KOMERCIJALNA BANKA AD SKOPJE

Independent Auditors' Report and

Consolidated financial statements

For the year ended 31 December 2017

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

Contents

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INDEPENDENT AUDITORS' REPORT

To 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") and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of the changes in equity and consolidated statement of cash flow for the year then ended and 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 regulation of National Bank of Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of 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 International Standards on Auditing accepted and published in the Official Gazette no. 79 dated 11 June 2010 of Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 the auditor's 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, the auditor considers 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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with regulation of the National Bank of Republic of Macedonia.

Report on Other Legal and Regulatory Matters

Management is also responsible for preparation of the annual report in accordance with article 384 of the Macedonian Company Law. Our responsibility in accordance with the Audit Law is to report whether the annual report is consistent with the consolidated annual account and audited consolidated financial statements of the Group for the year ended 31 December 2017. Our work regarding the annual report is performed in accordance with ISA 720 accepted and published in the Official Gazette no. 79 dated 11 June 2010 of Republic of Macedonia and limited to assessing whether the historical financial information of the consolidated annual report is consistent with the consolidated annual account and the audited consolidated financial statements of the Group.

The annual report is consistent, in all material respects, with the consolidated annual account and audited consolidated financial statements of the Group for the year ended 31 December 2017.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 1 March 2017.

Vladimir Sokolovski	Vladimir Sokolovski
Administrator	Certified Auditor

Ernst & Young Certified Auditors DOO, Skopje
Skopje, 1 March 2018

CONSOLIDATED INCOME STATEMENT
For the period from 1 January 2017 to 31 December 2017

	Note	*in thousands of Denars* current year 2017	previous year 2016
Interest income		3,562,264	3,636,386
Interest expense		(491,892)	(557,777)
Interest income/(expense), net	6	**3,070,372**	**3,078,609**
Fee and commission income		1,162,629	1,133,196
Fee and commission expense		(300,583)	(247,720)
Fee and commission income/(expense), net	7	**862,046**	**885,476**
Net trading income	8	23,472	14,776
Net income from other financial instruments at fair value	9	-	-
Foreign exchange gains/(losses), net	10	119,459	133,303
Other operating income	11	1,071,994	551,133
Share of profit of associates	24	55,128	43,625
Impairment losses of financial assets, net	12	(2,381,267)	(1,753,469)
Impairment losses of non-financial assets, net	13	(102,456)	(347,853)
Personnel expenses	14	(872,243)	(850,137)
Depreciation and amortization	15	(179,023)	(185,140)
Other operating expenses	16	(727,542)	(684,537)
Share of loss of associates	24	-	-
Profit/(loss) before tax		**939,940**	**885,786**
Income tax expense	17	(94,632)	(94,317)
Profit for the year from continuing operations		**845,308**	**791,469**
Profit/(loss) from group of assets and liabilities held for sale			
Profit/(loss) for the year		**845,308**	**791,469**
Profit/(loss) for the year attributable to*:			
Shareholders of the Bank		836,478	787,153
Non-controlling interest		8,830	4,316
Earnings per share	41		
basic earning per share (in Denars)		367	345
diluted earnings per share (in Denars)		367	345

* 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 2017 to 31 December 2017

	Note	*in thousands of Denars* current year 2017	previous year 2016
Profit/(loss) for the year		**845,308**	**791,469**
Other gains/(losses) for the period, not recognized in the Income statement (before tax)		-	-
Revaluation reserve for assets available for sale			-
- unrealized net- changes in fair value of assets available for sale		3,600	6,171
- realized net gains/(losses) from assets available for sale, reclassified to profit or loss		-	-
Revaluation reserve for foreclosed assets		-	
- revaluation reserve at the date of acquisition of the asset		-	-
- reduction of revaluation reserve, reclassified to profit or 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) not recognized in the income statement	17	-	-
Total other gains/(losses) in the period not recognized in the income statement		**3,600**	**6,171**
Total comprehensive income for the year		**848,908**	**797,640**
Total comprehensive income for the year, attributable to*:		-	-
Shareholders of the Bank		**840,078**	**793,324**
Non-controlling interest		**8,830**	**4,316**

* only for consolidated financial statements

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

CONSOLIDATED BALANCE SHEET**
At 31 December 2017

	Note	current year 31.12.2017 (in thousands of denars)	previous year 31.12.2016	Previous year*** 01.01.2016
Assets				
Cash and cash equivalents	18	37,208,775	33,538,674	-
Held-for-trading assets	19	481,925	411,339	-
Financial assets at fair value through profit or loss upon initial recognition	20	-	-	-
Derivative assets held for risk management	21	-	-	-
Loans and advances to banks	22.1	5,834,393	10,084,209	-
Loans and advances to other customers	22.2	45,366,241	45,268,154	-
Investments in securities	23	10,738,425	7,049,959	-
Investments in associates	24	235,164	210,171	-
Income tax receivable (current)	30.1	498	-	-
Other receivables	25	1,320,785	593,157	-
Assets pledged as collateral	26	-	-	-
Foreclosed assets	27	776,851	567,946	-
Intangible assets	28	40,422	38,907	-
Property and equipment	29	2,865,784	2,968,183	-
Deferred tax assets	30.2	-	-	-
Non-current assets held-for-sale and disposal group	31	268	-	-
Total assets		**104,869,531**	**100,730,699**	**-**
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	448,997	611,925	-
Due to other customers	34.2	91,228,581	87,151,875	-
Debt instruments issued	35	-	-	-
Borrowings	36	1,237,823	1,650,522	-
Subordinated debt	37	-	-	-
Special reserve and provisions	38	243,427	165,795	-
Income tax payable (current)	30.1	9,528	39,347	-
Deferred tax liabilities	30.2	-	-	-
Other liabilities	39	628,217	545,325	-
Liabilities related to disposal group	31	-	-	-
Total liabilities		**93,796,573**	**90,164,789**	**-**
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		9,771	6,171	-
Other reserves		7,146,302	6,708,773	-
Retained earnings/(Accumulated losses)		845,419	788,330	-
Total equity and reserves, attributable to the shareholders of the Group		**11,052,086**	**10,553,868**	**-**
Non-controlling interest*		20,872	12,042	-
Total equity and reserves		**11,072,958**	**10,565,910**	**-**
Total liabilities and equity and reserves		**104,869,531**	**100,730,699**	**-**
Contingent liabilities	42	18,333,394	16,158,547	-
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 statetments were authorised by the Supervisory Board of the Bank on 27 February 2018.

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 2017 to 31 December 2017

	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 shareholder distribution	Restricted for shareholder distribution	(Accumul ated losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controllin g interest *	Total equity and reserves
As at January 1, 2016 (previous year)	**2,279,067**	**771,527**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455,813**	**-**	**6,012,735**	**526,278**	**-**	**-**	**10,045,420**	**7,726**	**10,053,146**
Opening balance restatement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
As at January 1, 2016 (previous year), restated	**2,279,067**	**771,527**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**455,813**	**-**	**6,012,735**	**526,278**	**-**	**-**	**10,045,420**	**7,726**	**10,053,146**
Total comprehensive income for the year																		
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	787,153	-	-	**787,153**	**4,316**	**791,469**
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets available for sale	-	-	-	-	-	6,171	-	-	-	-	-	-	-	-	-	**6,171**	**-**	**6,171**
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized gains/(losses) recognized directly in equity	-	-	-	-	-	6,171	-	-	-	-	-	-	-	-	-	-	-	6,171
Total comprehensive income for the year	**-**	**-**	**-**	**-**		**6,171**	**-**	**-**	**-**	**-**	**-**	**-**	**787,153**	**-**	**-**	**793,324**	**4,316**	**797,640**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (continued)
For the period from 1 January 2017 to 31 December 2017

	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	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 shareholder distribution	Restricted for shareholder distribution	(Accumulated losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controlling interest *	Total equity and reserves
Transactions with the shareholders, recognized directly in equity and reserves																		
Share issued in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	240,225	(240,225)	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(284,833)	-	-	**(284,833)**	**-**	**(284,833)**
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	(43)	-	-	**(43)**	-	**(43)**
Other changes in equity and reserves (describe separately)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**
Transactions with shareholders, recognized directly in equity and reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**240,225**	**(525,101)**	**-**	**-**	**(284,876)**	**-**	**(284,876)**
As at December 31, 2016 (previous year) / January 1, 2017 (current year)	**2,279,067**	**771,527**	**-**	**-**	**-**	**6,171**	**-**	**-**	**-**	**455,813**	**-**	**6,252,960**	**788,330**	**-**	**-**	**10,553,868**	**12,042**	**10,565,910**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (Continued)
For the period from 1 January 2017 to 31 December 2017

	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 shareholder distribution	Restricted for shareholder distribution	(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controling interest *	Total equity and reserves
As at December 31, 2016 (previous year)/January 1, 2017 (current year)	**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) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets available for sale	-	-	-	-	-	3,600	-	-	-	-	-	-	-	-	-	**3,600**	-	**3,600**
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AND RESERVES (Continued)
For the period from 1 January 2017 to 31 December 2017

	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 shareholder distribution	Restricted for shareholder distribution	(Accumulated losses)	Total equity and reserves, attributable to the share-holders of the Bank	Non-controlling interest *	Total equity and reserves
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 (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 consolidated financial statements.

* only for consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the period from 1 January 2017 to 31 December 2017

	Note	*in thousands of Denars* Current year 2017	Previous year 2016
Operating cash flows			
Profit/(Loss) before taxation		**939,940**	**885,786**
Adjusted for:			
Minority share, included in the consolidated income statement*		(8,830)	(4,316)
Depreciation of:			
Intangible assets	15/28	12,829	13,719
Property and equipment	15/29	166,194	171,421
Capital gain from:			
Sale of intangible assets		-	-
Sale of property and equipment	11	(4,229)	(107)
Sale of foreclosed assets	11	(672,045)	(101,265)
Capital loss from:			
Sale of intangible assets		-	-
Sale of property and equipment	16	-	-
Sale of foreclosed assets	16	-	909
Interest income	6	(3,562,264)	(3,636,386)
Interest expense	6	491,892	557,777
Trading income, net	8	(23,472)	(14,776)
Impairment losses of financial assets, net	12		
Additional impairment losses		4,715,201	3,622,647
Release of impairment losses		(2,333,934)	(1,869,178)
Impairment losses of non-financial assets, net			
Additional impairment losses	13	102,456	347,853
Release of impairment losses		-	-
Special reserve:			
Additional provisions	38	256,406	187,187
Release of provisions	38	(175,132)	(222,211)
Dividend income	11	(5,793)	(5,090)
Share of profit /(loss) of associates		(55,128)	(43,625)
Other adjustments		3,253	1,285
Interest received		3,577,228	3,714,303
Interest paid		(523,814)	(592,922)
Profit from operations before changes in operating assets:		***2,900,758***	***3,013,011***
(Increase)/decrease of operating assets:			
Trading assets		(52,128)	(26,654)
Derivative assets held for risk management			
Loans and advances to banks		4,188,689	(1,436,960)
Loans and advances to other customers		(2,434,822)	592,685
Assets pledged as collateral			
Foreclosed assets		360,684	407,899
Obligatory deposit in foreign currency		69,396	(171,230)
Obligatory deposit held with NBRM according to special regulations		-	-
Other receivables		(798,517)	(95,762)
Deferred tax assets		-	-
Non-current assets held-for-sale and disposal group		(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 2017 to 31 December 2017

	Note	*in thousands of denars* Current year 2017	Previous year 2016
Increase/(decrease) in operating liabilities:			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Due to banks		(168,719)	189,948
Due to other customers		4,113,925	3,407,078
Other liabilities		82,893	88,989
Liabilities directly related to group or assets for disposal		-	-
Net cash flow from operating activities before taxation		***8,261,891***	***5,969,004***
(Paid)/received income tax		(122,181)	(104,415)
Net cash flow from operating activities		**8,139,710**	**5,864,589**
Cash flow from investing activities			
(Investments in securities)		(10,865,924)	(9,519,752)
Inflows from sale of investment in securities		7,192,951	9,658,194
(Outflows from investment in subsidiaries and associates)		-	-
Inflows from disposal of investment in subsidiaries and associates		-	-
(Purchase of intangible assets)		(14,344)	(11,092)
Inflows from sale of intangible assets		-	-
(Purchase of property and equipment)		(63,838)	(78,545)
Inflows from sale of property and equipment		4,271	221
(Outflows from non-current assets held-for-sale)		(268)	-
Inflows from non-current assets held-for-sale		-	-
(Other outflows from investing activity)		-	-
Other inflows from investing activity		41,590	28,811
Net cash flow from investing activities		**(3,705,562)**	**77,837**
Cash flow from financing activities			
(Repayment of debt securities issued)			-
Issued debt securities			-
(Repayment of borrowings)		(1,037,898)	(2,345,026)
Increase of borrowings		625,199	1,830,720
(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)		(341,860)	(284,883)
(Other financing outflows)		-	-
Other financing inflows from financing		-	-
Net cash flow from financing activities		***(754,559)***	***(799,189)***
Effect from allowance for impairment of cash and cash equivalents	18	71	(70)
Effect from foreign exchange differences of cash and cash equivalents		-	-
Net increase/(decrease) of cash and cash equivalents		**3,679,660**	**5,143,167**
Cash and cash equivalents as of January, 1		28,565,944	23,422,777
Cash and cash equivalents as of December, 31	**18**	**32,245,604**	**28,565,944**

***** only for consolidated financial statements

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

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

1. Introduction

a) General Information

Komercijalna Banka AD Skopje (hereinafter "the Bank"), is a shareholding company having its registered office in the Republic of Macedonia. The headquarters of the Bank are located on St. Orce Nikolov 3, 1000 Skopje. The Bank operates in the Republic of 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 slaws. 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 2017 were authorised for issue by the Supervisoary Board on 27 February 2018.

1. Introduction (continued)

b) Basis of Preparation of the Consolidated Financial Statements

Accounting Standards

The consolidated financial statements of the Group have been prepared in accordance with the Trade 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, 192/15, 06/16, 30/16 and 61/16), 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 NBRM, the Decision on the Methodology for recording and valuation of accounting items and for the preparation of financial statements ("Official Gazette of the Republic of Macedonia" no. 169/10, 165/12, 50/13 and 110/13), and the Decision on the types and content of financial statements of the banks ("Official Gazette of the Republic of Macedonia" no. 169/10, 152/11, 54/12 and 166/13), issued by the NBRM.

Standards in Issue not yet Adopted

At the date of authorisation of these financial statements by the Board of Directors, the NBRM has published a new Decision on the Methodology for recording and valuation of accounting items and for the preparation of financial statements ("Official Gazette of the Republic of Macedonia" no. 83/2017), applicable from 01.01.2018.

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.

The Group's Management estimates the influence of the new and the changes in IFRS 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 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. 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 continues 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 Note 1.d).

1. Introduction (continued)

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

Presentation of Consolidated Financial Statements (continued)

The Group's consolidated financial statements have been prepared in accordance with the accounting policies disclosed in Note 1.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 NBRM.

