital instruments from CET1	-	-
3.2.4.2.	(-) Indirect investments in own capital instruments from CET1	-	-
3.2.4.3.	(-) Synthetic investments in own capital instruments from CET1	-	-
3.2.4.4.	(-) Investments in own capital instruments from CET1 for which the bank has contractual obligation to buy	-	-
3.2.5.	(-) Direct, indirect and synthetic investments in capital instruments from CET1 of the companies from the financial sector, whereas those companies have investments in the bank	-	-
3.2.6.	(-) Direct, indirect and synthetic investments in capital instruments from CET1 of the companies from the financial sector in which the bank does not have significant investment	-	-
3.2.7.	(-) Direct, indirect and synthetic investments in capital instruments from CET1 of the companies from the financial sector in which the bank has significant investment	-	-
3.2.8.	(-) Amount of deductions from AT1 which exceeds the total amount of AT1	-	-
3.2.9.	(-) Amount of exceeding the limits on investments in non-financial institutions	-	-
3.2.10.	(-) Tax costs	-	-
3.2.11.	(-) Difference between the necessary and the actual allowance for impairment provision/special reserve	-	-
3.3.	Regulatory adjustments from CET1	-	-
3.3.1.	(-) Increase of CET1 that arises from the positions of securitisation	-	-
3.3.2.	(-) Gains or (+) losses from covering risk arising from the cash flow	-	-
3.3.3.	(-) Gains or (+) losses from liabilities of the bank measured at fair value	-	-
3.3.4.	(-) Gains or (+) losses related with liabilities based on derivatives measured at fair value.	-	-
3.4.	Positions as a result of consolidation	-	-
3.4.1.	Non-controlling (minority) participation that is recognized in CET1 on consolidated basis	-	-
3.4.2.	Other	-	-
3.5.	Other positions from CET1	-	-

3. Capital Adequacy (continued)
3.1 Capital management (continued)
3.1.2 Report on Own Funds (continued)

No.	Description	in thousands of Denars	
		Current year 2018	Previous year 2017
1	2	3	4
4	**Additional Tier 1 capital (AT1)**	**-**	**-**
4.1.	Positions of AT1	**-**	**-**
4.1.1.	Capital instruments of AT1	-	-
4.1.2.	Premium on capital instruments of AT1	-	-
4.2.	(-) Deduction of AT1	-	-
4.2.1.	(-) Investments in own capital instruments from AT1	**-**	**-**
4.2.1.1.	(-) Direct investments in own capital instruments from AT1	-	-
4.2.1.2.	(-) Indirect investments in own capital instruments from AT1	-	-
4.2.1.3.	(-) Synthetic investments in own capital instruments from AT1	-	-
4.2.1.4.	(-) Investments in own capital instruments from AT1 for which the bank has contractual obligation to buy.	-	-
4.2.2.	(-) Direct, indirect and synthetic investments in capital instruments from AT1 of the companies from the financial sector, whereas those companies have investments in the bank.	-	-
4.2.3.	(-) Direct, indirect and synthetic investments in capital instruments from AT1 of the companies from the financial sector, in which the bank does not have significant investment.	-	-
4.2.4.	(-) Direct, indirect and synthetic investments in capital instruments from AT1 of the companies from the financial sector in which the bank has significant investment.	-	-
4.2.5.	(-) Amount of deductions from T2 which exceeds the total amount of T2	-	-
4.2.6.	(-) Tax costs	-	-
4.3.	Regulatory adjustments from AT1	**-**	**-**
4.3.1.	(-) Increase of AT1 that arises from the positions of securitisation	-	-
4.3.2.	(-) Gains or (+) losses from covering risk arising from the cash flow	-	-
4.3.3.	(-) Gains or (+) losses from liabilities of the bank measured at fair value	-	-
4.3.4.	(-) Gains or (+) losses related with liabilities based on derivatives measured at fair value	-	-
4.4.	Positions as a result of consolidation	**-**	**-**
4.4.1.	Acceptable additional tier 1 capital that is recognized in AT1 on consolidated basis	-	-
4.4.2.	Other	-	-
4.5.	Other positions from AT1	**-**	**-**

3. Capital Adequacy (continued)
3.1 Capital management (continued)

3.1.2 Report on Own Funds (continued)

No.	Description	in thousands of Denars	
		Current year 2018	Previous year 2017
1	2	3	4
5	**Tier 2 capital (T2)**	**-**	**-**
5.1.	Positions of T2	**-**	**-**
5.1.1.	Capital instruments of T2	-	-
5.1.2.	Subordinated loans	-	-
5.1.3.	Premium on capital instruments of T2	-	-
5.2.	(-) Deductions of T2	**-**	**-**
5.2.1.	(-) Investments in own capital instruments from T2	**-**	**-**
5.2.1.1.	(-) Direct investments in own capital instruments from T2	-	-
5.2.1.2.	(-) Indirect investments in own capital instruments from T2	-	-
5.2.1.3.	(-) Synthetic investments in own capital instruments from T2	-	-
5.2.1.4.	(-) Investments in own capital instruments from T2 for which the bank has contractual obligation to buy	-	-
5.2.2.	(-) Direct, indirect and synthetic investments in capital instruments from T2 of the companies from the financial sector, whereas those companies have investments in the bank	-	-
5.2.3.	(-) Direct, indirect and synthetic investments in capital instruments from T2 of the companies from the financial sector, in which the bank does not have significant investment	-	-
5.2.4.	(-) Direct, indirect and synthetic investments in capital instruments from T2 of the companies from the financial sector in which the bank has significant investment	-	-
5.3.	Regulatory adjustments from T2	**-**	**-**
5.3.1.	(-) Increase of T2 that arises from the positions of securitisation	-	-
5.3.2.	(-) Gains or (+) losses from covering risk arising from the cash flow	-	-
5.3.3.	(-) Gains or (+) losses from liabilities of the bank measured at fair value	-	-
5.3.4.	(-) Gains or (+) losses related with liabilities based on derivatives measured at fair value	-	-
5.4.	Positions as a result of consolidation	**-**	**-**
5.4.1.	Acceptable additional tier 1 capital that is recognized in T2 on consolidated basis	-	-
5.4.2.	Other	-	-
5.5.	Other positions from T2	**-**	**-**

4. Segmented Reporting

Segment reporting is carried out by the Group's operating segments.

Operating segment is a component of the activities of the Group for which the following conditions have been fulfilled:

- Performs activities as a result based on which incomes are generated and expenditures arise;
- Reviews from the Group's Supervisory Board, in order to assess the accomplishments and decision making for future business activities of the segment; and
- Financial information for the segment is available.

The Group disclose the information independently for each significant operating segment. A segment is considered significant if:

- The incomes of the segment participates with more than 10% of the total income of the Group;
- The amount of the profit or loss represents 10% or more from the total income of all operating segments which have made profit, or from the total loss of all the operating segments which have made loss;
- Total assets of the segment participate with 10% or more in the Group's total assets;
- Management has assessed that they are significant to follow for the Group's management needs.

For the purposes of the financial reporting, the Group groups two or more segments into one operating segment if those operating segments are similar in terms of the variety of the goods and services, the type and the group of the users of the goods and the services and the methods of distribution and offering of the goods and services. As at December 31, 2018 and 2017 the Group does not group two or more operating segments into one.

The operating segments of the Group are equal as the business lines prescribed in the "Decision on the methodology for determining capital adequacy", using the standardized approach for the determination of capital required for coverage of operational risk.

The Group discloses information for the concentration of the business activities towards consolidated significant client. Significant client is an individual or a legal entity as well as the parties related to them, if the Group realizes 10% or more from its total business income or expenditure. As at 31 December 2018 and 2017 there are no significant clients.

Geographical segments according to which the Group is reporting are:

- Member countries of the European Union;
- Other European countries, outside the EU;
- Countries outside Europe, members of the Organization for Economic Cooperation and Development (OECD);
- Other countries.

4. Segmented Reporting (continued)

A. Operating Segments

in thousands of Denars	Operating Segments									Unallocated	Total
	BL1: Services related to financing middle and large retailers	BL2: Trading and sales	BL 3: Retail banking	BL 4: Corporate banking	BL 5: Payment and settlement	BL 6: Agent services	BL 7: Asset management	BL 8: Retail brokerage	All other insignificant operating segments		
2018 (current year)											
Interest income/(expense), net	-	-	476,675	1,994,811	53	-	-	-	-	-	**2,471,539**
Fee and commission income/(expense), net	-	1,873	93,411	120,943	624,651	29,382	-	6,547	45,984	-	**922,791**
Net trading income	-	4,791	-	-	-	-	-	-	826	-	**5,617**
Net income from other financial instruments at fair value	-	-	-	7,269	-	-	-	-	-	-	**7,269**
Other operating income	-	176,034	(74,926)	1,432,311	40	(5,254)	-	15	64,187	29,653	**1,622,060**
Inter segmented income											
Total income by segment	-	182,698	495,160	3,555,334	624,744	24,128	-	6,562	110,997	29,653	**5,029,276**
Impairment losses of financial assets, net	-	-	(65,713)	(728,143)	-	-	-	-	-	-	**(793,856)**
Impairment losses of non-financial assets, net	-	-	(5,397)	(407,643)	-	-	-	-	-	-	**(413,040)**
Depreciation and amortization	-	(1,798)	(37,532)	(24,483)	(61,517)	(1,798)	-	(1,631)	(277)	(37,682)	**(166,718)**
Restructuring costs	-										
Investments in property and equipment	-	(45,579)	(487,838)	(192,894)	(467,777)	(12,447)	-	(12,063)	(11,576)	(403,329)	**(1,633,503)**
Other expenses											
Total expenses by segment	-	(47,377)	(596,480)	(1,353,163)	(529,294)	(14,245)	-	(13,694)	(11,853)	(441,011)	**(3,007,117)**
Financial result by segment	-	135,321	(101,320)	2,202,171	95,450	9,883	-	(7,132)	99,144	(411,358)	**2,022,159**
Income tax											**(215,944)**
Profit/(loss) for the year											**1,806,215**
Total assets by segment	-	391,881	14,853,551	95,212,225	2,896,086	33,259	-	27,944	290,133		**113,705,079**
Unallocated assets by segment										688,654	**688,654**
Total assets											**114,393,733**
Total liabilities by segment	-	1	75,027,151	25,999,381	106,403	358,967	-	1	3,226		**101,495,130**
Unallocated liabilities by segment										424,795	**424,795**
Total liabilities											**101,919,925**

4. Segmented Reporting (continued)

A. Operating Segments (continued)

in thousands of Denars	Operating Segments									Unallocated	Total
	BL1: Services related to financing middle and large retailers	BL2: Trading and sales	BL 3: Retail banking	BL 4: Corporate banking	BL 5: Payment and settlement	BL 6: Agent services	BL 7: Asset management	BL 8: Retail brokerage	All other insignificant operating segments		
2017 (previous year)											
Interest income/(expense), net	-	587	503,911	2,565,645	228	1	-	-	-	-	**3,070,372**
Fee and commission income/(expense), net	-	1,413	80,227	133,287	577,100	30,900	-	2,696	36,423	-	**862,046**
Net trading income	-	22,940	-	-	-	-	-	-	532	-	**23,472**
Net income from other financial instruments at fair value	-	-	-	-	-	-	-	-	-	-	**-**
Other operating income	-	170,840	772,350	151,063	78,668	3,248	-	49	55,128	15,235	**1,246,581**
Inter segmented income	-	-	-	-	-	-	-	-	-	-	**-**
Total income by segment	-	195,780	1,356,488	2,849,995	655,996	34,149	-	2,745	92,083	15,235	**5,202,471**
Impairment losses of financial assets, net	-	-	(178,141)	(2,273,953)	-	-	-	-	-	-	**(2,452,094)**
Impairment losses of non-financial assets, net	-	-	(1,349)	(101,107)	-	-	-	-	-	-	**(102,456)**
Depreciation and amortization	-	(1,896)	(42,100)	(26,111)	(64,939)	(1,896)	-	(2,057)	(178)	(39,846)	**(179,023)**
Restructuring costs	-	-	-	-	-	-	-	-	-	-	**-**
Investments in property and equipment	-	-	-	-	-	-	-	-	-	-	**-**
Other expenses	-	(38,739)	(587,309)	(168,393)	(414,326)	(10,905)	-	(12,646)	(8,953)	(287,687)	**(1,528,958)**
Total expenses by segment	-	(40,635)	(808,899)	(2,569,564)	(479,265)	(12,801)	-	(14,703)	(9,131)	(327,533)	**(4,262,531)**
Financial result by segment	-	155,145	547,589	280,431	176,731	21,348	-	(11,958)	82,952	(312,298)	**939,940**
Income tax											**(94,632)**
Profit/(loss) for the year											**845,308**
Total assets by segment	-	497,931	14,545,000	86,001,734	2,750,184	35,475	-	35,850	257,231		**104,123,405**
Unallocated assets by segment										746,126	**746,126**
Total assets											**104,869,531**
Total liabilities by segment	-	-	69,110,475	24,035,985	96,165	411,058	-	-	1,761		**93,655,444**
Unallocated liabilities by segment										141,129	**141,129**
Total liabilities											**93,796,573**

4. Segmented Reporting (continued)

B. Concentration of Total Income and Expense by Significant Customer

in thousands of Denars	Operating Segments									Unallocated	Total
	DL1: Services related to financing middle and large retailers	DL2: Trading and sales	DL 3: Retail banking	DL 4: Corporate banking	DL 5: Payment and settlement	DL 6: Agent services	DL 7: Asset management	DL 8: Retail brokerage	All other insignificant operating segments		
2018 (current year)											
Customer 1	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 2	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Total by segment	-	-	-	-	-	-	-	-	-	-	-
2017 (previous year)											
Customer 1	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 2	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Total by segment	-	-	-	-	-	-	-	-	-	-	-

4. Segmented Reporting (continued)

C. Geographical Location

in thousands of Denars	Republic of Macedonia	EU member states	Europe (other countries)	OECD member states (without EU countries-members of OECD	Other (significant geographical segments)	Other insignificant geographical segments	Unallocated	Total
2018 (current year)								
Total income	4,794,069	122,365	102,171	10,601	-	371	(301)	**5,029,276**
Total assets	93,494,090	16,187,853	3,804,584	837,319	-	69,887	-	**114,393,733**
2017 (previous year)								
Total income	5,952,541	(683,143)	(70,723)	1,473	-	2,251	72	**5,202,471**
Total assets	85,082,631	15,914,711	3,187,356	636,128	-	48,705	-	**104,869,531**

5. Fair Value of Financial Assets and Liabilities

A. Fair Value of Financial Assets and Liabilities

in thousands of denars	Current year 2018		Previous year 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Cash and cash equivalents	48,796,328	48,796,328	37,208,775	37,208,775
Held-for-trading assets	40,196	40,196	481,925	481,925
Financial assets at fair value through profit or loss upon initial recognition	331,829	331,829	-	-
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	2,515,919	2,515,919	5,834,393	5,834,393
Loans and advances to other customers	46,406,938	46,406,938	45,366,241	45,366,241
Investments in securities	12,310,071	12,439,071	10,738,425	10,751,435
Investments in associates	274,037	274,037	235,164	235,164
Income tax receivable (current)	-	-	498	498
Other receivables	692,766	692,766	1,320,785	1,320,785
Assets pledged as collateral	-	-	-	-
Deferred tax assets	-	-	-	-
Financial Liabilities				
Trading liabilities	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Due to banks	350,536	350,536	448,997	448,997
Due to other customers	99,036,735	99,036,735	91,228,581	91,228,581
Debt instruments issued			-	-
Borrowings	928,925	928,925	1,237,823	1,237,823
Subordinated debt	-	-	-	-
Income tax payable (current)	127,301	127,301	9,528	9,528
Deferred tax liabilities			-	-
Other liabilities	973,507	973,507	628,217	628,217

Fair value represents the amount at which an asset could be replaced or a liability settled on regular, market conditions between informed and voluntary parties. Fair value has been based on management assumptions according to the profile of the asset and liability base.

5. Fair Value of Financial Assets and Liabilities (continued)

A. Fair Value of Financial Assets and Liabilities (continued)

a) Cash and cash equivalents

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRNM, which mature in short periods.

b) Financial assets recognized at fair value through profit or loss

Fair value of trading assets and financial assets at fair value through profit or loss designated as such upon initial recognition is determined by reference to market prices and is equal to their carrying amount.

c) Loans and advances to banks

Due to the insignificant risk of change in value, the fair value of loans and advances to banks is equal to their carrying amounts.

d) Loans and advances to customers

Loans and advances to customers are carried at amortized cost less impairment. The major part of the loans and advances to customers is with adjustable and variable interest rate. The estimated fair value of loans and advances to customers is determined by the discounting expected future cash flows. Expected future cash flows for determining the fair value are discounted using current market interest rate.

The Group provides loans from credit lines financed from the Macedonian Bank for Reconstruction and Development, and these loans are offered on the market by other banks as well, under the same conditions. Their interest rates are considered to be market interest rates. Also, the Group provides retail loans with fixed interest rates in the first couple of years of the loan. Loans with similar characteristics and interest rates are offered by other banks on the market as well, thus their interest rates are considered to be market interest rates.

e) Investments in securities

Investments in securities include debt securities held to maturity at amortised cost using the effective interest rate method and assets classified as available for sale which are measured at fair value. Fair value for assets classified as available for sale is based on published prices on active market or published prices available from stock exchange, dealer and broker. In cases where this information is not available, fair value is estimated by: information for realized prices of recent normal commercial transactions among voluntary parties; analysis of discounted cash flows; other alternative models for price determination.

Investments in securities include the amount of MKD 64,947 thousand (2017: MKD 64,925 thousand), related to investments in securities for which there is no active market and do not have recent transaction that can be used for determination of the fair value. These investments in securities are presented at cost, decreased by the impairment loss. Their share in total investments in securities is only 0.53% (2017: 0.52%).

f) Other receivables

The fair value of other receivables equals their carrying value as they will mature in short periods.

g) Due to banks

Due to the insignificant risk of changes in value, the fair value of demand and time deposits is equal to their carrying amounts.

5. Fair Value of Financial Assets and Liabilities (continued)

A. Fair Value of Financial Assets and Liabilities (continued)

h) Due to other customers

The fair value of demand deposits and deposits with adjustable and variable interest rates is their carrying amount. Out of total due to other customers the amount of time deposits with fixed interest rates is MKD 3,684,543 thousands (2017; 1,241,603 thousands). Fixed interest rates refer to time deposits up to one year (MKD 3,658,313 thousands) applicable starting from 01.10.2017, and products with such characteristics and interest rates are offered in other banks on the market. Therefore, these interest rates can be considered as market rates, because of which the fair value of these deposits equals their carrying amount.

i) Borrowings

Fair value of borrowings with variable interest rate does not differ from its carrying value due to interest rate adjustment for specific financial liabilities with market interest rates for similar instruments. The fair value of credit lines regulated with special terms and for which the market does not provide reliable estimates of prices for similar instruments, approximately presents their carrying value.

j) Other liabilities

The fair value of other receivables equals their carrying value as they will mature shortly.

5. Fair Value of Financial Assets and Liabilities (Continued)

B. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value

B.1. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value

in thousands of Denars	Note	Level 1	Level 2	Level 3	Total
December 31, 2018 (current year)					
Financial assets measured at fair value					
Held-for-trading assets	19	31,430	8,766	-	**40,196**
Financial assets at fair value through profit or loss upon initial recognition	20	331,829	-	-	**331,829**
Derivative assets held for risk management	21	-	-	-	**-**
Investments in available-for-sale securities	23.1	-	8,852,308	64,947	**8,917,255**
Total		**363,259**	**8,861,074**	**64,947**	**9,289,280**
Financial liabilities measured at fair value					
Trading liabilities	32	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-
December 31, 2017 (previous year)					
Financial assets measured at fair value					
Held-for-trading assets	19	480,223	1,702	-	**481,925**
Financial assets at fair value through profit or loss upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in available-for-sale securities	23.1	-	8,774,465	64,925	**8,839,390**
Total		**480,223**	**8,776,167**	**64,925**	**9,321,315**
Financial liabilities measured at fair value					
Trading liabilities	32	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		**-**	**-**	**-**	**-**

5. Fair Value of Financial Assets and Liabilities (continued)

B. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value (continued)

B.1. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value (continued)

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

a) Level 1 – Fair value is determined directly with reference to quoted market prices of the financial instruments in active markets;
b) Level 2 - Fair value is determined using valuation techniques that include active markets inputs, which can be direct, i.e. prices, or indirect, i.e. derived from prices;
c) Level 3 - Fair value is determined using valuation techniques that include inputs that cannot be directly or indirectly followed on the active markets, or are not visible.

B.2. Transfers Between Levels 1 and 2 of Fair Values

	Current year 2018		Previous year 2017	
in thousands of Denars	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
Financial assets measured at fair value				
Held-for-trading assets	-	-	-	-
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in available-for-sale securities	-	-	-	-
Total	**-**	-	-	-
Financial liabilities carried at fair value				
Trading liabilities	-	-	-	-
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Total	-	-	-	-

5. Fair Value of Financial Assets and Liabilities (continued)

B. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value (continued)

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

in thousands of denars	Held-for-trading assets	Financial assets at fair value through profit or loss upon initial recognition	Investments in available-for-sale securities	**Total assets**	Trading liabilities	Financial liabilities at fair value through profit or loss upon initial recognition	**Total liabilities**
As of January 1, 2017 (previous year)	-	-	64,988	**64,988**	-	- -	
Gains/(losses) recognized in:							
- Income statement	-	-	(63)	**(63)**	-	- -	
- Other comprehensive income in the period not recognized in profit or loss	-	-	-	**-**	-	- -	
Purchase of financial instruments in the period	-	-			-	- -	
Disposals of financial instruments in the period	-	-			-	- -	
Issued financial instruments in the period	-	-	-	**-**	-	- -	
Paid financial instruments in the period	-	-	-	**-**	-	- -	
Reclassified financial instruments to/(from) Level 3	-	-		**-**	-	- -	
Reclassified in loans and advances	-	-	-	**-**	-	- -	
As of December 31, 2017 (previous year)	**-**	**-**	**64,925**	**64,925**	**-**	**- -**	
Total gains/(losses) recognized in income statement for the assets and liabilities outstanding as of December 31, 2017 (previous year)	**-**	**-**	**(63)**	**(63)**	**-**	**- -**	

5. Fair Value of Financial Assets and Liabilities (continued)

B. Levels of Fair Value of Financial Assets and Liabilities, Measured at Fair Value (continued)

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

in thousands of denars	Held-for-trading assets	Financial assets at fair value through profit or loss upon initial recognition	Investments in available-for-sale securities	**Total assets**	Trading liabilities	Financial liabilities at fair value through profit or loss upon initial recognition	**Total liabilities**
As of January 1, 2018 (current year)	-	-	64,925	64,925	-	-	-
Gains/(losses) recognized in:							
- Income statement	-	-	22	22	-	-	-
- Other comprehensive income in the period not recognized in profit or loss	-	-	-	-	-	-	-
Purchase of financial instruments in the period	-	-	-	-	-	-	-
Disposals of financial instruments in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Reclassified financial instruments to/(from) Level 3	-	-	-	-	-	-	-
Reclassified in loans and advances	-	-	-	-	-	-	-
As of December 31, 2018 (current year)	**-**	**-**	**64,947**	**64,947**	**-**	**-**	**-**
Total gains/(losses) recognized in income statement for the assets and liabilities outstanding as of December 31, 2018 (current year)	**-**	**-**	**22**	**22**	**-**	**-**	**-**

6. Net interest income/(expense)

A. Structure of interest income and expense according to the type of financial instrument

	in thousands of denars	
	Current year 2018	Previous year 2017
Interest income		
Cash and cash equivalents	304,671	297,929
Financial assets at fair value through profit or loss upon initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	1,275	1,820
Loans and advances to other customers	2,430,617	2,667,631
Investments in securities	182,691	195,830
Other receivables	-	587
(Impairment on interest income, net)	(33,589)	(91,732)
Collected interest previously written off	107,400	490,199
Total interest income	**2,993,065**	**3,562,264**
Interest expense		
Financial liabilities at fair value through profit or loss upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Due to banks	674	162
Due to other customers	493,591	477,460
Debt instruments issued	-	-
Borrowings	18,912	14,270
Subordinated debt	-	-
Other liabilities	8,349	-
Total interest expense	**521,526**	**491,892**
Net interest income/(expense)	**2,471,539**	**3,070,372**

6 Net interest income/(expense), (continued)

B. Sector analysis of interest income and expense according to sector

	in thousands of denars	
	Current year 2018	Previous year 2017
Interest income		
Non-financial companies	1,504,442	1,715,873
Government	246,927	258,415
Not for profit institutions that serve to household	11,983	9,325
Banks	191,013	241,073
Other financial institutions (non-banks)	1,911	868
Households	846,738	876,602
Non-residents	116,240	61,641
(Allowance for impairment of Interest Income, net)	(33,589)	(91,732)
Collected interest previously written off	107,400	490,199
Total interest income	**2,993,065**	**3,562,264**
Interest expense		
Non-financial companies	48,762	47,719
Government	453	964
Not for profit institutions that serve to household	6,664	7,481
Banks	10,681	12,618
Other financial institutions (non-banks)	9,726	9,916
Households	380,547	379,839
Non-residents	64,693	33,355
Total interest expense	**521,526**	**491,892**
Net interest income/(expense)	**2,471,539**	**3,070,372**

7 Fee and Commission Income/(Expense), Net

A Structure of Fee and Commission Income and Expense According to the Type of Financial Activity

	in thousands of denars	
	Current year 2018	Previous year 2017
Fee and commission income		
Loans	340,956	300,289
Payment operations		
domestic	372,043	347,844
abroad	223,549	189,521
Letter of credit and guarantees	136,412	144,688
Brokerage operations	10,016	4,656
Asset management	43,748	35,198
Fiduciary activities	31,586	32,846
Issuing securities		-
Other	123,663	107,587
(describe separately income which represent more than 10% of the total fees and commissions income)		
Total fee and commission income	**1,281,973**	**1,162,629**
Fee and commission expense		
Loans	239,013	194,798
Payment's operation		
domestic	74,507	74,255
international	30,026	21,699
Letter of credit and guarantees		-
Brokerage operations	1,781	971
Asset management		-
Fiduciary activities	2,063	1,838
Issuing securities		-
Other	11,792	7,022
(describe separately expenses which represent more than 10% of the total fees and commissions expense)		
Total fee and commission expense	**359,182**	**300,583**
Net fee and commission income/(expense)	**922,791**	**862,046**