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.

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.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Basis of consolidation (continued)

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 Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fee and Commission Income

Fees and commissions, except 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.

1. 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 National Bank of the Republic of Macedonia ("NBRM") at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the 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 2017 and 2016 for euro (EUR) and American dollar (USD) are as follows:

	2017 MKD	**2016 MKD**
1 EUR	61,49	61,48
1 USD	51,27	58,33

Financial assets and liabilities

(i) **Recognition**

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

(ii) **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 de-recognition that is created or retained by the Bank is recognised as a consolidated asset or liability.

The Group derecognises a financial liability when its contractual obligations are settled or cancelled or expired.

(iii) **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 with the applicable accounting standards, or for gains and losses arising from a group of similar transactions.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Financial assets and liabilities (continued)

(iv) ***Amortised cost measurement***

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

(v) ***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.

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, namely 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, the Group, in order to determine the fair value of the asset or liability, applies valuation techniques that have most available data, giving preference to data that can be validated on the market.

The common valuation techniques are: *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, represents 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 NBRM and other financial assets such as treasury and government bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

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.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Available-for-sale Financial Assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices. This portfolio comprises of equity securities issued by banks, financial institutions and companies, where the Bank does not exercise control, as well as debt securities issued by the Republic of Macedonia.

Available-for-sale financial assets 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 equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously accumulated in the revaluation reserves should be recognized in profit or loss for the period. Interest calculated using the effective interest method, impairment losses and foreign exchange gains and losses are recognized in the income statement.

Held-to-maturity Financial Assets

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

Loans and Receivables

Loans and receivables include loans where cash is approved 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.

1. 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 cost, 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 NBRM 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%

1. 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 towars 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 believed that is impossible to be collected 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.

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

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. The Bank 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.

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.

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.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Impairment of Non-financial Assets (continued)

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 R.M. No. 50/13) 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).

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.

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.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Employee benefits

(i) **Defined contribution plans**

The Group contributes to its employees' post retirement plans as prescribed by the national 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 local 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 IAS 19, these benefits are considered defined pension benefit plans. The carrying amount of the Bank'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.

1. Introduction (continued)

c) Summary of Significant Accounting Policies (continued)

Equity and reserves

The Bank's 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.

Other 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 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 fulfillment of the capital requirements prescribed by NBRM 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.

1. 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.

1. Introduction (continued)

d) Critical Accounting Judgments and Estimates (continued)

In the Republic of 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 1.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.

1. Introduction (continued)

d) Critical Accounting Judgments and Estimates (continued)

Changes in the Accounting Policies

For the year ended 31 December 2017 there were no changes in the Accounting Policies, accounting estimates and correction of errors.

e) Compliance with Regulations

There are no non-compliances with the regulations prescribed by the NBRM in regards to the solvency and capital adequacy of the Group, its limits of exposure, investments, liquidity and open foreign currency position.

f) Acquisition of subsidiaries

On 25 April 2013, the Group obtained control of KB Publiikum, an investment funds managing company, by acquiring additional 14.29% of the shares and voting interests in the company. As a result, the Bank's equity interest in KB Publiikum increased from 50 to 64.29%.

In the period from 01 January 2017 to 31 December 2017, KB Publicum contributed revenue of 38,543 thousands of denars (2016: 22,095 thousand of denars) and profit of 24,727 thousand of denars (2016: 12,087 thousands of denars) to the Group's results.

Consideration transfered

The consideration transferred included MKD 12,309 thousand in cash, for 200 ordinary shares issued by KB Publicum.

Measuring fair value

Held-for trading financial assets

Held for trading financial assets are measured at fair value at acquisition date.

Financial assets and liabilities

The carrying amount of cash and cash equivalents, bank deposits, other assets and liabilities to suppliers and other liabilities, is identical to their fair value at acquisition date due to the short term maturity.

Property, equipment, and intangible assets

The items of property, equipment, and intangible assets are recognized at cost, less accumulated amortization and accumulated impairment losses, if any. Due to their insignificant participation in total assets their fair value is not expected to significantly alter the fair value of the net assets acquired.

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 principally 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 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 level of business unit in the Group includes each Division where the credit risk is undertaking and the persons with special rights and responsibilities that performs the management function in the Division. The duties of these organizational units in the Bank are regulated in the appropriate Policies adopted from the Group's Supervisory Board. Special organizational unit in the Group competent for credit risk management is 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 structures 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, different 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 factor in the evaluation of creditworthiness. The value and quality of 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 for 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 Macedonia, NBRM 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 Macedonia, NBRM and securities issued by other 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 at 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 own shares, 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 Maximum 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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
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**	**4,375**	**50,596,123**	**50,997,347**	-	-	**-**	**-**	**1,824**	**3,873**	**29,651**	**33,510**	**269,642**	**266,900**	**5,619,505**	**4,753,156**	**56,522,594**	**56,059,161**
Risk category A	0	-	37,510,808	38,362,886	-	-	-	-	1,824	3,873	2,975	2,695	154,515	206,117	4,694,119	4,421,317	42,364,241	42,996,889
Risk category B	0	-	4,306,023	3,469,913	-	-	-	-	-	-	5,365	4,329	1,601	1,113	816,538	259,703	5,129,525	3,735,058
Risk category C	5,850	4,375	884,606	883,357	-	-	-	-	-	-	1,018	1,278	287	14	41,032	30,687	932,793	919,711
Risk category D	0	-	1,730,302	1,610,265	-	-	-	-	-	-	2,124	2,877	49,985	1,113	48,954	19,625	1,831,366	1,633,880
Risk category E	0	-	6,164,383	6,670,925	-	-	-	-	-	-	18,169	22,331	63,254	58,543	18,862	21,824	6,264,668	6,773,623
(Allowance for impairment and special reserve, on individual basis)	(1,615)	(1,207)	(7,390,162)	(7,893,051)	-	-		-	(64)	(136)	(20,117)	(24,593)	(87,177)	(62,180)	(183,396)	(112,578)	(7,682,531)	(8,093,744)
Carrying amount of individually significant exposures, reduced by allowance for impairment and the special reserve, on individual basis	**4,235**	**3,167**	**43,205,961**	**43,104,296**	-	-	**-**	**-**	**1,760**	**3,738**	**9,534**	**8,916**	**182,464**	**204,721**	**5,436,109**	**4,640,579**	**48,840,063**	**47,965,417**
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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**			**-**	**-**	**-**	**-**	**-**	**-**

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

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.A Analysis of Maximum 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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
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	214,544	-	-	-	-	-	-	1,065	2,419	6	6	1,073,994	1,498,831	1,176,967	1,715,800
Carrying amount of receivables for which there is no allowance for impairment	-	-	101,902	214,544	-	-	-	-	-	-	1,065	2,419	6	6	1,073,994	1,498,831	1,176,967	1,715,800
non-matured receivables																		
Restructured receivables	-	-	-	450	-	-	-	-	-	-	-	-	-	-	-		-	450
Other receivables	5,830,283	10,081,091	2,245,011	2,178,411	8,839,390	3,675,230	1,899,035	3,374,729	26,987,465	22,632,704	2,565	2,274	1,064,549	332,838	9,352,563	7,957,357	56,220,860	50,234,634
Carrying amount of undue receivables for which there is no allowance for impairment /special reserve	**5,830,283**	**10,081,091**	**2,245,011**	2,178,862	**8,839,390**	3,675,230	**1,899,035**	3,374,729	26,987,465	**22,632,704**	**2,565**	2,274	**1,064,549**	332,838	**9,352,563**	7,957,357	**56,220,860**	50,235,084
Total carrying amount of the credit risk receivables before the allowance for impairment and special reserve	**5,836,133**	**10,085,466**	**52,943,036**	**53,390,753**	**8,839,390**	**3,675,230**	**1,899,035**	**3,374,729**	26,989,289	**22,636,577**	**33,281**	**38,202**	**1,334,198**	**599,745**	**16,046,061**	**14,209,344**	**113,920,422**	**108,010,046**
(Total allowance for impairment and special reserve)	**(1,615)**	**(1,207)**	**(7,390,162)**	**(7,893,051)**	**-**	**-**	**-**	**-**	(64)	**(136)**	**(20,117)**	**(24,593)**	**(87,177)**	**(62,180)**	**(183,396)**	**(112,578)**	**(7,682,531)**	**(8,093,744)**
Total Carrying amount of the credit risk receivables less the allowance for impairment and special reserve	**5,834,518**	**10,084,259**	**45,552,874**	**45,497,703**	**8,839,390**	**3,675,230**	**1,899,035**	**3,374,729**	26,989,225	**22,636,441**	**13,163**	**13,609**	**1,247,020**	**537,565**	**15,862,666**	**14,096,766**	**106,237,891**	**99,916,301**

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

2. Risk Management (continued)

2.1 Credit Risk (continued)

2.1.B Value of Collateral (Fair Value) for Mitigating of 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		Other receivables		Off balance sheet exposures		Total	
in thousands of denars	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Value of collateral of credit exposure assessed for impairment on an individual basis																
First-class collateral instruments																
cash deposits (in depot and/or restricted in accounts held with the Group)	-	-	1,119,180	1,223,323	-	-	-	-	189,736	147,570	43,864	54,177	442,818	208,170	1,795,599	1,633,239
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	17	-	-	-	-	-	-	-	694	54	124,329	247,374	125,041	247,428
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (besides bank Guarantees and guarantees from insurance companies)	-	-	61,142	61,133	-	-	-	-	-	-	348	348	-	-	61,491	61,481
Guarantees from individuals	-	-	1	1	-	-	-	-	-	-	-	-	-	-	1	1
Mortgage on real estate	-	-			-	-	-	-								
property for private use (flats, houses)	-	-	17,433,672	17,292,667	-	-	-	-		-	16,788	13,317	999,698	1,225,643	18,450,159	18,531,627
business facility	-	-	34,731,604	34,289,954	-	-	-	-	-	-	23,989	39,738	5,932,847	6,566,824	40,688,440	40,896,516
Pledge over movables	-	-	15,140,210	13,678,522	-	-	-	-	-	-	12,428	14,545	3,399,721	3,605,383	18,552,359	17,298,450
Other types of collateral	-	-	887,266	952,928	-	-	-	-	-	-	364	442	492,567	168,768	1,380,197	1,122,138
Total value of collateral of credit exposure assessed for impairment on an individual basis	**-**	**-**	**69,373,092**	**67,498,528**	**-**	**-**	**-**	**-**	**189,736**	**147,570**	**98,477**	**122,621**	**11,391,981**	**12,022,162**	**81,053,285**	**79,790,881**
Value of collateral of credit exposure assessed for impairment on a group basis																
First-class collateral instruments									-							
cash deposits (in depot and/or restricted in accounts held with the Group)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (besides bank Guarantees and guarantees from insurance companies)																
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on real estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
property for private use (flats, houses)	-	-	-	-	-	-	-	-	-	-			-	-	-	-
business facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledge over movables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other types of collateral	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total value of collateral of credit exposure assessed for impairment on a group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total value of collateral of credit exposure assessed for impairment on group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Industry																		
Non-residents	-	-	1	122,154	1,870	1,934	-	-	-	-	78	315	34	-	2,307,092	51,927	2,309,076	176,329
Agriculture, hunting and forestry	-	-	928,358	1,097,056	-	-	-	-	-	-	56	75	-	-	15,034	40,207	943,447	1,137,338
Ore and stone extraction	-	-	530,888	314,769	-	-	-	-	-	-	5	21	-	1	7,997	89,911	538,890	404,703
Processing industry	-	-	2,451,007	3,690,955	-	-	-	-	-	-	72	118	24	3	165,145	192,274	2,616,248	3,883,350
Wholesale and retail industry for clothing and footwear	-	-	704,980	744,162	-	-	-	-	-	-	85	213	166	68	320,180	332,451	1,025,411	1,076,894
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	1,872,337	1,698,942	-	-	-	-	-	-	113	43	56	183,384	125,848	92,064	1,998,354	1,974,433
Production of metals, machines, tools and equipment	-	-	2,594,373	2,954,853	-	-	-	-	-	-	189	407	27,276	5	892,648	771,098	3,514,486	3,726,363
Other processing industry	-	-	551,436	516,201	-	-	-	-	-	-	1,311	1,355	6,132	12	137,981	103,290	696,860	620,859
Electricity supply, gas, steam and air conditioning	-	-	1,329,383	1,021,996	-	-	-	-	-	-	1,162	1,138	61,499	-	515,820	442,214	1,907,865	1,465,348
Water supply, disposal of wastewater, waste management and remediation activities on the environment	-	-	179,592	280,622	-	-	-	-	-	-	67	69	-	-	30,578	42,852	210,238	323,544
Construction	-	-	3,741,761	3,484,114	-	-	-	-	-	-	2,270	749	314	216	4,065,218	4,298,267	7,809,564	7,783,346

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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Wholesale and retail trade; repair of motor vehicles, motorcycles, and items for personal use and for households	-	-	8,956,017	9,207,420	-	-	-	-	-	-	1,398	1,582	153,136	13,111	3,147,270	3,549,772	12,257,821	12,771,885
Transport and warehousing	-	-	816,426	726,585	-	-	-	-	-	-	387	268	1,251	120	684,732	783,968	1,502,796	1,510,941
Hotels and restaurants	-	-	621,101	586,767	-	-	-	-	-	-	107	87	288	832	26,224	6,244	647,720	593,930
Information and communications	-	-	400,341	442,612	-	-	-	-	-	-	355	391	1,001	11	134,776	87,812	536,473	530,826
Finance and insurance activities	5,834,518	10,084,259	46,793	16,061	63,054	63,054	-	-	26,989,225	22,636,440	3,080	2,985	13,156	12,575	17,796	17,397	32,967,623	32,832,772
Activities related to real estate, renting and business activities	-	-	1,589,669	915,873	-	-	-	-	-	-	31	9	436	21	37,515	23,676	1,627,651	939,579
Professional, scientific and technical activities	-	-	1,083,355	657,610	-	-	-	-	-	-	114	118	1,241	21	120,312	161,441	1,205,021	819,190
Administrative and utility services	-	-	300,119	365,686	-	-	-	-	-	-	88	122	1,026	1,144	136,404	72,706	437,636	439,659
Public administration and defense; mandatory social security	-	-	1,573,210	1,519,833	8,774,465	3,610,242	1,899,035	3,374,729	-	-	112	75	161	61	2,644	2,644	12,249,626	8,507,584
Education	-	-	386,558	438,422	-	-	-	-	-	-	25	7	1	27	3,771	1,525	390,355	439,981
Health care and social work	-	-	1,107,243	1,065,035	-	-	-	-	-	-	143	138	-	-	24,089	24,750	1,131,476	1,089,922
Art, entertainment and recreation	-	-	300,421	358,617	-	-	-	-	-	-	89	124	3	13	49,223	42,022	349,736	400,776
Other service activities	-	-	239,490	164,066	-	-	-	-	-	-	75	70	658	622	6,578	5,465	246,801	170,223