7 Net fee and commission income/(expense)

B Sector analysis of fee and commission income and expense

	in thousands of denars	
	Current year 2018	Previous year 2017
Fee and commission income		
Non-financial companies	705,629	644,644
Government	4,090	3,908
Not for profit institutions that serve to household	19,457	16,001
Banks	85,944	72,747
Other financial institutions (non-banks)	84,621	74,025
Households	267,170	246,460
Non-residents	115,062	104,844
Total fee and commission income	**1,281,973**	**1,162,629**
Fee and commission expense		
Non-financial companies	1,963	1,507
Government	1,749	1,747
Not for profit institutions that serve to household	-	-
Banks	57,511	44,933
Other financial institutions (non-banks)	82,713	79,163
Households	-	-
Non-residents	215,246	173,233
Total fee and commission expense	**359,182**	**300,583**
Net fee and commission income/(expense)	**922,791**	**862,046**

8 Net trading income/(expense)

	in thousands of denars	
	Current year 2018	Previous year 2017
Trading assets		
Profit/(loss) from fair value changes on debt securities, net		
realized	240	367
unrealized	28	118
Profit/(loss) from fair value changes of equity instruments, net		
realized	(9,921)	(9,887)
unrealized	14,440	25,952
Income from dividends from trading assets	820	5,733
Income from interest of trading assets	10	1,189
Trading liabilities		
Profit/(loss) from fair value changes on debt securities, net		
realized		-
unrealized		-
Profit/(loss) from fair value changes of trading deposits, net		
realized		-
unrealized		-
Profit/(loss) from fair value changes of remaining financial liabilities for trading, net		
realized		-
unrealized		-
Interest expense of financial liabilities held for trading		-
Profit/(loss) from fair value change of derivatives held for trade, net		
realized		-
unrealized		-
Net income/(expense) from trading	**5,617**	**23,472**

9 Net income from other financial instruments at fair value

	in thousands of denars	
	Current year 2018	Previous year 2017
Financial assets at fair value through profit or loss upon initial recognition		
Profit/(loss) from fair value changes on debt securities, net		
realized	-	-
unrealized	7,269	-
Gains/(losses) from changes in fair value of equity instruments, net		
realized	-	-
unrealized	-	-
Dividend income from trading assets at fair value through profit or loss	-	-
Profit/(loss) from changes in fair value of loans and receivables at fair value through profit and loss, net		
realized	-	-
unrealized	-	-
Financial liabilities at fair value through profit or loss upon initial recognition		
Profit/(loss) from fair value changes on debt securities, net		
realized	-	-
unrealized	-	-
Profit/(loss) from the changes in fair value of deposits at fair value through profit and loss, net		
realized	-	-
unrealized	-	-
Profit/(loss) from the changes in fair value of borrowings at fair value through profit and loss, net		
realized	-	-
unrealized	-	-
Profit/ s(loss) from the changes in fair value of other financial liabilities at fair value through profit and loss		
realized	-	-
unrealized	-	-
Profit/(loss) from fair value change of derivatives held for risk management at the fair value through profit and loss, net		
realized	-	-
unrealized	-	-
Net income from other financial instruments at fair value	**7,269**	**-**

10 Net foreign exchange gains/ (losses)

	in thousands of denars	
	Current year 2018	Previous year 2017
Realized foreign exchange gains/(losses), net	148,827	142,470
Unrealized foreign exchange gains/(losses), net		
Foreign exchange differences of allowance for impairment of financial assets, net	4,911	3,459
Foreign exchange differences of special reserve for off balance exposure, net	111	8
Other foreign exchange differences, net	(13,988)	(26,478)
Net foreign exchange gain/(loss)	**139,861**	**119,459**

11 Other Operating Income

	in thousands of denars	
	Current year 2018	Previous year 2017
Gain on sale of available-for-sale assets	-	-
Dividends from equity instruments available-for-sale	5,478	5,793
Net income from investment in subsidiaries and associates	-	-
Capital gain from the sale of:		
Property, plant and equipment	1,509	4,229
Intangible assets	-	-
Foreclosed assets	988,866	672,045
Non-current assets held-for-sale and group for disposal	-	-
Income from rent	20,727	9,461
Income from litigations	32	-
Collected receivables previously written off	321,840	306,596
Release provisions for:		
Contingent commitments based on litigations	-	-
Pensions and other employee benefits	-	-
Restructuring	-	-
Onerous contracts	-	-
Other provisions	-	-
Other (income that represents more than 10% of the total remaining operating income)		
Income from foreign exchange operations	60,968	62,239
Income for credit cards membership	-	-
income that does not represent more than 10% of the total remaining operating income	18,592	11,631
Total other operating income	**1,418,012**	**1,071,994**

The amount of 988,866 thousand denars in the item "Capital gains from the sale of foreclosed assets" is mainly due to the sale of foreclosed property by a group of debtors - Group Brilijant in the amount of 410,689 thousand denars, as well as the sale of foreclosed property from Tehnometal Vardar in the amount of 255,734 thousand denars.

The amount of MKD 672,045 thousand in 2017 is derived mainly from sale of foreclosed assets from Group SAEM in the amount of MKD 519,824 thousand.

12 Net impairment loss on financial assets

in thousands of denars	Loans and advances to banks	Loans and advances to other customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commission receivables	Other receivables	Total impairment loss on financial assets	Special reserve for off-balance sheet exposures	**Total**
2018 (current year)										
Allowance for impairment and special reserve										
Additional allowance for impairment and special reserve	5,995	2,546,280	-	-	273	19,284	76,963	2,648,795	491,431	3,140,226
(Release of allowance for impairment and special reserve)	(5,383)	(2,032,079)	-	-	(275)	(9,050)	(62,428)	(2,109,215)	(237,155)	(2,346,370)
	612	**514,201**	**-**	**-**	**(2)**	**10,234**	**14,535**	**539,580**	**254,276**	**793,856**
Total allowance for impairment on financial assets and special reserve for off-balance sheet exposures, net	**612**	**514,201**	-	-	**(2)**	**10,234**	**14,535**	**539,580**	**254,276**	**793,856**
2017 (previous year)										
Allowance for impairment and special reserve										
Additional allowance for impairment and special reserve	4,622	4,607,017	-	-	432	17,651	85,479	4,715,201	244,701	4,959,902
(Release of allowance for impairment and special reserve)	(4,213)	(2,296,978)	-	-	(503)	(6,497)	(25,743)	(2,333,934)	(173,874)	(2,507,808)
	409	**2,310,039**	**-**	**-**	**(71)**	**11,154**	**59,736**	**2,381,267**	**70,827**	**2,452,094**
Total allowance for impairment on financial assets and special reserve for off-balance sheet, net	**409**	**2,310,039**	-	-	**(71)**	**11,154**	**59,736**	**2,381,267**	**70,827**	**2,452,094**

13 Net impairment loss on non-financial assets

in thousands of Denars	Property and equipment	Intangible assets	Foreclosed assets	Non-current assets held for sale and group for sale	Other non-financial assets	Non-controlling interest*	**Total**
2018 (current year)							
Additional impairment loss	-	-	413,040	-	-	-	413,040
(Release of impairment loss)	-	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	**-**	**-**	**413,040**	**-**	**-**	**-**	**413,040**
2017 (previous year)							
Additional impairment loss	-	-	102,456	-	-	-	102,456
(Release of impairment loss)	-	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	**-**	**-**	**102,456**	**-**	**-**	**-**	**102,456**

*) only for consolidated financial statements

14 Personnel expenses

	in thousands of denars	
	current year 2018	previous year 2017
Short-term benefits for employees		
Salaries	680,525	591,454
Compulsory social and health insurance contributions	234,275	212,964
Short-term paid absences	1,618	1,739
Costs for temporary employment	-	-
Share in profit and remuneration	-	-
Non-monetary benefits	199	2,025
	916,617	**808,182**
Benefits after termination of employment		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long term benefits	-	-
Other benefits upon termination of employment	323	-
	323	**-**
Termination benefits	3,636	1,073
Equity settled share-based payments	-	-
Cash settled share-based payments	-	-
Other	66,410	62,988
(costs for employees that represent more than 10% of the total costs for employees)		
Total costs for employees	**986,986**	**872,243**

15 Depreciation and amortization

	in thousands of denars	
	current year 2018	previous year 2018
Depreciation of intangible assets		
Internal developed software	-	-
Software acquired from external suppliers	12,429	12,276
Other internal developed intangible assets	-	-
Other intangible assets	530	553
Investments in intangible assets taken under lease	-	-
	12,959	**12,829**
Depreciation of property and equipment		
Buildings	79,206	79,129
Vehicles	6,157	7,410
Furniture and equipment	16,815	23,695
Other equipment	50,120	51,887
Other items of property and equipment	-	-
Investments in property and equipment taken under lease	1,461	4,073
	153,759	**166,194**
Total depreciation	**166,718**	**179,023**

16 Other operating expense

	in thousands of denars	
	Current year 2018	Previous year 2017
Loss from sale of assets available for sale	-	-
Software licensing expense	23,623	17,225
Deposit insurance premium	171,777	290,754
Premium on property and employee insurance	5,177	4,928
Materials and services	209,919	202,175
Administrative and marketing expenses	84,542	77,199
Other taxes and contributions	1,415	2,419
Rental expense	17,975	19,283
Court litigation expenses	2,027	1,289
Provisions for pension and other employee benefits, net		
Provisions for contingent liabilities based on court litigations, net	8,536	10,448
Other provisions, net	-	-
restructuring	-	-
onerous contracts	-	-
other provisions	-	-
Loss from sale of:	-	-
Property and equipment	-	-
Intangible assets	-	-
Foreclosed assets	-	-
Non-current assets held-for-sale and group for disposal	-	-
Other	-	-
(expenses that represent more than 10% of total other operating expenses)		
Expenses under foreign exchange operations	25,837	20,324
Costs in the process of realization of the alienation of property	70,692	-
(expenses that do not represent more than 10% of total other operating expense)	24,997	10,671
Other operating expense	**646,517**	**656,715**

17 Income tax

A Expense/income based on current and deferred tax

	in thousands of denars	
	current year 2018	previous year 2017
Current income tax		
Expense/(income) based on current income tax for the year	215,944	94,632
Adjustments for previous years	-	-
Benefits of previous unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	215,944	**94,632**
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Change in tax rate	-	-
Introduction of new taxes	-	-
Benefits of previous unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	-	-
Total expense/(return) on income tax	**215,944**	**94,632**

	in thousands of denars	
	current year 2018	previous year 2017
Current income tax		
Recognized in the income statement	215,944	94,632
Recognized in equity and reserves	-	-
	215,944	**94,632**
Deferred income tax		
Recognized in the income statement	-	-
Recognized in equity and reserves	-	-
	-	-
Total expense/(return) on income tax	**215,944**	**94,632**

17 Income tax (continued)

B Reconciliation between average effective tax rate and applicable tax rate

	in %	*in thousands of denars*	*in %*	*in thousands of denars*
	current year 2018		previous year 2017	
Profit/ (loss) before taxation	100.00	2,022,159	100.00	939,940
Income tax as per applicable tax rate	10	202,216	10	93,994
Effects from different tax rates in other countries	-	-	-	-
Corrections for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0.7	14,347	0.7	6,802
Tax-exempt income	(0.0)	(619)	(0.6)	(6,164)
Tax exemption unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits of previous unrecognized tax losses, tax loans or temporary differences from previous years	-	-	-	-
Changes in deferred tax	-	-	-	-
Other	-	-	-	-
Total expense/(return) on income tax		**215,944**		**94,632**
Average effective tax rate	**10.7**		**10.1**	

C Income tax from other profit/(losses)in the period which are not disclosed in the Income statement

	Current year 2018			Previous year 2017		
in thousands of Denars	Before taxation	(expenditure)/return of income tax	Less income tax	Before taxation	(expenditure)/return of income tax	Less income tax
Revalued reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk net-investment in international operations	-	-	-	-	-	-
Reserve from currency differences from investment in international operations	-	-	-	-	-	-
Share in the remaining profits/(losses) from affiliates which are not disclosed in the Income statement	-	-	-	-	-	-
Other profits/(losses) which are not disclosed in the Income statement	-	-	-	-	-	-
Total other profits/(losses) which are not disclosed in the Income statement	-	-	-	-	-	-

18 Cash and cash equivalents

	in thousands of Denars	
	current year 2018	previous year 2017
Cash on hand	1,841,253	1,647,010
Accounts and deposits with NBRM, besides obligatory FC deposits	17,642,377	10,937,805
Current accounts and transaction deposits with foreign banks	4,286,894	5,375,871
Current accounts and transaction deposits with local banks	1,644	2,661
Treasury bills that may be traded on the secondary market	5,616,762	6,124,553
Government bills that may be traded on the secondary market	-	-
Time deposits up to 3 months	13,724,932	8,150,154
Other short-term highly liquid assets	11,152	754
Interest receivables	13,399	6,860
(Allowance for impairment)	(62)	(64)
Included in cash and cash equivalents for the needs of the Statement of cash flows	**43,138,351**	**32,245,604**
Obligatory FC deposits	4,517,036	4,133,980
Restricted deposits	1,140,941	829,191
(Impairment)	-	-
Total	**48,796,328**	**37,208,775**

As at 31 of December 2018, the Group has restricted deposits in the amount of 1,140,941 thousand denars (2017: 829,191 thousand denars) divided as follows:

- In the account in KIBS on behalf of the Reserve Guarantee Fund in the amount of MKD 366,018 thousand in accordance with the Reserve Guarantee Fund Rules (2017: 84,277 thousand denars)
- In the account in Euroclearp, for fiduciary purposes, assets in the amount of 553,455 thousand denars (2017: 553,416 thousand denars),
- In HSBC Bank PLC account, for operational purposes for Mastercard cards, assets in the amount of 151,578 thousand denars (2017:142,792 thousand denars),
- In the United Overseas Bank Limited account, for for operational purposes for Visa cards, assets in the amount of 69,890 thousand denars (2017: 48,706 thousand denars).

18 Cash and cash equivalents (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1				64				136
Impairment loss for the year								
Additional impairment				273				432
(Release of impairment)				(275)				(503)
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)								(1)
Foreign exchange gain/losses								-
(Written off receivables)								-
As at December 31				**62**				**64**

19 Trading assets (continued)

A. Structure of trading assets by the type of the financial instrument

	in thousands of denars	
	current year 2018	previous year 2017
Trading securities		
Debt securities for trading		
Treasury bills for trading	-	-
Government bills for trading	-	12,832
Other instruments in the money market	-	-
Government bonds	428	83,599
Corporate bonds	-	-
Other debt instruments	8,766	-
	9,194	**96,431**
Quoted	428	83,599
Unquoted	8,766	12,832
Equity instruments for trading		-
Equity instruments issued by banks	-	125
Other equity instruments	31,002	385,369
	31,002	**385,494**
Quoted	31,002	59,231
Unquoted	-	326,263
Trading derivatives		
Agreements dependent on interest rate change	-	-
Agreements dependent on exchange rate change	-	-
Agreements dependent on changes in price of securities	-	-
Other agreements that meet IFRS 9 criteria	-	-
	-	-
Total trading assets	**40,196**	**481,925**

Debt trading securities in the amount of 9,194 thousand denars include investments in structured government bonds in the amount of 428 thousand denars (2017: 83,599 thousand denars government bonds and 12,832 thousand denars government bills), as well as an investments in participations in cash investment fund in the amount of 8,766 thousand denars. Investments in participations in investment funds in the amount of 1,702 thousand denars which as at 31 December 2017 were classified as unquoted equity instruments, as at 1 January 2018 were reclassified as unquoted other debt instruments.

Past of government bonds in the amount of 82,978 thousand denars as at 31 December 2017 which included structured government bonds, with interest rate of 2% per annum, as at 1 January 2018 were reclassified in business model hold to collect and are measured at amortised cost.

Other unquoted equity investments in the amount of 324,561 thousand denars as at 31 December 2017 which included participation in investment funds as at 1 January 2018 were reclassified into financial assets at fair value through profir or loss, designated as such on initial recognition.

The quoted equity investments held for trading in the amount of 31,002 thousands of denars relate to investments in shares issued by domestic non-financial entities (2017: investments in shares issued by domestic non-financial entities in the amount of 59,106 thousands of denars and investments in shares issued by domestic banks in the amount of 125 thousands of denars.). All income from financial assets held for trading is recognized as net trading income.

20 Financial assets at fair value via the income statement determined as such at initial recognition

	in thousands of denars	
	current year 2018	previous year 2017
Debt securities		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds issued	-	-
Corporate bonds	-	-
Other debt instruments	331,829	-
	331,829	-
Quoted	-	-
Unquoted	331,829	-
Equity instruments		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Loans and advances to banks	-	-
Loans and advances to other customers	-	-
Total financial assets at fair value through the income statement determined as such as initial recognition	**331,829**	-

Other unquoted debt instruments in the amount of 331,829 thousands of denars refer to investments in participation in investment funds which as at 1 January 2018 were reclassified from the trading portfolio where they were recognized as other equity instruments (2017: 324,561 thousands of denars).

Participations in investment funds include particpations in the open investment fund KB Publikum- Balanced in the amount of 9,367 thousands of denars (2017: 9,062 thousands of denars) and participation in the open investment fund KB Publikum - Paricen in the amount of од 322,462 thousands of denars (2017: 315,499 thousands of denars). This transaction is a result of reclassification under the new regulation, and does not result with cash inflows and outflows, and as such it is not presented in the Statement of cash flows.

21 Derivative assets and liabilities held for risk management

		in thousands of denars			
		current year 2018		previous year 2017	
		derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
A	**Derivatives for protection against risk/Derivatives held for risk management**				
A.1	*By type of the variable*				
	Derivatives held for risk management				
	Agreements dependent on interest rate change	-	-	-	-
	Agreements dependent on exchange rate change	-	-	-	-
	Agreements dependent on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	Total derivatives held for risk management	**-**	**-**	**-**	**-**
A.2	*By type of protection against risk*				
	Protection against risk to fair value	-	-	-	-
	Protection against risk to cash flows	-	-	-	-
	Protection against risk to net investment in international operations	-	-	-	-
	Total derivatives held for risk management	**-**	**-**	**-**	**-**
B	***Inherent derivatives***				
	Agreements dependent on interest rate change	-	-	-	-
	Agreements dependent on exchange rate change	-	-	-	-
	Agreements dependent on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	Total inherent derivatives	**-**	**-**	**-**	**-**
	Total derivatives held for risk management	**-**	**-**	**-**	**-**

22 Loans and advances (continued)

22.1 Loans and advances to banks

	in thousands of denars			
	current year 2018		previous year 2017	
	Short term	Long term	Short term	Long term
Loans to banks				
Domestic banks	50,000	510	49,000	48
Foreign banks	-	-	-	-
Time deposits over 3 months				
Domestic banks	-	261	-	257
Foreign banks	1,506,628	954,772	4,825,905	954,705
Repo				-
Domestic banks	-	-	-	-
Foreign banks	-	-		
Other receivables			-	-
Domestic banks	-	-	-	-
Foreign banks	5,870	-	5,812	-
Interest receivables	105	-	281	-
Current maturity	510	(510)	48	(48)
Total loans and advances to banks before impairment	**1,563,113**	**955,033**	**4,881,046**	**954,962**
(Allowance for impairment)	(2,227)	-	(1,615)	-
Total loans and advances to banks after impairment	**1,560,886**	**955,033**	**4,879,431**	**954,962**

22 Loans and advances (continued)

22.1 Loans and advances to banks (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1				1,615				1,207
Impairment loss for the year								
Additional impairment				5,995				4,622
(Release of impairment)				(5,383)				(4,213)
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)								
Foreign exchange gain/losses								(1)
(Written off receivables)								-
As at December 31				**2,227**				**1,615**

22 Loans and advances (continued)

22.2 Loans and advances to other customers

A Structure of the loans and advances to other customers by the type of the debtor

	in thousands of denars			
	current year 2018		previous year 2017	
	short-term	long-term	short-term	long-term
Non-financial companies				
Receivables upon principal	15,840,940	20,373,878	17,465,873	19,639,981
Interest receivables	116,811	-	128,882	-
Government				
Receivables upon principal	14,213	1,545,714	38,748	1,581,740
Interest receivables	3,651	-	2,664	-
Non-profit institutions that serve households				
Receivables upon principal	27,476	160,702	7,110	207,867
Interest receivables	260	-	1,033	-
Financial companies, besides banks				
Receivables upon principal	207	34,764	21	39,999
Interest receivables	27	-	33	-
Households				
Receivables upon principal				
Housing loans	1,649	5,879,191	1,139	5,510,373
Customer loans	323,911	5,282,653	349,889	5,294,974
Vehicle loans	-	5,423	30	14,428
Mortgage loans	-	-	-	-
Credit cards	67,300	943,080	75,094	977,053
Other loans	1,062,507	252,868	1,121,745	258,259
Interest receivables	39,210	-	39,467	-
Non-residents, except banks				
Receivables upon principal	156,712	214,694	-	-
Interest receivables	1,301	-	1	-
Current maturity	7,103,258	(7,103,258)	6,432,975	(6,432,975)
Total loans and advances to other customers before impairment	**24,759,433**	**27,589,709**	**25,664,704**	**27,091,699**
(Impairment)	(5,203,251)	(738,953)	(6,721,287)	(668,875)
Total loans and advances to other customers reduced by impairment	**19,556,182**	**26,850,756**	**18,943,417**	**26,422,824**

Out of the total loans and advances to other customers the Bank has pledged a lien with regard to the sub-loans approved from the credit lines of the European Investment Bank ("EIB") and Italian Credit Line (IKL), in favour of Macedonian Bank for Development Promotion ("MBDP"). As at 31 December 2018 the amount of the pledged loans and advances is in the amount of 679,687 thousands of denars (2017: 1,179,808 thousands of denars).

22 Loans and advances (continued)

22.2 Loans and advances to other customers (continued)

A Structure of the loans and advances to other customers by the type of the debtor (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1				7,390,162				7,893,051
Impairment loss for the year								
Additional impairment				2,546,280				4,607,017
(Release of impairment)				(2,032,079)				(2,296,978)
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)				(338,764)				(812,532)
Foreign exchange gain/losses				(4,909)				(3,440)
(Written off receivables)				(1,618,486)				(1,996,956)
As at December 31				**5,942,204**				**7,390,162**

22 Loans and advances (continued)

22.2 Loans and advances to other customers (continued)

B Structure of loans and advances to other clients by type of collateral

	in thousands of denars	
	current year 2018	previous year 2017
(current carrying amount of loans and advances)		
First-class security instruments		
Cash deposits (in vault and/or restricted in accounts held with the group)	1,309,802	954,927
Government securities	-	-
Government unconditional guarantees	-	-
Bank guarantees	-	15
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (besides banks and guarantees from insurance companies)	454,844	-
Guarantees from individuals	78,763	1
Mortgage on real estate		
Property for private use (flats, houses)	8,013,629	8,282,325
Property for business activity	17,367,662	16,580,004
Pledge over movables	5,477,750	6,094,718
Other types of security	1,221,617	85,748
Unsecured	12,482,871	13,368,503
Total loans and advances to other customers reduced by impairment	**46,406,938**	**45,366,241**

23 Investments in securities

23.1 Investments in financial assets available-for-sale

Structure of the investments in financial assets available for sale according to type of financial instrument

	in thousands of denars	
	current year 2018	previous year 2017
Debt securities		
Treasury bills	-	-
Government bills	8,749,402	8,671,656
Other instruments in the money market	-	-
Government bonds	102,906	102,809
Corporate bonds	-	-
Other equity investments	-	-
	8,852,308	**8,774,465**
Quoted	102,906	102,906
Unquoted	8,749,402	8,749,402
Equity investments		
Equity investments issued by banks	-	-
Other equity investments	64,947	64,925
	64,947	**64,925**
Quoted	-	-
Unquoted	64,947	64,925
Total investment in financial instruments available for sale	**8,917,255**	**8,839,390**

23 Investments in securities (continued)

23.1 Investments in financial assets available for sale (continued)

Structure of the investments in financial assets available for sale according to type of financial instrument (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1				-				-
Impairment loss for the year								
Additional impairment				-				-
(Release of impairment)				-				-
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)				-				-
Foreign exchange gain/losses				-				-
(Written off receivables)				-				-
As at December 31				**-**				**-**

23 Investments in securities (continued)

23.1 Investments in financial assets available for sale (continued)

Structure of the investments in financial assets available for sale according to type of financial instrument (continued)

Investments in debt securities available-for-sale in the amount of 8,852,308 thousands of denars (2017: 8,774,465 thousands of denars) refer to the investments in government bills in the amount of 8,749,402 thousands of denars (2017: 8,671,656 thousands of denars) and investments in government bonds of 102,906 thousands of denars (2017: 102,809 thousand denars).

The investments in equity instruments available-for-sale in the amount of 64,947 thousands of denars (2017: 64,925 thousands of denars) refer to investments in securities issued by financial companies. Taking into account that for these investments there is no active market, as well as a lack of recent transactions that could be applied in determining the fair value, the investments in available-for-sale securities are stated at cost, less any impairment. The market for these securities is not consistent and it is not fully developed, so that the fair value cannot be reliably measured.

The Group does not plan to sell the part of investments in available-for-sale equity instruments issued by financial companies whose operations are related to the regular operations of the Group.

Balfin Group and Komercijalna Banka AD Skopje have signed a binding contract with Piraeus Bank for the purchase of the shares of Tirana Bank, with Balfin owning a majority of these shares. Balfin and Komercijalna Banka AD Skopje plan Tirana Bank to function as an independent bank that will be managed by experienced professionals, led by an international Management Board and will continue to expand the bank's activities in the Republic of Albania.