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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Private households with employed persons, household activities that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	13,194,489	13,067,431	-	-	-	-	-	-	1,587	3,036	425,102	325,305	2,884,023	2,857,076	16,505,201	16,252,849
Individual merchants and individuals not regarded as merchants	-	-	53,526	39,858	-	-	-	-	-	-	163	96	554,059	12	3,769	3,714	611,517	43,680
Total	**5,834,518**	**10,084,259**	**45,552,874**	**45,497,703**	**8,839,390**	**3,675,230**	**1,899,035**	**3,374,729**	**26,989,225**	**22,636,440**	**13,163**	**13,609**	**1,247,020**	**537,565**	**15,862,666**	**14,096,766**	**106,237,891**	**99,916,301**

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 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016	Current year 2017	Previous year 2016
Geographic location																		
Republic of Macedonia	49,399	4,599,200	45,552,873	45,375,549	8,837,520	3,673,296	1,899,035	3,374,729	12,988,734	10,507,315	12,469	12,490	1,246,986	537,565	13,550,191	14,039,727	84,137,207	82,119,871
EU member countries	3,354,637	3,792,692	1	122,154	1,408	1,408	-	-	12,559,598	10,759,440	522	894	-	-	313,631	52,467	16,229,798	14,729,055
Europe (other)	1,967,702	1,229,659	-	-	-	-	-	-	1,219,619	334,385	91	99	34	-	1,998,844	2,728	5,186,290	1,566,871
OECD member countries (without European OECD member countries)	462,779	462,708	-	-	462	526	-	-	172,568	1,035,300	79	124	-	-	-	1,844	635,888	1,500,502
Other	-	-	-	-	-	-	-	-	48,705	-	2	3	-	-	-	-	48,707	3
(the exposure that represents more than 10% of total credit exposure)																		
Total	**5,834,518**	**10,084,259**	**45,552,874**	**45,497,703**	**8,839,390**	**3,675,230**	**1,899,035**	**3,374,729**	**26,989,225**	**22,636,440**	**13,163**	**13,609**	**1,247,020**	**537,565**	**15,862,666**	**14,096,766**	**106,237,891**	**99,916,301**

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 Macedonia, amounting to 79.20% as at 31 December 2017 (82.19% as of 31 December 2016). Exposure to debtors located in EU member amounts to 15.28% as at 31 December 2017 (14.74% as at 31 December 2016). Exposure to debtors located in Other European countries and OECD countries amounts to 5.53% as at 31 December 2017 out of the total exposure to credit risk (3.07% as at 31 December 2016).

Unimpaired exposures that are past due, amount to 1,176,967 thousands of denars as of December 31, 2017 (2016: 1,715,800 thousands of denars) and relate to receivables past due up to 30 days and are off-balance sheet exposures in the amount of 1,073,994 thousands of denars as of December 31, 2017 (2016: 1,498,831 thousands of denars). Undue unimpaired loans amount to 56,220,860 thousands of denars (2016: 50,234,634 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.

2.2. Liquidity Risk

Liquidity risk is when the Group cannot provide enough funds intended for settlement of its short-term liabilities at their maturity, or it provides the necessary funds at very higher costs. Liquidity risk arises, from both the disability for precise management with unsuspected changes in assets and disability of the banks to convert the assets in monetary fund precisely and on time, at minimal cost.

Process of Liquidity Risk Management

Liquidity risk management defines managing with assets and liabilities in a way that provides regularly and on time payment of the liabilities, both in normal or exceptionally conditions.

Exposure on the liquidity risk depends on partial categories in balance sheet according to maturity dates (residual maturity) and the level of compliance. Exposure to insolvency risk depends on the level of capital and reserves, i.e. 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 calls 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 needs, estimating that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty, estimating that the really due liabilities (stability of deposit core) can be estimated with 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 gives in detail the proceedings (processes) for liquidity risk management as: identification and undertaking the liquidity risk, assessment of the liquidity and liquidity risk, testing the operational liquidity and liquidity stress-testing, monitoring, control and reporting for the liquidity and liquidity risk.

The management of 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 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 significant dates affecting the outflow of funds. Based on the identification of available funds and previous determined daily needs of money, the Group makes decision regarding the appropriate use of funds.

Concurrence and controlling of 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 2017 there are no changes in the regulation related to the management of the liquidity risk, just as it was in 2016.

Maturity analysis of financial assets and liabilities (including both balance sheet and off-balance items) as at 31 December 2017 and 2016 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 2017 and up to three months as at 31 December 2016. The main reason for the above 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, Group prepares expected maturity structure in which an integrated element are expectations and it 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
2017 (current 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)

2.2. 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
2016 (previous year)							
Financial assets							
Cash and cash equivalents	25,971,957	3,153,330	-	4,413,523	-	-	33,538,810
Held-for-trading assets	2,498	-	4,100	2,706	8,117	393,918	411,339
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	759,432	2,461,909	5,909,313	254	-	954,557	10,085,465
Loans and advances to other customers	2,608,544	2,869,379	20,093,065	5,794,730	12,049,319	9,932,061	53,347,098
Investments in securities	1,271,827	619,943	4,541,319	551,882	-	64,988	7,049,959
Investments in associates	-	-	-	-	-	210,171	210,171
Income tax receivable (current)	-	-	-	-	-	-	-
Other receivables	366,592	21,934	289,646	440	262	1,058	679,932
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	**30,980,850**	**9,126,495**	**30,837,443**	**10,763,535**	**12,057,698**	**11,556,753**	**105,322,774**
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	278,672	333,015	238	-	-	-	611,925
Due to other customers	47,147,742	10,184,272	22,584,052	4,978,476	2,252,569	4,764	87,151,875
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	133,300	3,581	330,984	343,475	718,767	121,277	1,651,384
Subordinated debt	-	-	-	-	-	-	-
Income tax payable (current)	-	39,347	-	-	-	-	39,347
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	532,561	12,664	65	35	-	-	545,325
Total financial liabilities	**48,092,275**	**10,572,879**	**22,915,339**	**5,321,986**	**2,971,336**	**126,041**	**89,999,856**
Off balance sheet items							
Off balance sheet assets	170,044	-	131,816	52,195	39,446	-	393,501
Off balance sheet liabilities	6,356,964	1,665,150	4,058,964	3,180,194	379,351	-	15,640,623
Liquidity gap	**(23,298,345)**	**(3,111,534)**	**3,994,956**	**2,313,550**	**8,746,457**	**11,430,712**	**75,796**

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 %*
2017 (current year)				
Amount before sensitivity analysis (as at December 31, 2017)		10,205,032	63,824,118	15.99
Effects from scenarios 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)				
________________________________				
________________________________				
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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 %*
2016 (previous year)				
Amount before sensitivity analysis (as at December 31, 2016)		9,504,628	62,413,832	15.23
Effects from scenarios 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	72,092	9,576,720	64,847,257	14.77
Scenario 2: Denar to appreciate by 5% compared to other currencies	(72,092)	9,432,536	59,980,406	15.73
b) Extraordinary conditions				
Scenario 1: Denar to depreciate by 30% compared to other currencies	432,555	9,937,183	77,014,385	12.90
Scenario 2: Denar to appreciate by 30% compared to other currencies	(432,555)	9,072,073	47,813,279	18.97
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.	102,415	9,607,043	62,413,832	15.39
Scenario 1a (II option): Interest rates on balance sheet items with variable interest rates to decrease by 1,00 p.p.	(102,415)	9,402,213	62,413,832	15.06
Scenario 2a (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 1,50 p.p.	(814,744)	8,689,884	62,413,832	13.92
Scenario 2a (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 1,50 p.p.	814,744	10,319,372	62,413,832	16.53

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.	614,487	10,119,115	62,413,832	16.21
Scenario 1b (II option): Interest rates on balance sheet items with variable interest rates to decrease by 6,00 p.p.	(614,487)	8,890,141	62,413,832	14.24
Scenario 2b (I option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to increase by 3,75 p.p.	(2,036,860)	7,467,768	62,413,832	11.96
Scenario 2b (II option): Interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 3,75 p.p.	2,036,860	11,541,488	62,413,832	18.49
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 1,50 p.p.	(712,330)	8,792,298	62,413,832	14.09
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 1,50 p.p.	(917,159)	8,587,469	62,413,832	13.76
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 1,50 p.p.	917,159	10,421,787	62,413,832	16.70

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 1,50 p.p.	712,330	10,216,958	62,413,832	16.37
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 3,75 p.p.	(1,422,373)	8,082,255	62,413,832	12.95
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 3,75 p.p.	(2,651,348)	6,853,280	62,413,832	10.98
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 3,75 p.p.	2,651,348	12,155,976	62,413,832	19.48
Scenario 3d): Interest rates on balance sheet items with variable interest rates to decrease by 1,40 p.p. and interest rates on balance sheet items with adjustable interest rates decided by the Bank's management to decrease by 3,75 p.p.	1,422,373	10,927,001	62,413,832	17.51

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 2017				previous year 2016			
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 2017 and 31 December 2016 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 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 on this risk depends from 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 Group's portfolio.

The Group has established Policy for undertaking and managing the risk of change in the interest rates in the Group's portfolio 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.

In order to minimize the exposure to legal risk and reputation risk, greater transparency in its operations, and more adequate customer protection, the Bank commenced activities for changing the interest rate policy aimed at completely excluding the application of adjustable interest rates in the new loan and deposit agreements with customers, that is the Bank began to apply fixed and variable interest rates for agreements for new loans, deposits and credit cards made starting from 01.10.2017.

For this purpose, the Methodology for determining the interest rates of Komercijalna Banka AD Skopje was adopted, amendments and modifications were made to the Decision on interest rates of Komercijalna Banka AD Skopje, which defines the new variable interest rates, as well as the appropriate changes in the Policy for managing the risk of changes in interes rates in the portfolio of banking activities and the Procedures for identifying, undertaking, measuring, monitoring and controlling the risk of changes in interest rates in the portfolio of banking activities, an appropriate revision of the existing agreements on loan and deposit products was made, appropriate adjustments were made in the applications in order to switch to the new regime of interest rates, etc.

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)

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 2017 and 2016 are as follows:

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%**

in thousands of Denars

	Position	Currency	December 31, 2016
	1	2	3
1.1	NET WEIGHTED POSITION FOR CURRENCY MKD (FIR+VIR+AIR)	MKD	124,876
1.2	NET WEIGHTED POSITION FOR CURRENCY EUR (FIR+VIR+AIR)	EUR	(7,507)
1.3	NET WEIGHTED POSITION FOR CURRENCY MKD cl EUR (FIR+VIR+AIR)	MKD cl EUR	847,486
1.4	NET WEIGHTED POSITION FOR OTHER CURRENCIES (FIR+VIR+AIR)	other	(3,957)
2	**TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF THE BANKING PORTFOLIO**		**960,898**
3	OWN FUNDS		**9,504,628**
4	**TOTAL WEIGHTED VALUE/OWN FUNDS (2/3*100)**		**10.11%**

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.

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, 2017 (current 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)

2.3.2 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, 2016 (previous year)							
FINANCIAL ASSETS							
Cash and cash equivalents	19,254,603	3,152,995	-	-	-	-	22,407,598
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	759,076	2,460,839	6,862,930	-	-	-	10,082,845
Loans and advances to other customers	2,403,473	2,814,614	30,662,628	1,109,869	2,590,724	4,245,240	43,826,548
Investments in securities	1,299,086	617,482	4,466,479	596,993	-	-	6,980,040
Other interest sensitive assets	-	-	-	-	-	-	-
Total interest sensitive financial assets	**23,716,238**	**9,045,930**	**41,992,037**	**1,706,862**	**2,590,724**	**4,245,240**	**83,297,031**
FINANCIAL LIABILITIES							
Financial liabilities at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-
Due to banks	-	332,014	-	-	-	-	332,014
Due to other customers	47,351,145	10,103,435	27,993,075	-	-	-	85,447,655
Debt instruments issued	-	-	-	-	-	-	-
Borrowings	130,011	3,573	336,760	343,476	600,631	108,859	1,523,310
Subordinated debt	-	-	-	-	-	-	-
Other interest sensitive liabilities	-	-	-	-	-	-	-
Total interest sensitive financial assets	**47,481,156**	**10,439,022**	**28,329,835**	**343,476**	**600,631**	**108,859**	**87,302,979**
Net balance sheet gap	**(23,764,918)**	**(1,393,092)**	**13,662,202**	**1,363,386**	**1,990,093**	**4,136,381**	**(4,005,948)**
Off balance sheet interest sensitive assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet interest sensitive liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net off-balance sheet gap	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total net-gap	**(23,764,918)**	**(1,393,092)**	**13,662,202**	**1,363,386**	**1,990,093**	**4,136,381**	**(4,005,948)**

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 2017 and 2016.

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 (current 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**

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

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
2016 (previous year)										
Monetary Assets										
Cash and cash equivalents	16,385,554	10,829,113	4,116,209	-	-	-	-	-	2,207,798	**33,538,674**
Held-for-trading assets	388,174	23,165	-	-	-	-	-	-	-	**411,339**
Financial assets at fair value through profit or loss upon initial recognition	-	-	-	-	-	-	-	-	-	**-**
Derivative assets held for risk management	-	-	-	-	-	-	-	-	-	**-**
Loans and advances to banks	18,310	9,722,397	-	-	-	-	-	-	343,502	**10,084,209**
Loans and advances to other customers	29,754,092	14,795,602	718,460	-	-	-	-	-	-	**45,268,154**
Investments in securities	5,855,123	1,194,310	526	-	-	-	-	-	-	**7,049,959**
Investments in associates	210,171	-	-	-	-	-	-	-	-	**210,171**
Income tax receivable (current)	-	-	-	-	-	-	-	-	-	**-**
Other receivables	282,704	200,970	109,367	-	-	-	-	-	116	**593,157**
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	**-**
Deferred tax assets	-	-	-	-	-	-	-	-	-	**-**
Total Monetary Assets	**52,894,128**	**36,765,557**	**4,944,562**	**-**	**-**	**-**	**-**	**-**	**2,551,416**	**97,155,663**
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	164,075	198,442	117,645	-	-	-	-	-	131,763	**611,925**
Due to other customers	46,344,719	33,692,638	4,735,650	-	-	-	-	-	2,378,868	**87,151,875**
Debt instruments issued	-	-	-	-	-	-	-	-	-	**-**
Borrowings	124,778	1,525,744	-	-	-	-	-	-	-	**1,650,522**
Subordinated debt	-	-	-					-	-	**-**
Income tax payable (current)	39,347	-	-	-	-	-	-	-	-	**39,347**
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	**-**
Other liabilities	354,774	163,722	15,624	-	-	-	-	-	11,205	**545,325**
Total Monetary Liabilities	**47,027,693**	**35,580,546**	**4,868,919**	**-**	**-**	**-**	**-**	**-**	**2,521,836**	**89,998,994**
Net-position	**5,866,435**	**1,185,011**	**75,643**	**-**	**-**	**-**	**-**	**-**	**29,580**	**7,156,669**

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 gives in detail the proceedings (processes) for market risk management 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 2017 and 2016, 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 risks, 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 to 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 occurred in the Group, and 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 capital required for coverage of operational risk, applying the standardised approach. The amount of capital as at 31 December 2017 is presented under heading 3.1.1. Capital adequacy ratio report.