The sale transaction is subject to appropriate regulatory approvals in individual jurisdictions, and according to the information available to the Bank at the moment, the entire process for issuing the necessary licenses from the individual countries is expected to end in the first quarter of 2019, after which the transaction would be completed.

23 Investments in securities (continued)

23.2 Investments in financial assets held to maturity

	in thousands of denars	
	Current year 2018	Previous year 2017
Debt securities		
Treasury bills	-	-
Government bills	-	187,092
Other instruments in the money market	-	-
Government bonds	3,392,816	1,711,943
Corporate bonds	-	-
Other debt securities	-	-
	3,392,816	**1,899,035**
Quoted	106,699	-
Unquoted	3,286,117	1,899,035
***Total investment in financial instruments held to maturity before* impairment**	**3,392,816**	**1,899,035**
(Impairment)	-	-
Total investment in financial instruments held to maturity after impairment	**3,392,816**	**1,899,035**

23 Investments in securities (continued)

23.2 Investments in financial assets held to maturity (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1								
Impairment loss for the year								
Additional impairment								
(Release of impairment)								
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)								
Foreign exchange gain/losses								
(Written off receivables)								
As at December 31								

Debt securities include government bonds in the amount of 3,392,816 thousands of denars (2017: government bills in the amount of 187,092 thousands of denars and continued government bonds in the amount of 1,711,943 thousand denars).
Government bonds refer to continued government bonds in the amount of 3,286,117 thousand denars with maturity period from 2019 to 2021 with interest rate from 0.90% to 4.60% p.a. (2017: 1,711,943 thousand denars with maturity period from 2018 to 2020 with interest rate from 2.1% to 2.7% p.a.) and structured government bonds in the amount of 106,699 thousand denars with maturity period from 2020 to 2027 and interest rate of 2,00% p.a (2017: none).

The income from debt securities held-to-maturity is recognized as interest income.

24 Investment in subsidiaries and associates

A Percentage of Bank's share in associates

		in %			
		Share of ownership in %		Percentage of voting right	
Name of subsidiaries and associates	Country	current year 2018	previous year 2017	current year 2018	previous year 2017
KB PRVO PENZISKO DRUSTVO AD SKOPJE	Republic of North Macedonia	49,00%	49,00%	49,00%	49,00%
KB PUBLIKUM INVEST AD SKOPJE	Republic of North Macedonia	64,29%	64,29%	64,29%	64,29%

B Financial information for associates - 100%

	in thousands of Denars				
Name of associates	Total assets	Total liabilities	Total capital and reserves	Income	Profit/(loss) for the financial year
Current year 2018					
KB PRVO PENZISKO DRUSTVO AD SKOPJE	570,485	17,991	552,494	263,527	130,993
	570,485	**17,991**	**552,494**	**263,527**	**130,993**
Previous year 2017					
KB PRVO PENZISKO DRUSTVO AD SKOPJE	491,418	18,257	473,161	245,172	112,506
	491,418	**18,257**	**473,161**	**245,172**	**112,506**

25 Other receivables

	in thousands of denars	
	current year 2018	previous year 2017
Trade receivables	2,695	205,492
Prepaid expenses	-	-
Deferred income	-	-
Fees and commission receivables	33,157	35,423
Receivables from employees	49	35
Advances for intangible assets	-	174
Advances for property and equipment	3,621	8,135
Other (receivables representing more than 10% of the total other receivables)		
Bank card settlement transactions	577,534	408,131
Other receivables by other basis in denars	27,926	620,183
Other receivables by other basis in foreign currency	5,658	5,681
Suspicious and doubtful receivables from receivables from clients and other receivables	64,497	77,017
Inventory of materials, petty inventory and numismatic collections	30,249	36,697
(other receivables that do not represent more than 10% of the total other receivables)	25,295	31,112
Total other receivables before value adjustment	**770,681**	**1,428,080**
(Impairment)	(77,915)	(107,295)
Total other receivables reduced by value adjustment	**692,766**	**1,320,785**

25 Other receivables (continued)

in thousands of Denars

	Current year 2018				Previous year 2017			
	Impairment loss for Group 1	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**	**Impairment loss for Group 1**	**Impairment loss for Group 2**	**Impairment loss for Group 3**	**Total Impairment loss**
Movements in allowance for impairment								
As at January 1				107,295				86,773
Impairment loss for the year								
Additional impairment				96,247				103,130
(Release of impairment)				(71,478)				(32,240)
Transfer to:								
- Impairment loss for Group 1								
- Impairment loss for Group 2								
- Impairment loss for Group 3								
(Foreclosed assets based on outstanding receivables)				(1,909)				(5,146)
Foreign exchange gain/losses				(2)				(16)
(Written off receivables)				(52,238)				(45,206)
As at December 31				**77,915**				**107,295**

The item “Other receivables by other basis in denars” during 2017 (in the amount of 620,183 thousand denars) mostly includes receivables from one legal entity, which were considered to be certain repayments for the Bank, and were realistically expected to become cash inflows within a short time period, on the basis of undertaken activities by the Group for the collection of problematic receivables. In 2018, the receivable was collected.

26 Assets pledged as collateral

	in thousands of denars	
	current year 2018	previous year 2017
Debt securities	-	-
Equity instruments	-	-
Loans and advances from banks	-	-
Loans and advances from other customers	-	-
Other receivables	-	-
Total collateralized assets	-	-

27 Foreclosed assets

in thousands of Denars	Land	Buildings	Equipment	Residential buildings and apartments	Other valuables	**Total**
Beginning carrying amount						
As at January 1 2017 (previous year)	171,352	1,440,053	155,679	169,152	-	1,936,236
Foreclosed during the year	636,530	696,695	330,522	161,928	940	1,826,615
(sold during of the year)	(624,760)	(443,884)	(42,495)	(29,144)	-	(1,140,283)
(transfer into assets for own use)	-	-	-	-	-	-
As at December 31, 2017 (previous year)	**183,122**	**1,692,864**	**443,706**	**301,936**	**940**	**2,622,568**
As at January 1, 2018 (current year)	183,122	1,692,864	443,706	301,936	940	2,622,568
Foreclosed during the year	269,203	280,330	7,469	149,529	54	706,585
(sold during of the year)	(366,803)	(807,110)	(310,177)	(178,040)	-	(1,662,130)
(transfer into assets for own use)	-	-	-	-	-	-
As at December 31, 2018 (current year)	**85,522**	**1,166,084**	**140,998**	**273,425**	**994**	**1,667,023**
Impairment						
As at January 1, 2017 (previous year)	102,217	1,035,557	109,159	121,357	-	1,368,290
Impairment loss during the year	480,458	570,259	277,294	61,594	307	1,389,912
(sold during the year)	-	-	-	-	-	-
(transfer into assets for own use)	(507,981)	(347,063)	(29,511)	(27,930)	-	(912,485)
As at December 31, 2017 (previous year)	**74,694**	**1,258,753**	**356,942**	**155,021**	**307**	**1,845,717**
As at January 1, 2018 (current year)	74,694	1,258,753	356,942	155,021	307	1,845,717
Impairment loss during the year	250,807	554,986	41,368	208,797	170	1,056,128
(transfer into assets for own use)	-	-	-	-	-	-
(sold during the year)	(266,149)	(776,144)	(281,453)	(90,598)	-	(1,414,344)
As at December 31, 2018 (current year)	**59,352**	**1,037,595**	**116,857**	**273,220**	**477**	**1,487,501**
Net carrying amount						
As at January 1, 2017 (previous year)	**69,135**	**404,496**	**46,520**	**47,795**	-	**567,946**
As at December 31, 2017 (previous year)	**108,428**	**434,111**	**86,764**	**146,915**	**633**	**776,851**
As at December 31 2018 (current year)	**26,170**	**128,489**	**24,141**	**205**	**517**	**179,522**

27 Foreclosed assets (continued)

The fair value of the acquired assets through foreclosure procedure as at 31 December 2018 is in the amount of 1,484,763 thousands of denars (as at 31 December 2017 is in the amount of 1,998,430 thousands of denars).

Part of the recognised impairment in 2018 in the amount of 413,040 thousands of denars (2017: 102,456 thousands of denars) is recognized as an expense in the Income statement (see note 13), and the remainder is recognized in the balance sheet.

28 Intangible assets

A Reconciliation of the present carrying amount

in thousands of denars	Internally developed software	Software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in progress	Investments in intangible assets taken under lease	Non-controlling interest *	**Total**
Cost								
As at January 1, 2017 (previous year)	-	257,159	-	39,251	2,211	-	-	**298,621**
Increases by new supplies	-	11,722	-	1,768	854	-	-	**14,344**
Increases by internal development	-	-	-	-	-	-	-	**-**
Increases by business combinations	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	-	-	-	-	-	**-**
(disposal through business combination)	-	-	-	-	-	-	-	**-**
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	**-**
Transfer from non-current assets held for sale	-	-	-	-	-	-	-	**-**
As at December 31, 2017 (previous year)	**-**	**268,881**	-	**41,019**	**3,065**	**-**	**-**	**312,965**
As at January 1, 2018 (current year)	**-**	**268,881**	-	**41,019**	**3,065**	**-**	**-**	**312,965**
Increases by new supplies	-	5,003	-	5,650	458	-	-	**11,111**
Increases by internal development	-	-	-	-	-	-	-	**-**
Increases by business combinations	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	(66,965)	-	(2,108)	-	-	-	**(69,073)**
(disposal through business combinations)	-	-	-	-	-	-	-	**-**
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	**-**
Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	**-**
As at December 31, 2018 (current year)	**-**	**206,919**	**-**	**44,561**	**3,523**	**-**	**-**	**255,003**

28 Intangible assets (continued)

A Reconciliation of the present carrying amount (continued)

in thousands of denars	Internally developed software	Software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in progress	Investments in intangible assets taken under lease	Non-controlling interest *	**Total**
Depreciation and impairment								
As at January 1, 2017 (previous year)	-	220,883	-	38,831	-	-	-	**259,714**
Depreciation for the year	-	12,276	-	553	-	-	-	**12,829**
Impairment loss during the year	-	-	-	-	-	-	-	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	-	-	-	-	-	**-**
As at December 31, 2017 (previous year)	**-**	**233,159**	**-**	**39,384**	**-**	**-**	**-**	**272,543**
As at January 1, 2018 (current year)	**-**	**233,159**	**-**	**39,384**	**-**	**-**	**-**	**272,543**
Depreciation for the year	-	12,429	-	530	-	-	-	**12,959**
Impairment loss during the year	-	-	-	-	-	-	-	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	(66,965)	-	(2,108)	-	-	-	**(69,073)**
Balance at December 31, 2018 (current year)	**-**	**178,623**	**-**	**37,806**	**-**	**-**	**-**	**216,429**
Current carrying amount								
Balance at January 1, 2017	**-**	**36,276**	**-**	**420**	**2,211**	**-**	**-**	**38,907**
Balance at December 31, 2017 (previous year)	**-**	**35,722**	**-**	**1,635**	**3,065**	**-**	**-**	**40,422**
Balance at December 31, 2018 (current year)	**-**	**28,296**	**-**	**6,755**	**3,523**	**-**	**-**	**38,574**

*only for consolidated financial statements

28 Intangible assets (continued)

B Carrying amount of the intangible assets where there is a limit of ownership and / or are pledged as collateral for liabilities of the Bank

in thousands of Denars	Internally developed software	Software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in progress	Investments in intangible assets taken under lease	**Total**
Present carrying value as at:							
As at December 31 2017 (previous year)	-	-	-	-	-	-	**-**
As at December 31 2018 (current year)	-	-	-	-	-	-	**-**

29 Property and equipment

A Reconciliation of the present carrying amount

in thousands of denars	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in progress	Investments in property and equipment taken under lease	**Total**
Purchase value									
As at 1 January 2017 (previous year)	88,735	3,183,198	145,620	345,654	717,988	13,327	22,618	56,201	**4,573,341**
Increases	-	-	-	-	-	-	63,837	-	**63,837**
Increase through business combinations	-	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	(13,850)	(8,012)	(48,098)	-	-	(1,256)	**(71,216)**
(Disposal through business combinations)	-	-	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	3,715	13,756	7,208	34,444	-	(59,349)	226	**-**
As at 31 December 2017 (previous year)	**88,735**	**3,186,913**	**145,526**	**344,850**	**704,334**	**13,327**	**27,106**	**55,171**	**4,565,962**
As at 1 January 2018 (current year)	88,735	3,186,913	145,526	344,850	704,334	13,327	27,106	55,171	**4,565,962**
Increases	-	-	-	-	-	-	95,527	-	**95,527**
Increase through business combinations	-	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	(17,379)	(9,058)	(32,409)	-	-	(5,003)	**(63,849)**
(Disposal through business combinations)	-	-	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	2,707	17,687	4,239	54,264	-	(78,897)	-	-
As at 31 December 2018 (current year)	**88,735**	**3,189,620**	**145,834**	**340,031**	**726,189**	**13,327**	**43,736**	**50,168**	**4,597,640**