3. Capital Adequacy

According to the Decision of the Central Bank 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 balance sheet, are:

- To comply with the capital requirements set by NBRM;
- 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 NBRM on a quarterly basis.

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

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

On the basis of supervisory assessment of the Bank`s risk profile, NBRM has determined a capital addition of 4 percentage points above the minimal legally established level for the capital adequacy, thereby the Bank is obligated to maintain capital adequacy rate on a level higher than 12%. Additionally during 2017 the Bank is obligated to maintain the protective capital buffers prescribed by law, as follows:

- Protective capital conservation buffer with a rate of 2.5% from the risk weighted assets and
- Protective buffer for systemically significant Bank with a rate of 2%[1] from the risk weighted assets.

As at 31.12.2017 the Bank fulfills the prescribed capital requirements, the capital addition and the protective buffers which are covered by the Common Equity Tier 1 Capital.

[1] The total rate of 2% the Bank is obligated to fulfill with a dynamic prescribed by NBRM: 1% until 30.09.2017 and the total of 2% until 31.03.2018.

3. Capital Adequacy (continued)

3.1 Capital management (continued)

Additionally, the Bank has established a Process of determining the internal capital (PIC) in accordance with the Decision on risk management specified by NBRM. 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.

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 NBRM. 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 prudential limits. Own funds represent a total of core capital (Tier 1 Capital) and additional capital (Tier 2 Capital), as defined in the Decision for changes and amendments to the Decision on the methodology for determination of the capital adequacy, which came into force on 01.03.2017. As at 31.12.2017 the Bank has only 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 NBRM.
   - 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)

3.1.1 Capital Adequacy Ratio Report

Nr.	Description	in thousands of Denars Current year 2017	Previous year 2016
I	**CREDIT RISK WEIGHTED ASSETS**		
1	Assets weighted according to credit risk using the standardised approach	56,135,497	53,249,576
2	Capital required for credit risk covering	4,490,840	4,259,966
II	**CURRENCY RISK WEIGHTED ASSETS**		
3	Aggregate foreign exchange position	210,977	1,454,050
4	Net-position in gold	-	-
5	Capital needed for currency risk covering	16,878	116,324
6	Assets weighted according to currency risk	210,977	1,454,050
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	598,211	616,816
9	**Assets weighted according to operational risk**	7,477,644	7,710,206
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**	**63,824,118**	**62,413,832**
14	Capital required to risk coverage	5,105,929	4,993,106
VI	**OWN FUNDS**[2]	**10,205,032**	**9,504,628**
VII	**CAPITAL ADEQUACY (VI/V)**	**15.99%**	**15.23%**

[2] The own funds as of 31.12.2017 are calculated according to the new methodology prescribed by the NBRM. (Decision on changes and amendments to the Decision on the methodology for determining the capital adequacy, Official Gazette of the Republic of Macedonia No. 218/16).

3. Capital Adequacy (continued)

3.1.2 Report on Own Funds

Nr.	Description	in thousands of Denars Current year 2017[3]
1	**Own funds**	**10,205,032**
2	**Tier 1 Capital**	**10,205,032**
3	**Common Equity Tier 1 Capital (CET1)**	**10,205,032**
3.1.	Positions of CET1	10,206,667
3.1.1.	Capital instruments of CET1	2,279,067
3.1.2.	Premium on capital instruments of CET1	771,526
3.1.3.	Mandatory reserve fund	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	9,771
3.2.	(-) Deductions of CET1	(1,635)
3.2.1.	(-) Loss at the end of the year or current loss	-
3.2.2.	(-) Intangibles	(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] New methodology applicable since 01.03.2017.

3. Capital Adequacy (continued)

3.1.2 Report on Own Funds (continued)

Nr.	Description	in thousands of Denars Current year 2017
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)

3.1.2 Report on Own Funds (continued)

Nr.	Description	in thousands of Denars Current year 2017
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	**-**

3. Capital Adequacy (continued)

3.1.2 Report on Own Funds (continued)

Nr.	Description	in thousands of Denars Previous year 2016[4]
	Core Capital	
1	**Paid and registered ordinary and non-cumulative preferred shares and their premium**	**3,050,594**
1.1	Nominal value	2,279,067
1.1.1	Nominal value of ordinary shares	2,279,067
1.1.2	Nominal value of non-cumulative preferred shares	-
1.2	Premium	771,527
1.2.1	Premium from ordinary shares	771,527
1.2.2	Premium from non-cumulative preferred shares	-
2	**Reserves and retained earnings or losses**	**6,708,773**
2.1	Reserved Fund	6,708,773
2.2	Retained earnings restricted for distributions to shareholders	-
2.3	Accumulated loss from previous periods	-
2.4	Current profit	-
3	**Items as result of consolidation**	-
3.1	Minority interest	-
3.2	Exchange rate reserves	-
3.3	Other differences	-
4	**Deductible items**	**420**
4.1	Current loss	-
4.2	Stock Repurchased	-
4.3	Intangible assets	420
4.4	Difference between the necessary and the actual allowance for impairment/special reserve	-
4.5	Amount of unallocated allowance for impairment and special reserve as a result of accounting delay	-
4.6	Unrealised loss from available for sale equity instruments	-
4.7	**Other Deductibles**	-
I	**Core Capital**	**9,758,947**

[4] Methodology applicable as at 31.12.2016.

3. Capital Adequacy (continued)

3.1.2 Report on Own Funds (continued)

Nr.	Description	in thousands of denars Previous year 2016
	Additional Capital	
5	**Paid and registered cumulative preferred shares and related premium**	**-**
5.1	Nominal value	-
5.2	Premium	-
6	Revaluation reserve	4,937
7	Hybrid capital instruments	-
8	Subordinated instruments	-
9	Amount of cumulative preferred shares and subordinated instruments that can be part of additional capital	-
II	**Additional Capital**	4,937
	Deductible items from core and additional capital	
10	Investments in capital of other banks or financial institutions which represent more than 10% of the capital of those institutions	259,256
11	Investments in subordinated and hybrid capital instrument and other instruments of the aforementioned institutions	-
12	Aggregate amount of capital investment, subordinated and hybrid capital instrument and other instruments which exceeds 10% of core and additional capital (I+II)	-
13	Investments in the equity of companies for insurance and reinsurance which exceed 10% of the capital of those companies	-
14	Investment in financial instruments issued by the insurance and reinsurance companies in which the bank owns over 10% of their equity	-
15	Amount for exceeding the limits for investment in non-financial institutions	-
16	Items as result of consolidation (negative amounts)	-
III	**DEDUCTIBLE ITEMS**	**259,256**
IV	**Core Capital After Deductions**	**9,504,628**
V	**Additional Capital After deductions**	**-**
	Own Funds	
VI	**Core capital**	**9,504,628**
VII	**Additional capital**	**-**
VIII	**OWN FUNDS**	**9,504,628**

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, 2017 and 2016 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 2017 and 2016 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										
	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	Unallocated	Total
2017 (current 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	-	-	(171,451)	(2,209,816)	-	-	-	-	-	-	**(2,381,267)**
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)	(593,999)	(232,530)	(414,326)	(10,905)	-	(12,646)	(8,953)	(287,687)	**(1,599,785)**
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**

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

4. Segmented Reporting (continued)

A. Operating Segments (continued)

in thousands of Denars	Operating Segments										
	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	Unallocated	Total
2016 (previous year)											
Interest income/(expense), net	-	708	477,164	2,600,617	119	1	-	-	-	-	**3,078,609**
Fee and commission income/(expense), net	-	1,879	81,553	161,068	593,407	23,596	-	2,752	21,227	(6)	**885,476**
Net trading income	-	14,567	-	-	-	-	-	-	209	-	**14,776**
Net income from other financial instruments at fair value	-	-	-	-	-	-	-	-	-	-	**-**
Other operating income	-	187,401	5,579	450,871	31,942	(8,863)	-	1	43,625	17,505	**728,061**
Inter segmented income	-	-	-	-	-	-	-	-	-	-	**-**
Total income by segment	**-**	**204,555**	**564,296**	**3,212,556**	**625,468**	**14,734**	**-**	**2,753**	**65,061**	**17,499**	**4,706,922**
Impairment losses of financial assets, net	-	-	(46,146)	(1,707,323)	-	-	-	-	-	-	**(1,753,469)**
Impairment losses of non-financial assets, net	-	-	(2,858)	(344,995)	-	-	-	-	-	-	**(347,853)**
Depreciation and amortization	-	(1,924)	(42,611)	(27,013)	(68,921)	(1,924)	-	(2,109)	(118)	(40,520)	**(185,140)**
Restructuring costs	-	-	-	-	-	-	-	-	-	-	**-**
Investments in property and equipment	-	-	-	-	-	-	-	-	-	-	**-**
Other expenses	-	(44,130)	(598,905)	(173,900)	(413,958)	(10,543)	-	(12,476)	(7,310)	(273,452)	**(1,534,674)**
Total expenses by segment	-	(46,054)	(690,520)	(2,253,231)	(482,879)	(12,467)	-	(14,585)	(7,428)	(313,972)	**(3,821,136)**
Financial result by segment	-	158,501	(126,224)	959,325	142,589	2,267	-	(11,832)	57,633	(296,473)	**885,786**
Income tax											**(94,317)**
Profit/(loss) for the year											**791,469**
Total assets by segment	-	441,271	14,210,097	82,352,452	2,708,915	35,476	-	36,526	216,564		**100,001,301**
Unallocated assets by segment										729,398	**729,398**
Total assets											**100,730,699**
Total liabilities by segment	-	-	64,772,708	24,613,542	132,326	513,157	-	-	512		**90,032,245**
Unallocated liabilities by segment										132,544	**132,544**
Total liabilities											**90,164,789**

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

4. Segmented Reporting (continued)

B. Concentration of Total Income and Expense by Significant Customer

in thousands of Denars	Operating Segments										
	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	Unallocated	Total
2017 (current year)											
Customer 1	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 2	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Total by segment	-	-	-	-	-	-	-	-	-	-	-
2016 (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
2017 (current 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**
2016 (previous year)								
Total income	4,657,304	21,688	15,523	12,035	-	360	12	**4,706,922**
Total assets	82,991,987	14,675,468	1,564,125	1,499,119	-	-	-	**100,730,699**

5. Fair Value of Financial Assets and Liabilities

A. Fair Value of Financial Assets and Liabilities

	Current year 2017		Previous year 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
in thousands of denars				
Financial Assets				
Cash and cash equivalents	37,208,775	37,208,775	33,538,674	33,538,674
Held-for-trading assets	481,925	481,925	411,339	411,339
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	10,084,209	10,084,209
Loans and advances to other customers	45,366,241	45,366,241	45,268,154	45,268,154
Investments in securities	10,738,425	10,751,435	7,049,959	7,053,885
Investments in associates	235,164	235,164	210,171	210,171
Income tax receivable (current)	498	498	-	-
Other receivables	1,320,785	1,320,785	593,157	593,157
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	448,997	448,997	611,925	611,925
Due to other customers	91,228,581	91,228,581	87,151,875	87,151,875
Debt instruments issued	-	-	-	-
Borrowings	1,237,823	1,237,823	1,650,522	1,650,522
Subordinated debt	-	-	-	-
Income tax payable (current)	9,528	9,528	39,347	39,347
Deferred tax liabilities	-	-	-	-
Other liabilities	628,217	628,217	545,325	545,325

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 NBRM, which mature in short periods.

b) Trading assets

Fair value as determined by reference to market prices 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 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 64,925 thousand (2016: MKD 64,988 thousand), related to investments in secutiries for which there is no active market and do not have recent transaction that can be used for determination of the fair value. These invesments in secutires are presented at cost, decreased by the impairment loss. Their share in total investments in securities is only 0.73% (2016: 1.76%).

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 1,241,603 thousands (2016: zero). Fixed interest rates refer to time deposits up to one year 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, 2017 (current 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		-	-	-	-
December 31, 2016 (previous year)					
Financial assets measured at fair value					
Held-for-trading assets	19	408,841	2,498		**411,339**
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	-	3,610,242	64,988	**3,675,230**
Total		**408,841**	**3,612,740**	**64,988**	**4,086,569**
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 2017		Previous year 2016	
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	-	-	3,610,242	-
Total	**-**	-	**3,610,242**	-
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 tousands 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, 2016 (previous year)	-	-	64,973	**64,973**	-	-	-
Gains/(losses) recognized in:							
- Income statement	-	-	15	**15**	-	-	-
- 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, 2016 (previous year)	**-**	**-**	**64,988**	**64,988**	**-**	**-**	-
Total gains/(losses) recognized in income statement for the assets and liabilities outstanding as of December 31, 2016 (previous year)	**-**	**-**	**55**	**15**	**-**	**-**	-

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 tousands 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 (current 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 (current year)	**-**	**-**	**64,925**	**64,925**	**-**	**-**	**-**
Total gains/(losses) recognized in income statement for the assets and liabilities outstanding as of December 31, 2017 (current year)	**-**	**-**	**(63)**	**(63)**	**-**	**-**	**-**

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 2017	Previous year 2016
Interest income		
Cash and cash equivalents	297,929	258,597
Financial assets at fair value through profit or loss upon initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	1,820	4,729
Loans and advances to other customers	2,667,631	3,017,522
Investments in securities	195,830	164,167
Other receivables	587	708
(Impairment on interest income, net)	(91,732)	(73,872)
Collected interest previously written off	490,199	264,535
Total interest income	**3,562,264**	**3,636,386**
Interest expense		
Financial liabilities at fair value through profit or loss upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Due to banks	162	332
Due to other customers	477,460	539,437
Debt instruments issued	-	-
Borrowings	14,270	18,008
Subordinated debt	-	-
Other liabilities	-	-
Total interest expense	**491,892**	**557,777**
Net interest income/(expense)	**3,070,372**	**3,078,609**

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

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

	in thousands of denars	
	Current year 2017	Previous year 2016
Interest income		
Non-financial companies	1,715,873	2,034,909
Government	258,415	226,978
Not for profit institutions that serve to household	9,325	2,721
Banks	241,073	230,348
Other financial institutions (non-banks)	868	904
Households	876,602	914,677
Non-residents	61,641	35,186
(Allowance for impairment of Interest Income, net)	(91,732)	(73,872)
Collected interest previously written off	490,199	264,535
Total interest income	**3,562,264**	**3,636,386**
Interest expense		
Non-financial companies	47,719	41,414
Government	964	1,045
Not for profit institutions that serve to household	7,481	11,249
Banks	12,618	18,098
Other financial institutions (non-banks)	9,916	10,446
Households	379,839	453,582
Non-residents	33,355	21,943
Total interest expense	**491,892**	**557,777**
Net interest income/(expense)	**3,070,372**	**3,078,609**

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 2017	Previous year 2016
Fee and commission income		
Loans	300,289	232,112
Payment operations		-
domestic	347,844	377,446
international	189,521	197,676
Letter of credit and guarantees	144,688	171,770
Brokerage operations	4,656	4,954
Asset management	35,198	21,040
Fiduciary activities	32,846	25,863
Issuing securities	-	-
Other	107,587	102,335
(describe separately income which represent more than 10% of the total fees and commissions income)		
Total fee and commission income	**1,162,629**	**1,133,196**
Fee and commission expense		
Loans	194,798	153,339
Payment's operation		-
domestic	74,255	67,123
international	21,699	13,533
Letter of credit and guarantees	-	-
Brokerage operations	971	704
Asset management	-	-
Fiduciary activities	1,838	2,082
Issuing securities	-	-
Other	7,022	10,939
(describe separately expenses which represent more than 10% of the total fees and commissions expense)		
Total fee and commission expense	**300,583**	**247,720**
Net fee and commission income/(expense)	**862,046**	**885,476**

In note 7- Fee and Commission Income, the item Loans includes credit cards membership fees in the amount of 36,337 thousand denars. In 2016 they were included in Note 11- Other operating income in the item Other, Income for credit cards membership, in the amount of 37,781 thousand denars.