29 Property and equipment

A Reconciliation of the present carrying amount (continued)

in thousands of denars	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in progress	Investments in property and equipment taken under lease	**Total**
Depreciation and impairment									
As at 1 January 2017 (previous year)	-	526,459	137,381	299,718	591,671	-	-	49,929	**1,605,158**
Depreciation for the year	-	79,129	7,410	23,695	51,887	-	-	4,073	**166,194**
Impairment loss during the year	-	-	-	-	-	-	-	-	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	(13,850)	(8,012)	(48,056)	-	-	(1,256)	**(71,174)**
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	**-**
Transfer for non-current assets held for sale	-	-	-	-	-	-	-	-	**-**
Other transfers	-	-	-	-	-	-	-	-	**-**
Balance at 31 December 2017 (previous year)	**-**	**605,588**	**130,941**	**315,401**	**595,502**	**-**	**-**	**52,746**	**1,700,178**
Balance at 1 January 2018 (current year)	-	605,588	130,941	315,401	595,502	-	-	52,746	**1,700,178**
Depreciation for the year	-	79,206	6,157	16,814	50,120	-	-	1,461	**153,758**
Impairment loss during the year	-	-	-	-	-	-	-	-	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	(17,379)	(9,058)	(32,409)	-	-	(5,003)	**(63,849)**
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	**-**
Transfer for non-current assets held for sale	-	-	-	-	-	-	-	-	**-**
Other transfers	-	-	-	-	-	-	-	-	**-**
Balance at 31 December 2018 (current year)	**-**	**684,794**	**119,719**	**323,157**	**613,213**	**-**	**-**	**49,204**	**1,790,087**
Current carrying amount									
As at 1 January 2017(previous year)	**88,735**	**2,656,739**	**8,239**	**45,936**	**126,317**	**13,327**	**22,618**	**6,272**	**2,968,183**
As at 31 December 2017 (previous year)	**88,735**	**2,581,325**	**14,585**	**29,449**	**108,832**	**13,327**	**27,106**	**2,425**	**2,865,784**
As at 31 December 2018 (current year)	**88,735**	**2,504,826**	**26,115**	**16,874**	**112,976**	**13,327**	**43,736**	**964**	**2,807,553**

29 Property and equipment (continued)

B Carrying amount of the items of property, plant and equipment ovew which there is limited ownership and/or are pledged as collateral/pledge for bank's liabilities

in thousands of Denars	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in progress	Investments in property and equipment taken under lease	Total
Current carrying amount at:									
As at December 31 2017 (previous year)	-	-	-	-	-	-	-	-	-
As at December 31 2018 (current year)	-	-	-	-	-	-	-	-	-

The amount of commitments for the purchase of property and equipment in 2018 is in the amount of 10,255 thousands of denars (2017: 2,387 thousands of denars).

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30 Current and deferred tax assets and liabilities

30.1 Current tax assets and current tax liabilities

	in thousands of denars	
	current year 2018	previous year 2017
Income tax receivables (current)	-	498
Income tax liabilities (current)	127,301	9,528

30.2 Deferred tax assets and deferred tax liabilities

A Recognized deferred tax assets and deferred tax liabilities

	current year 2018			previous year 2017		
	Deferred tax assets	(Deferred tax liabilities)	On net basis	Deferred tax assets	(Deferred tax liabilities)	On net basis
in thousands of Denars						
Derivative assets held for risk management	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to other clients	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unutilized tax losses and unutilized tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets/liabilities recognized in the income statement	-	-	-	-	-	-
	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Protection against cash flow risk	-	-	-	-	-	-
Deferred tax assets liabilities recognized in the capital	**-**	**-**	**-**	**-**	**-**	**-**
Total recognized tax assets/liabilities	**-**	**-**	**-**	**-**	**-**	**-**

30 Deferred tax assets and deferred tax liabilities (continued)

B Unrecognized deferred tax assets

	in thousands of Denars	
	current year 2018	Previous year 2017
Tax losses	-	-
Tax credits	-	-
Total unrecognized deferred tax assets	**-**	**-**

30 Deferred tax assets and deferred tax liabilities (continued)

C Reconciliation of movements deferred tax assets and deferred tax liabilities in the course of the year

in thousands of denars	As at January 1	Recognized in the course of the year in: Income statement	Capital	As at December 31
Previous year 2017				
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to other clients	-	-	-	-
Investments in securities	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and utilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available for sale	-	-	-	-
Protection against cash flow risk	-	-	-	-
Total recognized deferred tax assets-liabilities	**-**	**-**	**-**	**-**
Current year 2018				
Derivative assets held for risk management	-	-	-	-
Placement with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investment in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available for sale	-	-	-	-
Protection against cash flow risk	-	-	-	-
Total recognized deferred tax assets/liabilities	**-**	**-**	**-**	**-**

31 Non-current assets held for sale and disposal group

A Non-current assets held for sale

	in thousands of denars	
	current year 2018	previous year 2017
Intangible assets	-	268
Property and equipment	-	-
Total non current assets held for sale	**-**	**268**

B Disposal Group

	in thousands of denars	
	current year 2018	previous year 2017
Group of assets for disposal		
Financial assets	-	-
Intangible assets	-	-
Property, plant and equipment	-	-
Investment in associates	-	-
Income tax receivables	-	-
Other assets	-	-
Total group of assets for disposal	-	-
Liabilities directly related to group of assets for disposal		
Financial liabilities	-	-
Special reserve	-	-
Income tax liabilities	-	-
Other liabilities	-	-
Total liabilities directly related to the group of assets for disposal	-	-

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

	in thousands of denars	
	current year 2018	previous year 2017
Profit/(loss) recognized from the sale of assets held-for-sale and disposal group	-	-

32 Trading liabilities

	in thousands of denars	
	current year 2018	previous year 2017
Deposits from banks		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
Deposits from other clients		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
Issued debt securities		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	-	-
Other financial liabilities	-	-
Trading derivatives		
Agreements depending on interest rate change	-	-
Agreements depending on exchange rate change	-	-
Agreements depending on the securities price change	-	-
Other agreements that fulfil the IFRS 9 criteria	-	-
	-	-
Total trading liabilities	**-**	**-**

33 Financial liabilities at fair value through the profit and loss determined as such at initial recognition

	in thousands of denars			
	current year 2018		previous year 2017	
	Current carrying amount	Contractual value, paid at maturity	Current carrying amount	Contractual value, paid at maturity
Due to banks				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
Due to customers				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
Issued debt securities				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Subordinated debt	-	-	-	-
Other financial liabilities	-	-	-	-
Total financial liabilities at fair value through the profit and loss determined as such at initial recognition	**-**	**-**	**-**	**-**

	in thousands of denars	
	Current year 2018	Previous year 2017
Movement in changes of bank's creditworthiness for financial liabilities measured at fair value		
As at 01 January		
Recognized in Other comprehensive income for the year		
(Transfer to other reserve funds)		
Balance as at 31 December		

34 Deposits

34.1 Due to banks

	in thousands of Denars			
	current year 2018		previous year 2017	
	short-term	long-term	short-term	long-term
Current accounts				
domestic banks	75,699	-	42,717	-
foreign banks	31,913	-	24,735	-
Demand deposits				
domestic banks	-	-		-
foreign banks	-	-		-
Time deposits				
domestic banks	238,461	-	184,778	-
foreign banks	-	-		-
Restricted deposits				
domestic banks	-	-	189,736	-
foreign banks	-	-		-
Other deposits				
domestic banks	-	-		-
foreign banks	-	-		-
Deposit interest liabilities				
domestic banks	22	-	30	-
foreign banks	4,441	-	7,001	-
Current maturity	-	-	-	-
Total deposits from banks	**350,536**	**-**	**448,997**	**-**

34 Deposits (continued)

34.2 Other deposits

	in thousands of Denars			
	current year 2018		previous year 2017	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	19,339,533	-	17,025,245	-
Demand deposits	346,862	-	22,111	-
Time deposits	717,241	703,230	1,454,057	753,022
Restricted deposits	823,463	476,813	386,960	635,117
Other deposits	-	-	-	-
Interest payable on deposits	19,908	-	20,205	-
	21,247,007	**1,180,043**	**18,908,578**	**1,388,139**
Government				
Current accounts	339,607	-	202,326	-
Demand deposits	1,552	-	1,055	-
Time deposits	35,000	-	55,000	-
Restricted deposits	187	-	187	-
Other deposits	-	-	0	-
Interest payable on deposits	261	-	573	-
	376,607		**259,141**	**-**
Non-profit institutions in service of households				
Current accounts	1,270,365	-	1,237,447	-
Demand deposits	471	-	458	-
Time deposits	459,322	126,395	373,790	118,126
Restricted deposits	77,858	7,813	183,774	2,322
		-		
Other deposits	-		-	-
Interest payable on deposits	3,268	-	4,051	-
	1,811,284	**134,208**	**1,799,520**	**120,448**
Financial companies, other than banks				
Current accounts	823,828	-	168,894	-
Demand deposits	6,193	-	100,647	-
Time deposits	101,300	428,700	113,000	425,000
Restricted deposits	1,035	3,053	338	3,654
Other deposits	-	-	-	-
Interest payable on deposits	3,176	-	1,335	-
	935,532	**431,753**	**384,214**	**428,654**
Households				
Current accounts	18,972,852	-	15,526,791	-
Demand deposits	7,421,711	-	6,705,008	-
Time deposits	31,719,742	11,635,695	31,549,678	10,484,751
Restricted deposits	276,087	1,064,808	246,094	899,381
Other deposits	-	-	-	-
Interest payable on deposits	183,069	-	186,698	-
	58,573,461	**12,700,503**	**54,214,269**	**11,384,132**
Non-residents, other than banks				
Current accounts	1,039,734	-	1,706,623	-
Demand deposits	1,491	-	1,491	-
Time deposits	183,669	293,042	184,729	315,080
Restricted deposits	115,286	11,748	127,719	4,277
Other deposits	-	-	-	-
Interest payable on deposits	1,367	-	1,567	-
	1,341,547	**304,790**	**2,022,129**	**319,357**
Current maturity	5,441,723	(5,441,723)	5,079,029	(5,079,029)
Total other deposits	**87,727,161**	**9,309,574**	**82,666,880**	**8,561,701**

34 Deposits (continued)

34.2 Other deposits (continued)

Restricted deposits are deposits that the Group in behalf of its clients makes payments abroad, opens letters of credit, acquires foreign currency assets for payment, and part of it serve as a collateral under loans and guaranties issued that the Group has approved to certain companies, deposits as collateral under approved consumption loans and retail loans and earlier received payments under consumption and housing loans.

35 Issued debt securities

	in thousands of Denars	
	current year 2018	previous year 2017
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on issued securities	-	-
Total issued debt securities	**-**	**-**

36. Borrowings

A Borrowings structure according to liability type and creditor's sector

	in thousands of denars			
	current year 2018		previous year 2017	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Borrowings	1,097	694,546	1,248	1,061,406
Repo-transactions	-	-	-	-
Interest payables	1,482	-	2,258	-
Non-residents				
Borrowings	-	115,825	-	56,397
Repo-transactions	-	-	-	-
Interest payables	1,193	-	544	-
Non-financial companies				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Government				
Borrowings	-	114,782	-	115,970
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Non-profit institutions in service of households				
Borrowings	-	-	-	-
Interest payables	-	-	-	-
Financial entities, other than banks				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Non-residents, except for banks				
Non-financial entities				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Government				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Non-profit institutions in service of households				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Financial companies, other than banks				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Households				
Borrowings	-	-	-	-
Interest payables	-	-	-	-
Current maturity	289,609	(289,609)	336,814	(336,814)
Total Borrowings	**293,381**	**635,544**	**340,864**	**896,959**

36 Borrowings (continued)

B Borrowings according to the creditor

	in thousands of Denars			
	Current year 2017		Previous year 2016	
	short-term	long-term	short-term	long-term
domestic sources:				
MBPR-IKL	-	-	10	1,537
MBPR – ZKDF	1,106	6,050	1,262	10,188
NBRM – Primary issue	-	8,809	-	8,809
MBPR-EIB	1,473	679,687	2,234	1,040,872
Agency for Managing Accounts	-	114,782	-	115,970
	2,579	**809,328**	**3,506**	**1,177,376**
foreign sources:				
EBRD	1,193	115,825	544	56,397
	1,193	**115,825**	**544**	**56,397**
Current maturity	289,609	(289,609)	336,814	(336,814)
Total borrowings	**293,381**	**635,544**	**340,864**	**896,959**

Lender	Currency	Interest rate	Year of maturity	Type of collateral
MBPR – IKL	EUR	3%	Paid off	returned
MBPR – ZKDF	MKD/EUR	0,5%	According to the agreements concluded with final users	3 bills of exchange
NBRM – Primary issue	MKD	-	2020	1 bill of exchange
MBPR - EIB	EUR	1%	According to the agreements concluded with final users	16 bills of exchange in form of Notary deed * Pledge of receivables under sub-loan agreements with final users in the form of Notary deed
Agency for accounts management	MKD	-	2020	Unsecured
EBRD	EUR	6,5% fixed, 5% adjustable	According to the agreements concluded with final users	Unsecured

36 Borrowings (continued)

B Borrowings according to the creditor (continued)

The Group has pledged a lien in the form of a notary deed in favour of MBDP based on receivables from sub-loan agreements concluded with final users approved from the credit lines from EIB and IKL, both administered through MBDP. As at 31 December 2018 the amount of borrowings for which the Group has pledged receivables is 679,687 thousands of denars (2017: 1,011,972 thousand denars).