7 Net fee and commission income/(expense)

B Sector analysis of fee and commission income and expense

	in thousands of denars	
	Current year 2017	Previous year 2016
Fee and commission income		
Non-financial companies	644,644	674,413
Government	3,908	4,431
Not for profit institutions that serve to household	16,001	15,480
Banks	72,747	61,857
Other financial institutions (non-banks)	74,025	51,248
Households	246,460	239,914
Non-residents	104,844	85,853
Total fee and commission income	**1,162,629**	**1,133,196**
Fee and commission expense		
Non-financial companies	1,507	1,491
Government	1,747	1,749
Not for profit institutions that serve to household	-	-
Banks	44,933	35,648
Other financial institutions (non-banks)	79,163	76,536
Households	-	-
Non-residents	173,233	132,296
Total fee and commission expense	**300,583**	**247,720**
Net fee and commission income/(expense)	**862,046**	**885,476**

8 Net trading income/(expense)

	in thousands of denars	
	Current year 2017	Previous year 2016
Trading assets		
Profit/(loss) from fair value changes on debt securities, net		
realized	367	191
unrealized	118	(179)
Profit/(loss) from fair value changes of equity instruments, net		
realized	(9,887)	(2,850)
unrealized	25,952	15,917
Income from dividends from trading assets	5,733	1,120
Income from interest of trading assets	1,189	577
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	**23,472**	**14,776**

9 Net income from other financial instruments at fair value

	in thousands of denars	
	Current year 2017	Previous year 2016
Financial assets at fair value through profit or loss upon initial recognition		
Profit/(loss) from fair value changes on debt securities, net		
realized	-	-
unrealized	-	-
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	**-**	**-**

10 Net foreign exchange gains/ (losses)

	in thousands of denars	
	Current year 2017	Previous year 2016
Realized foreign exchange gains/(losses), net	142,470	158,653
Unrealized foreign exchange gains/(losses), net		
Foreign exchange differences of allowance for impairment of financial assets, net	3,459	7,700
Foreign exchange differences of special reserve for off balance exposure, net	8	125
Other foreign exchange differences, net	(26,478)	(33,175)
Net foreign exchange gain/(loss)	**119,459**	**133,303**

11 Other Operating Income

	in thousands of denars	
	Current year 2017	Previous year 2016
Gain from sale of available-for-sale assets	-	-
Dividends from equity instruments available-for-sale	5,793	5,090
Net income from investment in subsidiaries and associates	-	-
Capital gain from the sale of:		
Property and equipment	4,229	107
Intangible assets	-	-
Foreclosed assets	672,045	101,265
Non-current assets held-for-sale and group for disposal	-	-
Income from rent	9,461	8,884
Income from litigations	-	-
Collected receivables previously written off	306,596	286,624
Release from the special reserve and provisions for:		
Off-balance credit exposure		37,045
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	62,239	55,860
Income from credit cards membership	-	37,781
income that does not represent more than 10% of the total remaining operating income	11,631	18,477
Total other operating income	**1,071,994**	**551,133**

The amount of MKD 672,045 thousand in 2017 in the item “Capital gain from the sale of foreclosed assets” is derived mainly from sale of foreclosed assets from group related debtors – Group SAEM in the amount of MKD 519,824 thousand. The amount of MKD 101,265 thousand in 2016 was derived from sale of foreclosed assets from several debtors.

Income for credit cards membership in 2016 were included in Note 11 - Other operating income, in the item Other, Income for credit cards membership in the amount of 37,781 thousand denars. In 2017 these fees are included in Note 7 - Fee and commission income, in the item Loans, in the amount of 36,337 thousand denars.

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**
2017 (current year)								
Allowance for impairment on individual basis								
Additional allowance for impairment	4,622	4,607,017	-	-	432	17,651	85,479	4,715,201
(Release of allowance for impairment)	(4,213)	(2,296,978)	-	-	(503)	(6,497)	(25,743)	(2,333,934)
	409	**2,310,039**	**-**	**-**	**(71)**	**11,154**	**59,736**	**2,381,267**
Allowance for impairment on group basis								
Additional allowance for impairment	-	-	-	-	-	-	-	-
(Release of allowance for impairment)	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Total allowance for impairment on financial assets, net	**409**	**2,310,039**	**-**	**-**	**(71)**	**11,154**	**59,736**	**2,381,267**
2016 (previous year)								
Allowance for impairment on individual basis								
Additional allowance for impairment	6,318	3,526,945	-	-	311	20,151	68,922	3,622,647
(Release of allowance for impairment)	(6,993)	(1,808,065)	-	-	(241)	(9,297)	(44,582)	(1,869,178)
	(675)	**1,718,880**	**-**	**-**	**70**	**10,854**	**24,340**	**1,753,469**
Allowance for impairment on group basis								
Additional allowance for impairment	-	-	-	-	-	-	-	-
(Release of allowance for impairment)	-	-	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total allowance for impairment on financial assets, net	**(675)**	**1,718,880**	**-**	**-**	**70**	**10,854**	**24,340**	**1,753,469**

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**
2017 (current 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**
2016 (previous year)							
Additional impairment loss	-	-	347,853	-	-	-	347,853
(Release of impairment loss)	-	-	-	-	-	-	**-**
Total impairment loss of non-financial assets, on net-basis	**-**	**-**	**347,853**	**-**	**-**	**-**	**347,853**

*) only for consolidated financial statements

14 Personnel expenses

	in thousands of denars	
	current year 2017	previous year 2016
Short-term benefits for employees		
Salaries	591,454	582,185
Compulsory social and health insurance contributions	212,964	209,991
Short-term paid absences	1,739	1,487
Costs for temporary employment	-	-
Share in profit and remuneration	-	-
Non-monetary benefits	2,025	77
	808,182	**793,740**
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	-	467
	-	**467**
Termination benefits	1,073	4,022
Equity settled share-based payments	-	-
Cash settled share-based payments	-	-
Other (costs for employees that represent more than 10% of the total costs for employees)	62,988	51,908
Total costs for employees	**872,243**	**850,137**

15 Depreciation and amortization

	in thousands of denars	
	current year 2017	previous year 2016
Depreciation of intangible assets		
Internal developed software	-	-
Software acquired from external suppliers	12,276	13,226
Other internal developed intangible assets	-	-
Other intangible assets	553	493
Investments in intangible assets taken under lease	-	-
	12,829	**13,719**
Depreciation of property and equipment		
Buildings	79,129	78,936
Vehicles	7,410	5,983
Furniture and equipment	23,695	28,142
Other equipment	51,887	52,196
Other items of property and equipment	-	-
Investments in property and equipment taken under lease	4,073	6,164
	166,194	**171,421**
Total depreciation	**179,023**	**185,140**

16 Other operating expense

	in thousands of denars	
	current year 2017	previous year 2016
Loss from sale of assets available-for-sale	-	362
Software licensing expense	17,225	15,459
Deposit insurance premium	290,754	306,446
Premium for property and employee insurance	4,928	5,092
Materials and services	202,175	202,097
Administrative and marketing expense	77,199	71,821
Other taxes and contributions	2,419	2,277
Rental expense	19,283	19,963
Court litigation expense	1,289	4,731
Special reserve for off – balance sheet exposure, on a net basis	70,827	-
Provisions for pension and other employee benefits, on a net basis	10,448	2,021
Provisions for contingent liabilities based on court litigations, on a net basis	-	-
Other provisions, on a net basis	-	-
restructuring	-	-
onerous contracts	-	-
other provisions	-	-
Loss from sale of:	-	-
Property and equipment	-	-
Intangible assets	-	-
foreclosed assets	-	909
non – current assets held for sale and group for sale and disposal group	-	-
Other		
(expenses that represent more than 10% of total other operating expense)		
Expenses under F/X operations	20,324	25,027
(expenses that do not represent more than 10% of total other operating expense)	10,671	28,332
Other operating expense	**727,542**	**684,537**

17 Income tax

A Expense/income based on current and deferred tax

	in thousands of denars	
	current year 2017	previous year 2016
Current income tax		
Expense/(income) based on current income tax for the year	94,632	94,317
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	-	-
	94,632	**94,317**
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	**94,632-**	**94,317**

	in thousands of denars	
	current year 2017	previous year 2016
Current income tax		
Recognized in the income statement	94,632	94,317
Recognized in equity and reserves	-	-
	94,632	**94,317**
Deferred income tax		
Recognized in the income statement	-	-
Recognized in equity and reserves	-	-
	-	-
Total expense/(return) on income tax	**94,632**	**94,317**

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 2017		previous year 2016	
Profit/ (loss) before taxation	100.00	939,940	100.00	885,786
Income tax as per applicable tax rate	10	93,994	10	88,579
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	6,802	0.7	6,409
Tax-exempt income	(0.6)	(6,164)	(0.1)	(671)
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		**94,632**	**-**	**94,317**
Average effective tax rate	**10.1**		**10.6**	

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

	Current year 2017			Previous year 2016		
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 2017	*in thousands of Denars* previous year 2016
Cash on hand	1,647,010	1,542,572
Accounts and deposits with NBRM, besides obligatory FC deposits	10,937,805	9,654,588
Current accounts and transaction deposits with foreign banks	5,375,871	5,978,022
Current accounts and transaction deposits with local banks	2,661	886
Treasury bills that may be traded on the secondary market	6,124,553	5,778,123
Government bills that may be traded on the secondary market	-	-
Time deposits up to 3 months	8,150,154	5,608,176
Other short-term highly liquid assets	754	1,650
Interest receivables	6,860	2,063
(Allowance for impairment)	(64)	(136)
Included in cash and cash equivalents for the needs of the Statement of cash flows	**32,245,604**	**28,565,944**
Obligatory FC deposits	4,133,980	4,203,376
Restricted deposits	829,191	769,354
(Impairment)	-	-
Total	**37,208,775**	**33,538,674**

	in thousands of Denars current year 2017	*in thousands of Denars* previous year 2016
Movements in allowance for impairment		
As at January 1	136	66
Impairment loss for the year		
Additional impairment	432	311
(Release of impairment)	(503)	(241)
(Foreclosed assets)	(1)	-
Foreign exchange gain/losses	-	-
(written-off receivables)	-	-
As at December 31	**64**	**136**

19 Trading assets (continued)

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

	in thousands of denars	
	current year 2017	previous year 2016
Trading securities		
Debt securities for trading		
Treasury bills for trading	-	-
Government bills for trading	12,832	-
Other instruments in the money market	-	-
Government bonds	83,599	23,165
Corporate bonds	-	-
Other debt instruments	-	-
	96,431	**23,165**
Quoted	83,599	23,165
Unquoted	12,832	-
Equity instruments for trading	-	-
Equity instruments issued by banks	125	99
Other equity instruments	385,369	388,075
	385,494	**388,174**
Quoted	59,231	69,660
Unquoted	326,263	318,514
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 IAS 39 criteria	-	-
	-	-
Total trading assets	**481,925**	**411,339**

Bills for trading in the amount of 12,832 thousand denars (2016:0) refer to investment in government bills.

Government bonds in the amount of 83,599 thousands of denars (2016: 23,165 thousands of denars) refer to structural government bonds, bearing interest rate at the rate of 2% per annumr.

The other unquoted equity investments in the amount of 326,263 thousands of denars (2016: 318,514 thousands of denars) are related with investments in participations in investment funds. The investment in investment funds include investments in the Open-end investment fund KB Publikum – Balansiran in the amount of 9,062 thousands of denars (2016: 8,348 thousands of denars), investments in the Open-end investment fund KB Publikum - Paricen in the amount of 315,499 thousands of denars (2016: 307,668 thousands of denars), and investments in KD Funds AD Skopje - KD Cash deposit in the amount of 1,702 thousand of denars (2016: 2,498 thousand of denars).

The quoted equity investments held for trading in the amount of 59,231 thousands of denars (2016: 69,660 thousands of denars) relate to investments in shares issued by domestic banks in the amount of 125 thousands of denars (2016: 99 thousands of denars) and investments in shares issued by domestic non-financial entities in the amount of 59,106 thousands of denars (2016: 69,561 thousands of denars).

All income from financial assets held for trading is recognized as net trading income.

19 Trading assets (continued)

B. Reclassified trading assets

B.1 Condition of reclassified trading assets

In thousands of Denars	Reclassified amount (date of reclassification)	Current year 2017 carrying amount 31.12.2017 (current year)	Current year 2017 fair value 31.12.2017 (current year)	Previous year 2016 carrying amount 31.12. 2016 (previous year)	Previous year 2016 fair value 31.12.2016 (previous year)
Trading assets reclassified in 2017 (current year) in:					
- financial assets available for sale	-	-	-	-	-
- loans and advances to banks	-	-	-	-	-
- loans and advances to other clients	-	-	-	-	-
	-	-	-	-	-
Trading assets reclassified in 2016(previous year) in:					
- financial assets available for sale	-	-	-	-	-
- loans and advances to banks	-	-	-	-	-
- loans and advances to other clients	-	-	-	-	-
	-	-	-	-	-

19 Trading assets

B. Reclassification of trading assets (continued)

B.2 Gains and losses from reclassification of trading assets

	Reclassified during 2017 (current year)		Reclassified during 2016 (previous year)			
in thousands of denars	Income statement 2017 (current year)	Other gains/ (losses) 2017 (current year)	Income statement 2017 (current year)	Other gains/ (losses) 2017 (current year)	Income statement 2016 (previous year)	Other gains/ (losses) 2016 (previous year)
Period before reclassification						
Trading assets reclassified in financial assets available for sale						
- net-income from trading	-	-	-	-	-	-
Trading assets reclassified in loans and advances from banks						
- net-income from trading	-	-	-	-	-	-
Trading assets reclassified in loans and advances from other clients						
- net-income from trading	-	-	-	-	-	-
	-	-	-	-	-	-
Period after reclassification						
Trading assets reclassified in financial assets available for sale						
- interest income	-	-	-	-	-	-
- impairment of the value of the financial assets, on net-basis	-	-	-	-	-	-
- changes in the fair value, on net-basis	-	-	-	-	-	-
Trading assets reclassified in loans and advances from banks						
- interest income	-	-	-	-	-	-
- impairment of the value of the financial assets, on net-basis	-	-	-	-	-	-
Trading assets reclassified in loans and advances from other clients						
- interest income	-	-	-	-	-	-
- impairment of the value of the financial assets, on net-basis	-	-	-	-	-	-
	-	-	-	-	-	-

19 Trading assets (continued)

B. Reclassified assets for trading (continued)

B.3 Gains or losses which would have been recognized in the Income statement if the assets have not been reclassified

	Reclassified during 2017 (current year)	Reclassified during 2016 (previous year)	
in thousands of denars	Income statement 2017 (current year)	Income statement 2017 (current year)	Income statement 2016 (previous year)
Trading assets reclassified in financial assets available for sale			
- net-income from trading	-	-	-
Trading assets reclassified in loans and advances from banks			
- net-income from trading	-	-	-
Trading assets reclassified in loans and advances from other clients			-
- net-income from trading	-	-	-
	-	-	-

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

	in thousands of denars	
	current year 2017	previous year 2016
Debt securities		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds issued	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
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	-	-

21 Derivative assets and liabilities held for risk management

		in thousands of denars			
		current year 2017		previous year 2016	
		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 2017		previous year 2016	
	Short term	Long term	Short term	Long term
Loans to banks				
Domestic banks	49,000	48	18,000	56
Foreign banks	-	-	-	-
Time deposits over 3 months				
Domestic banks	-	257	4,580,349	254
Foreign banks	4,825,905	954,705	4,032,374	1,446,406
Repo		-		
Domestic banks	-	-		
Foreign banks			-	-
Other receivables	-	-		
Domestic banks	-	-	-	-
Foreign banks	5,812	-	6,817	-
Interest receivables	281	-	1,160	-
Current maturity	48	(48)	491,905	(491,905)
Total loans and advances to banks before impairment	**4,881,046**	**954,962**	**9,130,605**	**954,811**
(Allowance for impairment)	(1,615)	-	(1,207)	-
Total loans and advances to banks after impairment	**4,879,431**	**954,962**	**9,129,398**	**954,811**

	in thousands of denars	
	current year 2017	previous year 2016
Movement of allowance for impairment		
As at January 1	1,207	1,884
Impairment loss for the year		
Additional impairment	4,622	6,318
(Release of impairment)	(4,213)	(6,993)
(Foreclosed assets)	-	-
Foreign exchange gains/losses	(1)	(2)
(Written off receivables)	-	-
As at December 31	**1,615**	**1,207**

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 2017		previous year 2016	
	short-term	long-term	short-term	long-term
Non-financial companies				
Receivables upon principal	17,465,873	19,639,981	16,561,577	21,127,765
Interest receivables	128,882	-	155,194	-
Government				
Receivables upon principal	38,748	1,581,740	29,027	1,522,644
Interest receivables	2,664	-	1,550	-
Non-profit institutions that serve households				
Receivables upon principal	7,110	207,867	4,440	142,119
Interest receivables	1,033	-	327	-
Financial companies, besides banks				
Receivables upon principal	21	39,999	1,962	13,022
Interest receivables	33	-	11	-
Households				
Receivables upon principal				
Housing loans	1,139	5,510,373	1,118	4,971,870
Customer loans	349,889	5,294,974	359,795	5,603,702
Vehicle loans	30	14,428	30	7,635
Mortgage loans	-	-	-	-
Credit cards	75,094	977,053	78,911	1,020,609
Other loans	1,121,745	258,259	1,168,520	225,526
Interest receivables	39,467	-	41,408	-
Non-residents, except banks				
Receivables upon principal	-	-	87,956	34,201
Interest receivables	1	-	286	-
Current maturity	6,432,975	(6,432,975)	6,900,331	(6,900,331)
Total loans and advances to other customers before impairment	**25,664,704**	**27,091,699**	**25,392,443**	**27,768,762**
(Impairment)	(6,721,287)	(668,875)	(7,305,489)	(587,562)
Total loans and advances to other customers reduced by impairment	**18,943,417**	**26,422,824**	**18,086,954**	**27,181,200**

Out of the total loans and advances to other customers the Group has pledged a lien with regard to the sub-loans approved from the credit lines from the European Investment Bank ("EIB") and Italian Credit Line ("IKL") in favour of Macedonian Bank for Development Promotion ("MBDP"). As at 31 December 2017 the amount of the pledged loans and advances is in the amount of 1,179,808 thousands of denars (2016: 1,593,485 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 2017	previous year 2016
Movements in impairment on an individual basis		
As at January 1	7,893,051	12,236,390
Impairment for the year		
Additional impairment	4,607,017	3,526,945
(Release of impairment)	(2,296,978)	(1,808,065)
(Foreclosed assets)	(812,532)	(3,913)
Foreign exchange gains/losses	(3,440)	(7,690)
(Written of receivables)	(1,996,956)	(6,050,616)
As at December 31	**7,390,162**	**7,893,051**
Movements in impairment on a group basis		
As at January 1	-	-
Impairment for the year		
Additional impairment	-	-
(Release of impairment)	-	-
(Foreclosed assets based on outstanding receivables)	-	-
Foreign exchange gains/losses	-	-
(Written of receivables)	-	-
As at December 31	**-**	**-**
Total impairment for loans and advances to other customers	**7,390,162**	**7,893,051**

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 2017	previous year 2016
(current carrying amount of loans and advances)		
First-class security instruments		
Cash deposits (in vault and/or restricted in accounts held with the group)	954,927	1,024,987
Government securities	-	-
Government unconditional guarantees	-	-
Bank guarantees	15	-
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (besides banks and guarantees from insurance companies)	-	-
Guarantees from individuals	1	4,749
Mortgage on real estate		
Property for private use (flats, houses)	8,282,325	7,954,029
Property for business activity	16,580,004	16,747,834
Pledge over movables	6,094,718	6,610,368
Other types of security	85,748	129,679
Unsecured	13,368,503	12,796,508
Total loans and advances to other customers reduced by impairment	**45,366,241**	**45,268,154**

23 Investments in securities

23.1 Investments in financial assets available-for-sale

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

	in thousands of denars	
	current year 2017	previous year 2016
Debt securities		
Treasury bills	-	-
Government bills	8,671,656	3,203,202
Other instruments in the money market	-	-
Government bonds	102,809	407,040
Corporate bonds	-	-
Other equity investments	-	-
	8,774,465	**3,610,242**
Quoted	8,774,465	3,610,242
Unquoted	-	-
Equity investments		
Equity investments issued by banks	-	-
Other equity investments	64,925	64,988
	64,925	**64,988**
Quoted		-
Unquoted	64,925	64,988
Total investment in financial instruments available for sale before impairment	**8,839,390**	**3,675,230**
(Impairment)	-	-
Total investment in financial instruments available for sale reduced by impairment	**8,839,390**	**3,675,230**

	in thousands of Denars	
	current year 2017	previous year 2016
Movement in allowance for impairment		
As at January 1	-	2,624
Impairment for the year		
Additional impairment	-	-
(Release of impairment)	-	-
(Foreclosed assets)	-	-
Foreign exchange gains/losses	-	-
(Written of receivables)	-	(2,624)
As at December 31	**-**	**-**

23 Investment in securities (continued)

23.1 Investment in financial assets available for sale (continued)

B. Reclassified financial assets available for sale

B.1 Balance of reclassified assets available for sale

		Current year 2017		Previous year 2016	
in thousands of Denars	Reclassified amount (date of reclassification)	carrying amount 31.12.2017 (current year)	fair value 31.12.2017 (current year)	carrying amount 31.12.2016 (previous year)	fair value 31.12.2016 (previous year)
Trading assets reclassified in 2017 (current year) in:					
- loans and advances to banks	-	-	-	-	-
- loans and advances to other clients	-	-	-	-	-
	-	-	-	-	-
Trading assets reclassified in 2016 (previous year) in:					
- loans and advances to banks	-	-	-	-	-
- loans and advances to other clients	-	-	-	-	-
	-	-	-	-	-

23 Investment in securities (continued)

23.1 Investment in financial assets available for sale (continued)

B. Reclassified financial assets available for sale (continued)

B.2 Gains and losses from the reclassified assets available for sale

in thousands of denars	Income statement 2017 (current year)	Other gains/ (losses) 2017 (current year)	Income statement 2016 (previous year)	Other gains/ (losses) 2016 (previous year)
Period before reclassification				
Assets available for sale reclassified in loans and advances from banks				
- Interest income	-	-	-	-
- Impairment of the financial assets, on net-basis	-	-	-	-
- changes in the fair value, on net-basis	-	-	-	-
Assets available for sale reclassified in loans and advances from other clients				
- Interest income	-	-	-	-
- Impairment of the financial assets, on net-basis	-	-	-	-
- changes in the fair value, on net-basis	-	-	-	-
	-	-	-	-
Period after reclassification				
Assets available for sale reclassified in loans and advances from banks				
- Interest income	-	-	-	-
- Impairment of the financial assets, on net-basis	-	-	-	-
- Amounts reversed from revaluation reserves	-	-	-	-
Assets available for sale reclassified in loans and advances from other clients				
- Interest income	-	-	-	-
- Impairment of the financial assets, on net-basis	-	-	-	-
- Amounts reversed from revaluation reserves	-	-	-	-
	-	-	-	-

23 Investments in securities (continued)

23.1 Investments in financial assets available for sale (continued)

B. Reclassified financial assets available for sale (continued)

B.2 Gains or losses which would have been recognized if the assets have not been reclassified

in thousands of denars	Income Statement 2017 (current year)	Other gains/ losses 2017 (current year)	Income Statement 2016 (previous year)	Other gains/ losses 2016 (previous year)
Assets available for sale reclassified in loans and advances from banks				
- Interest income	-	-	-	-
- impairment of the financial assets, on net-basis	-	-	-	-
- changes in fair value, on net-basis	-	-	-	-
Assets available for sale reclassified in loans and advances from other clients				
- Interest income	-	-	-	-
- changes in the value of the financial assets, on net-basis	-	-	-	-
- changes in fair value, on net-basis	-	-	-	-
	-	-	-	-

Investments in debt securities available-for-sale in the amount of 8,774,465 thousands of denars (2016: 3,610,242 thousands of denars) are related to the investments in government bills in the amount of 8,671,656 thousands of denars (2016: 3,203,202 thousands of denars) and investments in government bonds in the amount of 102,809 thousands of denars (2016: 407,040 thousands of denars).

The investments in equity instruments available-for-sale in amount of 64,925 thousands of denars (2016: 64,988 thousands of denars) relate 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 determination the fair value, the investments in available-for-sale securities are stated at their fair value, less any impairment. The market for these securities is irregular and is not fully developed, so that the fair value cannot be reliably measured.

The Group does not plan to sell part of investments in available-for-sale equity instruments issued by financial companies whose operations are related to the regular operations of the Group, and the rest of the investments will be sold when the Group will estimate that there are favourable conditions at the capital market for their disposal.

23 Investments in securities (continued)

23.2 Investments in financial assets held to maturity

	in thousands of denars	
	Current year 2017	Previous year 2016
Debt securities		
Treasury bills	-	-
Government bills	187,092	2,775,844
Other instruments in the money market	-	-
Government bonds	1,711,943	598,885
Corporate bonds	-	-
Other debt securities	-	-
	1,899,035	**3,374,729**
Quoted	1,899,035	3,374,729
Unquoted	-	-
***Total investment in financial instruments held to maturity before* impairment**	**1,899,035**	**3,374,729**
(Impairment)	-	-
Total investment in financial instruments held to maturity after impairment	**1,899,035**	**3,374,729**

	in thousands of denars	
	current year 2017	previous year 2016
Movement in allowance for impairment		
As at January 1	-	-
Impairment for the year		
Additional impairment	-	-
(Release of impairment)	-	-
(Foreclosed assets)	-	-
Foreign exchange gains/losses	-	-
(Written of receivables)	-	-
As at December 31	-	-

Debt securities include government bills in the amount of 187,092 thousands of denars (2016: 2,775,844 thousands of denars) and government bonds in the amount of 1,711,943 thousand of denars (2016: 598,885 thousand of denars). Government bills are with maturity of 12 months, and government bonds are with maturity in the period from 2018 to 2020 and interest rates from 2,1% to 2.7% per annum (2016: from 2% to 2,7% per annum).

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 2017	previous year 2016	current year 2017	previous year 2016
KB PRVO PENZISKO DRUSTVO AD SKOPJE	Republic of Macedonia	49,00%	49,00%	49,00%	49,00%
KB PUBLIKUM INVEST AD SKOPJE	Republic of Macedonia	64,29%	64,29%	64,29%	64,29%

On 25 April 2013, the Group acquired control of KB Publikum, company for managing investment funds, by acquiring additional 14.29% of the voting share capital. As a result, the Groups share in KB Publikum's capital increased from 50% to 64.29%. For more information see to Note 47.

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 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**
Previous year 2016					
KB PRVO PENZISKO DRUSTVO AD SKOPJE	440,011	17,856	422,155	225,751	89,031
	440,011	**17,856**	**422,155**	**225,751**	**89,031**

25 Other receivables

	in thousands of denars	
	current year 2017	previous year 2016
Trade receivables	205,492	199,483
Prepaid expenses	-	-
Deferred income	-	-
Fees and commission receivables	35,423	39,539
Receivables from employees	35	68
Advances for intangible assets	174	63
Advances for property and equipment	8,135	975
Other (receivables representing more than 10% of the total other receivables)		
Other receivables by other basis in denars	620,183	10,720
Other receivables by other basis in foreign exchange currency	413,812	301,724
Suspicious and doubtful receivables from receivables from clients and other receivables	77,017	60,652
Inventory of materials, petty inventory and numismatic collections	36,697	33,175
(state separately the receivables representing more than 10% of the total other receivables)	31,112	33,401
Total other receivables before value adjustment	**1,428,080**	**679,930**
(Impairment)	(107,295)	(86,773)
Total other receivables reduced by value adjustment	**1,320,785**	**593,157**

	in thousands of denars	
	current year 2017	previous year 2016
Movement of allowance for impairment		
Balance at January 1	86,773	209,322
Impairment loss for the year:		
additional impairment	103,130	89,073
(release of impairment)	(32,240)	(53,879)
(Foreclosed assets)	(5,146)	(584)
Foreign exchange differences	(16)	(7)
(Written-off receivables)	(45,206)	(157,152)
Balance at December 31	**107,295**	**86,773**

The item "Other receivables by other basis in denars" (in the amount of 620,183 thousand denars) mostly includes receivables from one legal entity, which are considered to be certain repayments for the Bank, and are 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.