37 Subordinated liabilities

	in thousands of denars	
	current year 2018	previous year 2017
Subordinated deposits liabilities		
Interest payables	-	-
Subordinated loans liabilities		
Interest payables	-	-
Subordinated issued debt securities liabilities		
Interest payables	-	-
Redeemable preference shares	-	-
Total subordinated debt	-	-

38 Special reserves and provisions

in thousands of denars	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on litigations	Provisions for pensions and other employee benefits	Provisions for restructuring	Provisions for unfavourable agreements	Other provisions	**Total**
Balance at January 1, 2017 (previous year)	112,577	-	53,218	-	-	-	**165,795**
Additional provisions during the year	244,700	-	11,706	-	-	-	**256,406**
(used provisions during the year)	-	-	(3,634)	-	-	-	**(3,634)**
(release of provisions during the year)	(173,874)	-	(1,258)	-	-	-	**(175,132)**
Exchange rate effect	(8)	-	-	-	-	-	**(8)**
As at 31 December 2017 (previous year)	**183,395**	-	**60,032**	-	-	-	**243,427**
Balance at January 1, 2018 (current year)	183,395	-	60,032	-	-	-	**243,427**
Additional provisions during the year	491,431	-	10,148	-	-	-	**501,579**
(used provisions during the year)	-	-	(3,207)	-	-	-	**(3,207)**
(release of provisions during the year)	(237,155)	-	(1,612)	-	-	-	**(238,767)**
Exchange rate effect	(111)	-	-	-	-	-	**(111)**
As at 31 December 2018 (current year)	**437,560**	**-**	**65,361**	**-**	**-**	**-**	**502,921**

38 Special reserves and provisions (continued)

Off-balance sheet items in the assets, exposed to credit risk for which the special reserve is determined, are classified in different risk categories appropriately to the estimated risk for potential losses. As at 31 December 2018, 91.87% of total off-balance sheet items in the assets are classified in the risk category a, risk category B participates with 3.48%, and risk categories C, D and E with 4.65%.

39 Other liabilities

	in thousands of denars	
	current year 2018	previous year 2017
Trade payables	27,790	19,675
Received advances	10,853	33,108
Fee and commission liabilities	8,157	7,587
Accrued expenses	65,373	17,187
Deferred income from previous years	-	-
Short - term liabilities to employees	-	-
Short - term liabilities for employee benefits	104	-
Other:		
(liabilities more that 10% of the total other liabilities)		
Other liabilities on other basis	28,614	29,374
Bank credit card settlement transactions	438,751	346,951
Liabilities to entities in the process of founding a company	118,584	3,470
Delayed payments liabilities based on collections from abroad	116,355	94,502
VAT liabilities	68,344	6,445
Liabilities in foreign currency for establishing legal entities	8,156	4,727
Liabilities upon activities with credit cards issued by foreign banks	68,631	47,937
Other liabilities		
(liabilities less than 10% of the total other liabilities)	13,795	17,254
Total other liabilities	**973,507**	**628,217**

40 Subscribed Capital

A Subscribed Capital

	in Denars		*number of issued shares*				*in thousands of denars*	
	Nominal value per share		Ordinary shares		Preference shares non-redeemable		Total subscribed capital	
	ordinary shares	Preference shares- non-redeemable	current year 2018	previous year 2017	current year 2018	previous year 2017	current year 2018	previous year 2017
As at 1 January-fully paid	1,000	-	2,279,067	2,279,067	-	-	2,279,067	2,279,067
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of share options	-	-	-	-	-	-	-	-
Division/ increase of nominal value per share	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
Conversion of preference in ordinary shares	-	-	-	-	-	-		-
As at 31 December – fully paid	**1,000**	**-**	**2,279,067**	**2,279,067**	**-**	**-**	**2,279,067**	**2,279,067**

The issued ordinary shares have been paid in full. The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at the shareholders' Assembly of the Bank. All shares rank equally with regard to residual assets. According to the Bank's shareholders book as at 31 December 2018, 207,644 ordinary shares from the total shareholders' equity of the Bank or 9,11% (as at 31 December 2017, 84,105 ordinary shares i.e. 3.69%) there is limitation of the rights established based on the law and/or Decision or act of the competent body.

As at 31 December 2018 the Group does not hold treasury shares. The Open-end Investment Funds managed by the Bank's subsidiary KB Publikum Invest AD Skopje owns a total of 14,206 ordinary shares or 0.623% from the total shareholders' equity of the Bank, where KB Publikum- Balanced owns 3,789 ordinary shares, i.e. 0.166% of the total share capital and KB Publikum MBI 10 owns 10,417 ordinary shares, i.e. 0.457% of the total share capital (as at 31 December 2017 KB Publikum- Balanced owns 3,409 ordinary shares, i.e. 0.1496% of the total share capital of the Bank and KB Publikum MBI 10 owns 13,705 ordinary shares, i.e. 0.601% of the total share capital of the Bank).

40 Subscribed Capital (continued)

B Dividends

B.1 Announced and paid dividends by the Bank

	in thousands of denars	
	current year 2018	previous year 2017
Declared dividends and paid dividends for the year	-	-

	in Denars	
	current year 2018	previous year 2017
Dividend per ordinary share	-	-
Dividend per preference share	-	-

B.2 Announced dividend after the balance sheet date (the liabilities for dividends are not shown in the Balance sheet)

	in thousands of Denars	
	current year 2018	previous year 2017
Announced dividends after December 31	957,208	410,232

	in Denars	
	current year 2018	previous year 2017
Dividend per ordinary share	420	180
Dividend per preference share	-	-

B Shareholders with ownership over 5% of the shares with the right of vote

	in thousands of denars		*in %*	
	current year 2018	Previous year 2017	Current year 2018	Previous year 2017
Shareholder's name	Subscribed capital (nominal value)	Subscribed capital (nominal value)	voting right	voting right
ADORA INZENERING DOOEL eksport-import	229,996	4,149	10.09%	0.18%
East Capital Explorer Investment AB	-	227,907	0.00%	10.00%
Total	**229,996**	**232,056**	**10.09%**	**10.18%**

41 Earnings per share

A Basic earnings per share

	in thousands of denars	
	current year 2018	previous year 2017
Net - Profit attributable to holders of ordinary shares		
Net gain for the year	1,795,029	836,478
(Dividend for non-redeemable non-voting shares)	-	-
Correction of net gain entitled to the holders of the ordinary shares	-	-
Value of emitted shares	-	-
Value of withdrawn shares	-	-
Value of dividend paid in shares	-	-
Net - Profit attributable to holders of ordinary shares	**1,795,029**	**836,478**

	Number of shares	
	current year 2018	previous year 2017
Weighted average number of ordinary shares		
Issued ordinary shares as of January 1	2,279,067	2,279,067
Effects of the changes in the number of ordinary shares during the year		
Effect from conversion of non-redeemable non-voting shares into ordinary shares	-	-
Effect from sale of own shares on the market	-	-
Effects of new issue of ordinary shares	-	-
Weighted average number of ordinary shares on 31 December	**2,279,067**	**2,279,067**
Basic earnings per share (in Denars)	**788**	**367**

B Diluted earnings per share

	in thousands of denars	
	current year 2018	previous year 2017
Net gain entitled to the holders of the ordinary shares (diluted)		
Net gain for the year entitled to the holders of the ordinary shares (diluted)	1,795,029	836,478
Correction of net gain entitled to the holders of the ordinary shares for effects of all emitted potential ordinary shares (list separately)		
Dividend from non-voting shares converted into ordinary shares	-	-
Incomes from realized options	-	-
Value of redeemable own shares	-	-
Net gain entitled to the holders of the ordinary shares (diluted)	**1,795,029**	**836,478**

	number of shares	
	current year 2018	previous year 2017
Weighted average number of the ordinary shares (diluted)		
Ordinary shares issued on 1 January	2,279,067	2,279,067
Effect from issue of potential ordinary shares	-	-
Weighted average number of the ordinary shares (diluted) on 31 December	**2,279,067**	**2,279,067**
Diluted earnings per share (in Denars)	**788**	**367**

42 Contingent liabilities and contingent assets

42.1 Contingent liabilities

	in thousands of denars	
	current year 2018	previous year 2017
Unsecured payment guarantees		
in Denars	660,245	787,403
in foreign currency	822,776	985,471
in Denars with foreign currency clause	95,588	45,086
Unsecured performance guarantees		
in Denars	4,707,822	4,519,716
in foreign currency	873,985	1,653,244
in Denars with foreign currency clause	926,237	822,289
Unsecured letter of credit		
in Denars	-	-
in foreign currency	2,821,496	2,723,340
in Denars with foreign currency clause	-	-
Unused overdraft on current accounts	1,747,296	1,766,179
Unused credit card limits	1,208,254	1,199,841
Foreclosed liabilities for crediting and unused credit limits	1,552,067	1,543,492
Issued secured guarantees	676,603	789,603
Covered letter of credit	99,483	418,563
Other secured contingent liabilities	1,117,791	1,262,562
Total contingent liabilities before special reserve	**17,309,643**	**18,516,789**
(Provisions)	(437,560)	(183,395)
Total contingent liabilities less special reserve	**16,872,083**	**18,333,394**

For part of the contingent liabilities in the amount of 255,954 thousands of denars there is a litigation proceeding upon issued letter of guarantee for Granit AD Skopje. The case was initiated in front of an authorized court in Poland on September 16th, 2011 by the State Treasury – General Directorate for National Roads and Motorways from Warsaw (beneficiary of the guarantee) against Komercijalna Banka AD Skopje, which was received in the Bank on July 2nd 2012, requesting a payment upon the issued letter of guarantee in the amount of 17.897.404,09 PLN, equivalent to 255,954 thousands of denars. The letter of guarantee was issued based on a contract for building a motorway concluded on May 5th, 2010 between the plaintiff (State Treasury – General Directorate for State Roads and Motorways) and Granit AD Skopje (requestor of the guarantee).

The guarantee has been activated and a payment is requested as a result of a breach of contract for building a motorway between the State Treasury – General Directorate for National Roads and Motorways of Warsaw and Granit AD Skopje. There is a separate legal dispute related to this contract, which is handled in front of the authorized court in Warsaw, Poland. On 7th of March 2016, the court passed a verbal verdict in which it ruled in favour of the plaintiff and ordered Komercijalna banka AD Skopje to pay the amount under the activated guarantee, interest and court expenses. The verdict was appealed and the procedure is in decision making stage by higher court.

The Bank has not performed a payment upon this issued letter of guarantee as a result of a Decision for temporary suspension issued on the 4th of April 2011 by the Basic Court in Skopje 2, on request of Granit AD Skopje. The temporary suspension prohibits the beneficiary of the guarantee to undertake any activities which would protest or enforce the guarantee, at the same time imposing a restriction on the Bank to make payments upon the issued letter of guarantee. The Bank has an obligation to follow the ruling of the Macedonian court, as long as it is in force. If the Bank is to make a payment upon this issued letter of guarantee, the amount will be transformed into a receivable from Granit AD Skopje, and the Bank's Management does not expect collection problems and adverse financial effects.

42 Contingent liabilities and contingent assets (continued)

42.1 Contingent liabilities (continued)

On January 24, 2018, a lawsuit against the Group was filed before the Court in Amsterdam along with 12 other entities. According to the complaint, there is allegedly a claim from Cunico Resources N.V., International Mineral Resources B.V., Summerside Investments S.a.r.l and Cunico Marketing FZE for alleged damage caused by FENI Industry AD Kavadarci's bankruptcy proceedings. The lawsuit should be rejected due to the lack of jurisdiction of the Amsterdam court, but even if the court decides to engage in a dispute, it will be rejected due to the complete unfounded allegations of the lawsuits. According to the management and the Group's lawyers, the final outcome of this legal case is not expected to have negative consequences on the Group.

The Group provides banks guarantees and letters of credit to guarantee the operation of customers to third parties. These agreements have fixed limits and generally are approved for a period up to one year. Due dates are not concentrated in any period.

These contingent liabilities have off balance sheet credit risk, because in the balance sheet are recognized only the fees and accruals for potential losses until such contingent liabilities and commitments are fulfilled or expire. A large part of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The amount of the revocable contingent liabilities is in the amount of 1,117,792 thousands of denars, and amount of irrevocable are in the amount of 4,449,663 thousands of denars (2017: 1,262,562 thousands of denars, and the amount of irrevocable is 4,384,022 thousands of denars).