26 Assets pledged as collateral

	in thousands of denars	
	current year 2017	previous year 2016
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

27 Foreclosed assets

in thousands of Denars	Land	Buildings	Equipment	Residential buildings and apartments	Other valuables	**Total**
Begining carrying amount						
As at January 1 2016 (previous year)	179,469	2,015,064	191,494	167,374	-	**2,553,401**
Foreclosed during the year	1,636	3,282	-	30,778	-	**35,696**
(sold during of the year)	(9,753)	(578,293)	(35,815)	(29,000)	-	**(652,861)**
(transfer into assets for own use)	-	-	-	-	-	**-**
As at December 31, 2016 (previous year)	**171,352**	**1,440,053**	**155,679**	**169,152**	**-**	**1,936,236**
As at January 1, 2017(current 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 (current year)	**183,122**	**1,692,864**	**443,706**	**301,936**	**940**	**2,622,568**
Impairment						
As at January 1, 2016 (previous year)	**79,023**	**1,055,687**	**113,808**	**81,541**	-	**1,330,059**
Impairment loss during the year	27,754	274,406	15,040	61,935	-	**379,135**
(sold during the year)	-	-	-	-	-	**-**
(transfer into assets for own use)	(4,560)	(294,536)	(19,689)	(22,119)	-	**(340,904)**
As at December 31, 2016 (previous year)	**102,217**	**1,035,557**	**109,159**	**121,357**	**-**	**1,368,290**
As at January 1, 2017 (current 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
(transfer into assets for own use)	-	-	-	-	-	**-**
(sold during the year)	(507,981)	(347,063)	(29,511)	(27,930)	-	(912,485)
As at December 31, 2017 (current year)	**74,694**	**1,258,753**	**356,942**	**155,021**	**307**	**1,845,717**
Net carrying amount						
As at January 1, 2016 (previous year)	**100,446**	**959,377**	**77,686**	**85,833**	**-**	**1,223,342**
As at December 31, 2016 (previous year)	**69,135**	**404,496**	**46,520**	**47,795**	**-**	**567,946**
As at December 31 2017 (current year)	**108,428**	**434,111**	**86,764**	**146,915**	**633**	**776,851**

27 Foreclosed assets (continued)

The fair value of the acquired assets through foreclosure procedure as at 31 December 2017 is in the amount of 1,998,430 thousands of denars (as at 31 December 2016 is in the amount of 1,446,250 thousands of denars).

Part of the recognised impairment in 2017 in the amount of 102,456 thousands of denars (2016: 347,853 thousands of denars) is recognized as an expense in the consolidated Income statement (see note 13), and the remainder is recognized in the consolidated 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
Purchase value								
As at January 1, 2016 (previous year)	-	241,618	-	43,641	6,660	-	-	**291,919**
Increases by new supplies	-	15,541	-	-	(4,449)	-	-	**11,092**
Increases by internal development	-	-	-	-	-	-	-	**-**
Increases by business combinations	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	-	(4,390)	-	-	-	**(4,390)**
(disposal through business combination)	-	-	-	-	-	-	-	**-**
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	**-**
Transfer from non-current assets held for sale	-	-	-	-	-	-	-	**-**
As at December 31, 2016 (previous year)	**-**	**257,159**	**-**	**39,251**	**2,211**	**-**	**-**	**298,621**
As at January 1, 2017 (current 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 combinations)	-	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-
Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-
As at December 31, 2017 (current year)	**-**	**268,881**	**-**	**41,019**	**3,065**	**-**	**-**	**312,965**

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

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, 2016 (previous year)	-	207,657	-	42,728	-	-	-	**250,385**
Depreciation for the year	-	13,226	-	493	-	-	-	**13,719**
Impairment loss during the year	-	-	-	-	-	-	**-**	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	**-**	**-**
(Disposal and write off)	-	-	-	(4,390)	-	-	-	**(4,390)**
As at December 31, 2016 (previous year)	**-**	**220,883**	**-**	**38,831**	**-**	**-**	**-**	**259,714**
As at January 1, 2017 (current 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)	-	-	-	-	-	-	-	**-**
Balance at December 31, 2017 (current year)	**-**	**233,159**	**-**	**39,384**	**-**	**-**	**-**	**272,543**
Current carrying amount								
Balance at January 1, 2016	**-**	**33,691**	**-**	**913**	**6,660**	**-**	**-**	**41,264**
Balance at December 31, 2016 (previous year)	**-**	**36,276**		**420**	**2,211**			**38,907**
Balance at December 31, 2017 (current year)	**-**	**35,722**	**-**	**1,635**	**3,065**	**-**	**-**	**40,422**

*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 2016 (previous year)	-	-	-	-	-	-	**-**
As at December 31 2017 (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 2016 (previous year)	88,635	3,176,546	136,970	346,191	708,075	13,327	18,294	60,308	**4,548,346**
Increases	-	-	-	-	-	-	78,545	-	**78,545**
Increase through business combinations	-	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	-	(4,428)	(43,377)	-	-	(5,746)	**(53,551)**
(Disposal through business combinations)	-	-	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	100	6,652	8,650	3,891	53,290	-	(74,222)	1,639	**-**
As at 31 December 2016 (previous year)	**88,735**	**3,183,198**	**145,620**	**345,654**	**717,988**	**13,327**	**22,618**	**56,201**	**4,573,341**
As at 1 January 2017 (current 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 (current year)	**88,735**	**3,186,913**	**145,526**	**344,850**	**704,334**	**13,327**	**27,106**	**55,171**	**4,565,962**

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 2016 (previous year)	-	448,723	127,008	276,004	581,652	-	-	49,397	**1,482,784**
Depreciation for the year	-	78,936	5,983	28,142	52,196	-	-	6,164	**171,421**
Impairment loss during the year	-	-	-	-	-	-	-	-	**-**
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-	**-**
(Disposal and write off)	-	-	-	(4,428)	(43,377)	-	-	(5,632)	**(53,437)**
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	**-**
Transfer for non-current assets held for sale	-	-	-	-	-	-	-	-	**-**
Other transfers	-	(1,200)	4,390	-	1,200	-	-	-	**4,390**
Balance at 31 December 2016 (previous year)	**-**	**526,459**	**137,381**	**299,718**	**591,671**	**-**	**-**	**49,929**	**1,605,158**
Balance at 1 January 2017 (current 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 (current year)	**-**	**605,588**	**130,941**	**315,401**	**595,502**	**-**	**-**	**52,746**	**1,700,178**
Current carrying amount									
As at 1 January 2016(previous year)	**88,635**	**2,727,823**	**9,962**	**70,187**	**126,423**	**13,327**	**18,294**	**10,911**	**3,065,562**
As at 31 December 2016 (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 (current year)	**88,735**	**2,581,325**	**14,585**	**29,449**	**108,832**	**13,327**	**27,106**	**2,425**	**2,865,784**

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 2016 (previous year)	-	-	-	-	-	-	-	-	-
As at December 31 2017 (current year)	-	-	-	-	-	-	-	-	-

The amount of commitments for the purchase of property and equipment in 2017 is in the amount of 2,387 thousands of denars (2016: 1,250 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 2017	previous year 2016
Income tax receivables (current)	498	-
Income tax liabilities (current)	9,528	39,347

30.2 Deferred tax assets and deferred tax liabilities

A Recognized deferred tax assets and deferred tax liabilities

	current year 2017			previous year 2016		
in thousands of Denars	Deferred tax assets	(Deferred tax liabilities)	On net basis	Deferred tax assets	(Deferred tax liabilities)	On net basis
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 2017	Previous year 2016
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

		Recognized in the course of the year in:		
in thousands of denars	As at January 1	Income statement	Capital	As at December 31
Previous year 2016				
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 2017				
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 2017	previous year 2016
Intangible assets	268	-
Property and equipment	-	-
Total non current assets held for sale	**268**	**-**

B Disposal Group

	in thousands of denars	
	current year 2017	previous year 2016
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 2017	previous year 2016
Profit/(loss) recognized from the sale of assets held-for-sale and disposal group	-	-

32 Trading liabilities

	in thousands of denars	
	current year 2017	previous year 2016
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 IAS 39 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 2017		previous year 2016	
	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	**-**	**-**	**-**	**-**

34 Deposits

34.1 Due to banks

	in thousands of Denars			
	current year 2017		previous year 2016	
	short-term	long-term	short-term	long-term
Current accounts				
domestic banks	42,717	-	254,577	-
foreign banks	24,735	-	24,095	-
Demand deposits				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Time deposits				
domestic banks	184,778	-	184,444	-
foreign banks		-	-	-
Restricted deposits				
domestic banks	189,736	-	147,570	-
foreign banks	-	-	-	-
Other deposits				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Deposit interest liabilities				
domestic banks	30	-	14	-
foreign banks	7,001	-	1,225	-
Current maturity	-	-	-	-
Total deposits from banks	**448,997**	**-**	**611,925**	**-**

34 Deposits (continued)

34.2 Other deposits

	in thousands of Denars			
	current year 2017		previous year 2016	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	17,025,245	-	17,442,789	-
Demand deposits	22,111	-	945,524	-
Time deposits	1,454,057	753,022	1,089,575	680,402
Restricted deposits	386,960	635,117	433,563	395,193
Other deposits	-	-	-	-
Interest payable on deposits	20,205	-	19,843	-
	18,908,578	**1,388,139**	**19,931,294**	**1,075,595**
Government				
Current accounts	202,326	-	182,356	-
Demand deposits	1,055	-	1,712	-
Time deposits	55,000	-	75,000	-
Restricted deposits	187	-	186	-
Other deposits	-	-	-	-
Interest payable on deposits	573	-	890	-
	259,141	**-**	**260,144**	**-**
Non-profit institutions in service of households				
Current accounts	1,237,447	-	1,107,734	-
Demand deposits	458	-	552	-
Time deposits	373,790	118,126	389,798	129,087
Restricted deposits	183,774	2,322	148,476	4,075
Other deposits	-	-	-	-
Interest payable on deposits	4,051	-	3,513	-
	1,799,520	**120,448**	**1,650,073**	**133,162**
Financial companies, other than banks				
Current accounts	168,894	-	424,665	-
Demand deposits	100,647	-	158,175	-
Time deposits	113,000	425,000	52,100	370,000
Restricted deposits	338	3,654	1,266	5,834
Other deposits	-	-	-	-
Interest payable on deposits	1,335	-	2,447	-
	384,214	**428,654**	**638,653**	**375,834**
Households				
Current accounts	15,526,791	-	12,252,308	-
Demand deposits	6,705,008	-	6,000,963	-
Time deposits	31,549,678	10,484,751	31,979,788	9,955,784
Restricted deposits	246,094	899,381	215,317	840,596
Other deposits	-	-	-	-
Interest payable on deposits	186,698	-	223,303	-
	54,214,269	**11,384,132**	**50,671,679**	**10,796,380**
Non-residents, other than banks				
Current accounts	1,706,623	-	964,238	-
Demand deposits	1,491	-	1,495	-
Time deposits	184,729	315,080	205,092	309,920
Restricted deposits	127,719	4,277	127,318	9,330
Other deposits	-	-	-	-
Interest payable on deposits	1,567	-	1,668	-
	2,022,129	**319,357**	**1,299,811**	**319,250**
Current maturity	5,079,029	(5,079,029)	5,464,412	(5,464,412)
Total other deposits	**82,666,880**	**8,561,701**	**79,916,066**	**7,235,809**

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 2017	previous year 2016
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 2017		previous year 2016	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Borrowings	1,248	1,061,406	8,118	1,503,260
Repo-transactions	-	-	-	-
Interest payables	2,258	-	3,275	-
Non-residents				
Borrowings	-	56,397	-	-
Repo-transactions	-	-	-	-
Interest payables	544	-	-	-
Non-financial companies				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Government				
Borrowings	-	115,970	-	123,829
Repo-transactions	-	-	-	-
Interest payables	-	-	8	-
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	-	-	-	12,019
Repo-transactions	-	-	-	-
Interest payables	-	-	13	-
Households				
Borrowings	-	-	-	-
Interest payables	-	-	-	-
Current maturity	336,814	(336,814)	456,463	(456,463)
Total Borrowings	**340,864**	**896,959**	**467,877**	**1,182,645**

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	-	-	68	10,606
MBPR-IKL	10	1,537	72	11,374
MBPR- ZKDF	1,262	10,188	8,148	15,953
MF-FSR	-	-	8	7,859
NBRM – Primary issue	-	8,809	-	8,809
MBPR-EIB	2,234	1,040,872	3,105	1,456,518
Agency for Managing Accounts	-	115,970	-	115,970
	3,506	**1,177,376**	**11,401**	**1,627,089**
foreign sources:				
MIDF B.V	-	-	13	12,019
EBRD	544	56,397	-	-
	544	**56,397**	**13**	**12,019**
Current maturity	336,814	(336,814)	456,463	(456,463)
Total borrowings	**340,864**	**896,959**	**467,877**	**1,182,645**

Lender	**Currency**	**Interest rate**	**Year of maturity**	**Type of collateral**
MBPR	MKD/EUR	3%	According to the agreements concluded with final users	4 bills of exchange
MBPR – IKL	EUR	3%	According to the agreements concluded with final users	12 bills of exchange * Pledge of receivables under sub-loan agreements with final users in the form of Notary deed
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 (previously MIDF B.V)	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 2017 the amount of borrowings for which the Group has pledged receivables is 1,011,972 thousands of denars (2016: 1,368,652 thousands denars).

In 2017 the Bank signed Transfer and amendment and restatement agreement with MIDF B.V. and EBRD with which MIDF B.V. fully transferred all rights and obligations in favor of EBRD, due to cessation of the existence of the company.

37 Subordinated liabilities

	in thousands of denars	
	current year 2017	previous year 2016
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, 2016 (previous year)	149,748	-	56,094	-	-	-	**205,842**
Additional provisions during the year	184,158	-	3,029	-	-	-	**187,187**
(used provisions during the year)	-	-	(4,897)	-	-	-	**(4,897)**
(release of provisions during the year)	(221,203)	-	(1,008)	-	-	-	**(222,211)**
Exchange rate effect	(126)	-	-	-	-	-	**(126)**
As at 31 December 2016 (previous year)	**112,577**	**-**	**53,218**	**-**	**-**	**-**	**165,795**
Balance at January 1, 2017 (current 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 (current year)	**183,395**	**-**	**60,032**	**-**	**-**	**-**	**243,427**

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 2017, 94.23% of total off-balance sheet items in the assets are classified in the risk category A, risk category B participates with 5.09%, and risk categories C, D and E with 0.68%.