Taxation risk

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

42.2 Contingent Assets

	in thousands of denars	
	current year 2018	previous year 2017
List separately the more significant contingent assets:	-	-
Total contingent assets	-	-

43 Operations on behalf and for account of third parties/commission operations

	in thousands of denars					
	current year 2018			previous year 2017		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
Administration of assets on behalf and for account of third parties						
Denar deposits	43,068	44,464	(1,396)	43,068	46,657	(3,589)
Foreign currency deposits	-	-	-	-	-	-
Denar loans	407,118	405,718	1,400	403,007	403,246	(239)
Foreign currency loans	-	-	-	-	-	-
Other Denar claims	-	9	(9)	-	13	(13)
Other foreign currency receivables	-	-	-	-	-	-
Asset management on behalf and for account of third parties						
Denar deposits	-	-	-	-	-	-
Foreign currency deposits	-	-	-	-	-	-
Denar loans	-	-	-	-	-	-
Foreign currency loans	-	-	-	-	-	-
Other Denar claims	-	-	-	-	-	-
Other foreign currency receivables	-	-	-	-	-	-
Trust accounts	20,694	20,694	-	27,152	27,152	-
Other	713	2,980	(2,267)	971	3,202	(2,231)
Total	**471,593**	**473,865**	**(2,272)**	**474,198**	**480,270**	**(6,072)**

44 Related party transactions

A Balance sheet

in thousands of denars	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	**Total**
As at 31 December 2018 (current year)						
Assets						
Current accounts	-	-	-	-	-	**-**
Trading assets	-	-	-	-	-	**-**
Loans and claims						
mortgage loans	-	-	-	68,296	-	**69,296**
consumer loans	-	-	-	23,954	-	**23,954**
receivables under financial leasing						
factoring and forfeiting of receivables	-	-	-	-	-	**-**
other loans and receivables	-	-	-	693,574	-	**693,574**
Investment in securities	-	-	274,037	-	-	**274,037**
(Impairment)	-	-	-	(6,130)	-	**(6,130)**
Other assets	-	-	-	-	-	-
Total	**-**	**-**	**274,037**	**779,694**	**-**	**1,053,731**
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	8,939	685,519	-	**694,459**
Issued securities	-	-	-	-	-	**-**
Liabilities under loans	-	-	-	-	-	**-**
Subordinated debt	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	**-**
Total	**-**	**-**	**8,939**	**685,519**	**-**	**694,459**

44 Related party transactions (continued)

*A Balance sheet (*continued)

In thousands of denars	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	**Total**
As at 31 December 2018 (current year)						
Contingent liabilities						
Issued guarantees	-	-	-	43,053	-	**43,053**
Issued letters of credit	-	-	-	-	-	**-**
Other contingent liabilities	-	-	305	46,296	-	**46,601**
(Special reserve)	-	-	(8)	(421)	-	**(429)**
Total	**-**	**-**	**297**	**88,928**	**-**	**89,225**
Contingent assets						
Received guarantees	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	**-**	**-**	-	-	-	-

In thousands of denars	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	**Total**
As at 31 December 2017 (previous year)						
Assets						
Current accounts	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-
Loans and claims	-	-				
mortgage loans	-	-	-	73,165	-	73,165
consumer loans	-	-	-	25,097	-	25,097
receivables under financial leasing	-	-	-	-	-	-
Factoring and forfeiting of receivables	-	-	-	-	-	-
other loans and receivables	-	-	23	185,273	-	185,296
Investment in securities	-	-	235,164	-	-	235,164
Impairment	-	-	(1)	(2,294)	-	(2,295)
Other assets	-	-	-	-	-	-
Total	**-**	**-**	**235,186**	**281,241**	**-**	**516,427**

44 Related party transactions (continued)

*A Balance sheet (*continued)

	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	Total
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	730	666,765	-	667,495
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	**-**	**-**	**730**	**666,765**	**-**	**667,495**
Contingent liabilities						
Issued guarantees	-	-	-	36,289	-	36,289
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities	-	-	282	40,558	-	40,840
(Special reserve)	-	-	(7)	(405)	-	(412)
Total	**-**	**-**	**275**	**76,441**	**-**	**76,717**
	-	-	-	-	-	**-**
Contingent assets	-	-	-	-	-	**-**
Received guarantees	-	-	-	-	-	**-**
Other contingent assets	**-**	**-**	**-**	**-**	**-**	**-**
Total	-	-	-	-	-	-

44 Related parties transactions (continued)

B Income and expenditures arising from related party transactions

in thousands of Denars	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	Total
As at 31 December 2018 (current year)						
Income						
Interest Income	-	-	-	21,207	-	**21,207**
Income from fees and commissions	-	-	188	4,298	-	**4,486**
Net gains from trading	-	-	-	-	-	**-**
Dividend income	-	-	-	-	-	**-**
Capital gains from sale of non-current assets	-	-	-	-	-	**-**
Other income	-	-	64,237	1,983	-	**66,220**
Transfers between entities	-	-	-	-	-	**-**
Total	**-**	**-**	**64,425**	**27,488**	**-**	**91,913**
Expenditures						
Interest expenditures	-	-	-	8,739	-	**8,739**
Expenditures for fees and commissions	-	-	-	-	-	**-**
Net losses from trading	-	-	-	-	-	**-**
Expenditures for procurement of non-current assets	-	-	-	-	-	**-**
Impairment of financial assets, on net basis	-	-		4,163	-	**4,163**
Other expenditures	-	-	35	1,414	-	**1,449**
Transfers between entities	-	-	-	-	-	**-**
Total	**-**	**-**	**35**	**14,316**	**-**	**14,351**

44 Related parties transactions (continued)

B Income and expenditures arising from related party transactions (continued)

in thousands of Denars	Parent company	Subsidiaries	Associates	Management personnel of the bank	Other related parties	Total
As at 31 December 2017 (previous year)						
Income						
Interest Income	-	-	-	12,025	-	12,025
Income from fees and commissions	-	-	209	4,312	-	4,521
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non-current assets	-	-	-	-	-	-
Other income	-	-	55,205	3,124	-	58,329
Transfers between entities	-	-	-	-	-	-
Total	**-**	**-**	**55,414**	**19,461**	**-**	**74,875**
Expenditures						
Interest expenditures	-	-	1	7,976	-	7,977
Expenditures for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenditures for procurement of non-current assets	-	-	-	-	-	-
Impairment of financial assets, on net basis			(3)	(267)	-	(270)
Other expenditures	-	-	51	1,559	-	1,610
Transfers between entities	-	-	-	-	-	-
Total	**-**	**-**	**49**	**9,268**	**-**	**9,317**

44 Related parties transactions (continued)

C Remuneration for the management of the bank

	in thousands of denars	
	current year 2018	previous year 2017
Short-term benefits for employees	199,442	131,448
Benefits after employment termination	-	-
Benefits due to employment termination	-	
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	11,136	10,626
Total	**210,578**	**142,074**

Other expenses include costs for managerial insurance, holiday allowance and new year allowance.

45 Leases

A Lessor

A.1 Receivables from financial leases

in thousands of denars	Total finance lease receivables	Maturity period for financial lease receivables		
		up to 1 year	from 1 to 5 years	over 5 years
As at 31 December 2018 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
Total	**-**	**-**	**-**	**-**
As at 31 December 2017 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-
Total	**-**	**-**	**-**	**-**

A.2 Receivables from irrevocable operating leases

in thousands of denars	Total irrevocable operating lease receivables	Maturity period for irrevocable operating lease receivables		
		up to 1 year	from 1 to 5 years	over 5 years
As at 31 December 2018 (current year)				
Current value of minimum payment for the leasehold				
Total				
As at 31 December 2017 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-
Total	**-**	**-**	**-**	**-**

45 Leases (continued)

A Lessor (continued)

A.2 Irrevocable operating lease receivables (continued)

in thousands of Denars	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	**Total**
Value of property given under operating leasehold:	-	-	-	-	-	-	**-**
As at 31 December 2018 (current year)	-	-	-	-	-	-	**-**
As at 31 December 2017 (previous year)	-	-	-	-	-	-	**-**
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B Lessee

B.1 Liabilities from financial leases

in thousands of Denars	Total finance lease receivables	Maturity period for financial lease receivables		
		up to 1 year	from 1 to 5 years	over 5 years
As at 31 December 2018 (current year)	-	-	-	-
Total	**-**	**-**	**-**	**-**
As at 31 December 2017 (previous year)	-	-	-	-
Total	**-**	**-**	**-**	**-**

45 Lease (continued)

B Lessee (continued)

B.1 Liabilities under financial lease (continued)

in thousands of Denars	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	**Total**
Value of the property taken under financial leasehold:							
Cost value							
As at 1 January 2017 (previous year)	-	-	-	-	-	-	**-**
Increase	-	-	-	-	-	-	**-**
(disposal and write- off)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
As at 31 December 2017 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 1 January 2018 (current year)	-	-	-	-	-	-	**-**
Increase	-	-	-	-	-	-	**-**
(disposal and write- off)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
As at 31 December 2018 (current year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**

45 Lease (continued)

B Leasee (continued)

B.1 Liabilities from financial lease (continued

in thousands of denars	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	**Total**
Accumulated depreciation and impairment							
Balance at January 1, 2017	-	-	-	-	-	-	**-**
depreciation for the year	-	-	-	-	-	-	**-**
impairment loss during the year	-	-	-	-	-	-	**-**
(release of impairment loss during the year)	-	-	-	-	-	-	**-**
(disposal and write offs)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
Balance at December 31, 2017 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at January 1, 2018 (current year)							
depreciation for the year	-	-	-	-	-	-	**-**
impairment loss during the year	-	-	-	-	-	-	**-**
(release of impairment loss during the year)	-	-	-	-	-	-	**-**
(disposal and write offs)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
Balance at December 31, 2018 (current year)	-	-	-	-	-	-	**-**
Current carrying amount							
at January 1, 2017 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At December 31, 2017 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At December 31, 2018 (current year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**

45 Leases (continued)

B Leasee (continued)

B.2 Irrevocable operating lease liabilities

in thousands of denars	Total finance lease receivables	Maturity period for financial lease receivables		
		up to 1 year	from 1 to 5 years	over 5 years
Balance at December 31, 2018 (current year)	44,364	1,868	7,472	35,024
Total	**44,364**	**1,868**	**7,472**	**35,024**
Balance at December 31, 2017 (previous year)	46,232	1,868	7,472	36,892
Total	**46,232**	**1,868**	**7,472**	**36,892**

46 Share based payments

	in thousands of denars			
	current year 2018		previous year 2017	
Date of granting of option	-	-	-	-
Date of option expiry	-	-	-	-
Price of option realization	-	-	-	-
Share price on the date the option is granted	-	-	-	-
Variance	-	-	-	-
Expected dividend return	-	-	-	-
Interest rate	-	-	-	-
Fair value on the date the option is granted	-	-	-	-

	current year 2018		previous year 2017	
	number of options for share	Weighted average prices of options for share	number of options for share	Weighted average prices of options for share
As at 1 January	-	-	-	-
Changes during the year:				
options given to the members of Supervisory Board	-	-	-	-
options given to the members of Board of Directors	-	-	-	-
other given options	-	-	-	-
forfeited options	-	-	-	-
realized options	-	-	-	-
options with expired deadline	-	-	-	-
As at 31 December	-	-	-	-

47 The Group's subsidiaries

See accounting policies (c).

Significant subsidiaries

KB Publikum is a significant subsidiary of the Group. It executes its activities in the Republic of North Macedonia. The Bank holds 64.29% of the shares with voting right in the subsidiary (2017: 64.29%).

Significant restrictions

The Group has no significant restrictions in its ability to use assets or to settle liabilities.

47 The Group's subsidiaries (continued)

Non-controlling interest in subsidiaries

The table below provides information for subsidiaries that have tangible significant non-controlling interest

KB Publikum

in thousands of denars	Note	31 December 2018
Assets		
Cash and cash equivalents		109
Held for trading financial assets		11,452
Bank deposits		68,290
Property and equipment	29	230
Intangible assets	28	564
Other assets		3,952
Total assets		**84,597**
Liabilities		
Liabilities to suppliers and other liabilities		3,226
Total liabilities		**3,226**
Net assets		**81,371**
Carrying amount of non-controlling participation		**29,058**

	For the 2018
Revenue	48,658
Expenses	(17,335)
Profit/(loss)	31,323
Total comprehensive income/(loss)	**31,323**
Profit/(loss) of non-controlling interest	**11,186**

	For the year ended 31 December 2018
Cash flows from operating activities	32,313
Cash flows from investing activities	(23,842)
Cash flows from financing activities, before dividends to non-controlling interest	(5,400)
Cash flows from financing activities, dividends to non-controlling interest	(3,000)
Net increase/(decrease) of cash and cash equivalents	**71**

47 The Group's subsidiaries (continued)

KB Publikum

in thousands of denars	**31 December 2017**
Assets	
Cash and cash equivalents	38
Held for trading financial assets	17,202
Bank deposits	38,040
Property and equipment	176
Intangible assets	737
Other assets	4,016
Total assets	**60,209**
Liabilities	
Liabilities to suppliers and other liabilities	1,761
Total liabilities	**1,761**
Net assets	**58,448**
Carrying amount of non-controlling participation	**20,872**

	For the 2017
Revenue	38,543
Expenses	(13,816)
Profit/(loss)	24,727
Total comprehensive income/(loss)	**24,727**
Profit/(loss) of non-controlling interest	**8,830**

	For the year ended 31 December 2017
Cash flows from operating activities	23,949
Cash flows from investing activities	(23,954)
Cash flows from financing activities, before dividends to non-controlling interest	-
Cash flows from financing activities, dividends to non-controlling interest	-
Net increase of cash and cash equivalents	**(5)**

48 Events after the date of the balance sheet

No events occurred which would require to be disclosed between the balance sheet date and the date when the financial statements were approved for issuing.