39 Other liabilities

	in thousands of denars	
	current year 2017	previous year 2016
Trade payables	19,675	17,444
Received advances	33,108	17,198
Fee and commission liabilities	7,587	7,913
Accrued expenses	17,187	35,433
Deferred income from previous years	-	-
Short - term liabilities to employees	-	-
Short - term liabilities for employee benefits	-	-
Other:		
(liabilities more that 10% of the total other liabilities)		
Other liabilities on other basis	379,795	261,849
Delayed payments liabilities based on collections from abroad	94,502	118,827
VAT liabilities	6,445	2,829
Liabilities in foreign currency for establishing legal entities	4,727	16,164
Liabilities upon card operations	47,937	50,229
Other liabilities		
(liabilities less than 10% of the total other liabilities)	17,254	17,439
Total other liabilities	**628,217**	**545,325**

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 2017	previous year 2016	current year 2017	previous year 2016	current year 2017	previous year 2016
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 holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at the shareholders' Assembly. All shares rank equally with regard to the residual assets. According to the Bank's shareholders book as at 31 December 2017, 84,105 ordinary shares from the total shareholders equity of the Bank or 3.69% (as at 31 December 2016, 102,951 ordinary shares i.e 4.52%) there is limitation of the rights established based on the law and/or Decision or act of the competent body (for example limitation of the vote right according to the Governor decision).

As at 31 December 2017 the Group does not hold treasury shares. The Open-end Investment Funds managed by the Group's subsidiary KB Publikum Invest AD Skopje ownt a total of 17,114 ordinary shares or 0.75% from the total shareholders equity of the Bank, where 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 (as at 31 December 2016 KB Publikum - Balanced owns 2.109 ordinary shares, i.e. 0.0925%).

40 Subscribed Capital (continued)

B Dividends

B.1 Announced and paid dividends by the Bank

	in thousands of denars	
	current year 2017	previous year 2016
Declared dividends and paid dividends for the year	-	-

	in Denars	
	current year 2017	previous year 2016
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 2017	previous year 2016
Announced dividends after December 31	410,232	341,860

	in Denars	
	current year 2017	previous year 2016
Dividend per ordinary share	180	150
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 2017	previous year 2016	current year 2017	previous year 2016
Shareholder's name	Subscribed capital (nominal value)	Subscribed capital (nominal value)	voting right	voting right
East Capital Explorer Investment AB	227,907	227,907	10.00%	10.00%
European Bank for Reconstruction and Development	-	119,540	0.00%	5.25%
Total	**227,907**	**347,447**	**10.00%**	**15.25%**

41 *Earnings per share*

A *Basic earnings per share*

	in thousands of denars	
	current year 2017	previous year 2016
Net - Profit attributable to holders of ordinary shares		
Net gain for the year	836,478	787,153
(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	**836,478**	**787,153**

	Number of shares	
	current year 2017	previous year 2016
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)	**367**	**345**

B *Diluted earnings per share*

	in thousands of denars	
	current year 2017	previous year 2016
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)	836,478	787,153
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)	**836,478**	**787,153**

	number of shares	
Weighted average number of the ordinary shares (diluted)	current year 2017	previous year 2016
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)	**367**	**345**

42 Contingent liabilities and contingent assets

42.1 Contingent liabilities

	in thousands of denars	
	current year 2017	previous year 2016
Unsecured payment guarantees		
in Denars	787,403	681,045
in foreign currency	985,471	1,192,996
in Denars with foreign currency clause	45,086	43,089
Unsecured performance guarantees		
in Denars	4,519,716	4,273,152
in foreign currency	1,653,244	1,713,506
in Denars with foreign currency clause	822,289	904,797
Unsecured letter of credit		
in Denars	-	-
in foreign currency	2,723,340	924,074
in Denars with foreign currency clause	-	-
Unused overdraft on current accounts	1,766,179	1,766,422
Unused credit card limits	1,199,841	1,177,461
Foreclosed liabilities for crediting and unused credit limits	1,543,492	1,532,802
Issued secured guarantees	789,603	602,473
Covered letter of credit	418,563	28,026
Other secured contingent liabilities	1,262,562	1,431,281
Total contingent liabilities before special reserve	**18,516,789**	**16,271,124**
(Provisions)	(183,395)	(112,577)
Total contingent liabilities less special reserve	**18,333,394**	**16,158,547**

For part of the contingent liabilities in the amount of 263,189 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 263,189 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)

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 2017	previous year 2016
List separately the more significant contingent assets:	-	-
Total contingent assets	-	-

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 potential liabilities is in the amount of 1,262,562 thousands of denars, and amount of irrevocable are in the amount of 4,384,022 thousands of denars (2016: 1,431,281 thousands of denars, and the amount of irrevocable is 4,388,963 thousands of denars).

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

	in thousands of denars					
	current year 2017			previous year 2016		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
Administration of assets on behalf and for account of third parties						
Denar deposits	43,068	46,657	(3,589)	46,248	49,837	(3,589)
Foreign currency deposits	-	-	-	-	-	-
Denar loans	403,007	403,246	(239)	501,281	499,754	1,527
Foreign currency loans	-	-	-	-	-	-
Other Denar claims	-	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	27,152	27,152	-	47,261	47,261	-
Other	971	3,202	(2,231)	840	2,916	(2,076)
Total	**474,199**	**480,270**	**(6,071)**	**595,630**	**599,768**	**(4,138)**

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 2017 (current 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**	**281,240**	**-**	**516,426**
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	730	666,765	-	667,496
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	**-**	**-**	**730**	**666,765**	**-**	**667,496**

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 2017 (current year)						
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**	**-**	**76,716**
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 2016 (previous year)						
Assets						
Current accounts	-	-	-	-	-	**-**
Trading assets	-	-	-	-	-	**-**
Loans and claims						
mortgage loans	-	-	-	62,950	-	**62,950**
consumer loans	-	-	-	33,523	-	**33,523**
receivables under financial leasing	-	-	-	-	-	**-**
Factoring and forfeiting of receivables	-	-	-	-	-	**-**
other loans and receivables	-	-	123	146,873	-	**146,996**
Investment in securities	-	-	210,171	-	-	**210,171**
Impairment	-	-	(3)	(2,303)	-	**(2,306)**
Other assets	-	-	-	-	-	-
Total	**-**	**-**	**210,291**	**241,043**	**-**	**451,334**

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	-	-	4,190	644,205	-	**648,395**
Issued securities	-	-	-	-	-	**-**
Liabilities under loans	-	-	-	-	-	**-**
Subordinated debt	-	-	-	-	-	**-**
Other liabilities	-	-	-	-	-	**-**
Total	**-**	**-**	**4,190**	**644,205**	**-**	**648,395**
Contingent liabilities						
Issued guarantees	-	-	-	105,029	-	**105,029**
Issued letters of credit	-	-	-	-	-	**-**
Other contingent liabilities	-	-	304	38,412	-	**38,716**
(Special reserve)	-	-	(8)	(374)	-	**(381)**
Total	**-**	**-**	**296**	**143,068**	**-**	**143,364**
	-	-	-	-	-	**-**
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 2017 (current 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	**-**	**-**	**48**	**9,268**	**-**	**9,316**

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 2016 (previous year)						
Income						
Interest Income	-	-	-	11,480	-	**11,480**
Income from fees and commissions	-	-	218	5,363	-	**5,581**
Net gains from trading	-	-	-	-	-	**-**
Dividend income	-	-	-	-	-	**-**
Capital gains from sale of non-current assets	-	-	-	-	-	**-**
Other income	-	-	43,701	4,602	-	**48,303**
Transfers between entities	-	-	-	-	-	**-**
Total	**-**	**-**	**43,919**	**21,445**	**-**	**65,364**
Expenditures						
Interest expenditures	-	-	1	8,336	-	**8,337**
Expenditures for fees and commissions	-	-	-	-	-	**-**
Net losses from trading	-	-	-	-	-	**-**
Expenditures for procurement of non-current assets	-	-	-	-	-	**-**
Impairment of financial assets, on net basis	-	-	-	4,135	-	**4,135**
Other expenditures	-	-	70	3,741	-	**3,811**
Transfers between entities	-	-	-	-	-	**-**
Total	**-**	**-**	**71**	**16,212**	**-**	**16,283**

44 Related parties transactions (continued)

C Remuneration for the management of the bank

	in thousands of denars	
	current year 2017	previous year 2016
Short-term benefits for employees	134,159	125,926
Benefits after employment termination	-	-
Benefits due to employment termination	46	44
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	80	26
Total	**134,285**	**125,996**

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 2017 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
Total	**-**	**-**	**-**	**-**
As at 31 December 2016 (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 2017 (current year)				
Current value of minimum payment for the leasehold				
Total				
As at 31 December 2016 (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 2017 (current year)	-	-	-	-	-	-	**-**
As at 31 December 2016 (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 2017 (current year)	-	-	-	-
Total	**-**	**-**	**-**	**-**
As at 31 December 2016 (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 2016 (previous year)	-	-	-	-	-	-	**-**
Increase	-	-	-	-	-	-	**-**
(disposal and write- off)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
As at 31 December 2016 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
As at 1 January 2017 (current year)	-	-	-	-	-	-	**-**
Increase	-	-	-	-	-	-	**-**
(disposal and write- off)	-	-	-	-	-	-	**-**
Other	-	-	-	-	-	-	**-**
As at 31 December 2017 (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, 2016	-	-	-	-	-	-	**-**
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, 2016 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at January 1, 2017 (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, 2017 (current year)	-	-	-	-	-	-	**-**
Current carrying amount							
at January 1, 2016 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At December 31, 2016 (previous year)	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At December 31, 2017 (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, 2017 (current year)	46,232	1,868	7,472	36,892
Total	**46,232**	**1,868**	**7,472**	**36,892**
Balance at December 31, 2016 (previous year)	48,100	1,868	7,472	38,760
Total	**48,100**	**1,868**	**7,472**	**38,760**

46 Share based payments

	in thousands of denars			
	current year 2017		previous year 2016	
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 2017		previous year 2016	
	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 1.(c).

Significant subsidiaries

KB Publikum is a significant subsidiary of the Group. It executes its activities in the Republic of Macedonia. The Bank holds 64.29% of the shares with voting right in the subsidiary (2016: 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 2017**
Assets		
Cash and cash equivalents		38
Held for trading financial assets		17,202
Bank deposits		38,040
Property and equipment	29	176
Intangible assets	28	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/(decrease) of cash and cash equivalents	**(5)**

47 The Group's subsidiaries (continued)

KB Publikum

in thousands of denars	**31 December 2016**
Assets	
Cash and cash equivalents	43
Held for trading financial assets	3,607
Bank deposits	27,750
Property and equipment	178
Intangible assets	325
Other assets	2,329
Total assets	**34,232**
Liabilities	
Liabilities to suppliers and other liabilities	511
Total liabilities	**511**
Net assets	**33,721**
Carrying amount of non-controlling participation	**12,042**

	For the 2016
Revenue	22,095
Expenses	(10,008)
Profit/(loss)	12,087
Total comprehensive income/(loss)	**12,087**
Profit/(loss) of non-controlling interest	**4,316**

	For the year ended 31 December 2016
Cash flows from operating activities	10,945
Cash flows from investing activities	(10,918)
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	**27**

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.

KOMERCIJALNA BANKA AD SKOPJE

Consolidated financial statements and
Independent Auditors' Report
For the year ended December 31, 2017

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Building a better working world

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Independent auditors' report to the shareholders of KOMERCIJALNA Banka AD Skopje

We have audited the accompanying consolidated financial statements of Komercijalna Banka AD Skopje ("the Bank"), and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 International Standards on Auditing (ISAs) accepted and published in the Official Gazette no. 79 dated 11 June 2010 of Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 the auditors' 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, the auditors 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.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 1 March 2017.

Ernst & Young

Ernst & Young Certified Auditors Ltd.

Skopje, 1 March 2018

Друштво за ревизорски и книговодствен консалтинг и услуги ЕРНСТ И ЈАНГ ОВЛАСТЕНИ РЕВИЗОРИ ДОО СКОПЈЕ

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2017
(In thousands of Denars)

	Notes	2017	2016
Interest income		3,809,180	3,636,963
Interest expense		(491,892)	(557,777)
Net interest income	6	**3,317,288**	**3,079,186**
Fee and commission income		1,162,629	1,133,196
Fee and commission expense		(300,583)	(247,720)
Net fee and commission income	7	**862,046**	**885,476**
Dividend income		11,526	6,210
Foreign exchange gains, net		115,992	125,477
Net gains on financial instruments classified as held for trading	8	16,549	13,079
Other operating income	9	540,150	483,972
Personnel expenses	10	(872,243)	(850,137)
Depreciation and amortization	22,23,24	(179,023)	(185,140)
Other operating expenses	11	(705,256)	(659,509)
Net impairment loss on financial assets	12	(1,662,213)	(1,708,600)
Net impairment loss on non-financial assets		(106,960)	(353,855)
Operating profit		**1,337,856**	**836,159**
Share of profit of associates accounted for using the equity method		55,128	43,625
Profit before tax		**1,392,984**	**879,784**
Income tax expense	13	(139,937)	(93,717)
Profit for the year		**1,253,047**	**786,067**
Other comprehensive income for the period, net of income tax			
Items that are or may be reclassified to profit and loss			
Fair value reserve (available for sale financial assets):			
Net change in fair value		4,217	(3,256)
Related tax		(977)	(617)
Other comprehensive income, net of tax		**3,240**	**(3,873)**
Total comprehensive income for the year		**1,256,287**	**782,194**
Profit attributable to:			
Shareholders' of the Bank		1,244,217	781,751
Non-controlling interests		8,830	4,316
Profit		**1,253,047**	**786,067**
Total comprehensive income attributable to:			
Shareholders' of the Bank		1,247,457	777,878
Non-controlling interests		8,830	4,316
		1,256,287	**782,194**
Earnings per share	14		
Basic (in Denars)		546	343
Diluted (in Denars)		546	343

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

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

	Notes	2017	2016
ASSETS			
Cash and cash equivalents	15	37,208,775	33,538,674
Financial assets at fair value through profit and loss	16	481,925	411,339
Financial assets available-for-sale	17	8,839,390	3,675,230
Financial assets held-to-maturity	18	1,899,035	3,374,729
Loans and advances to banks	19	5,834,393	10,084,209
Loans and advances to customers	20	45,366,241	45,268,154
Investments in associates	21	235,164	210,171
Property and equipment	22	2,865,784	2,968,183
Investment property	23	-	-
Intangible assets	24	40,422	38,907
Current tax assets		498	-
Other assets	25	1,320,785	593,157
Assets acquired through foreclosure procedures	26	1,396,265	734,316
Non-current assets held for sale and disposal group		268	-
Total assets		**105,488,945**	**100,897,069**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions	27	1,277,271	1,648,463
Deposits from customers	28	90,400,307	86,115,337
Borrowings	29	1,237,823	1,650,522
Other tax liabilities		9,528	39,347
Deferred tax liabilities	13	62,919	17,254
Provisions	33	183,395	112,577
Other liabilities	30	688,249	598,543
Total liabilities		**93,859,492**	**90,182,043**
EQUITY			
Share capital		2,279,067	2,279,067
Share premium		771,527	771,527
Retained earnings		1,402,891	938,063
Revaluation reserve		8,794	5,554
Reserves		7,146,302	6,708,773
Total equity attributable to shareholders' of the Bank	31	**11,608,581**	**10,702,984**
Non-controlling interests		**20,872**	**12,042**
Total equity		**11,629,453**	**10,715,026**
Total liabilities and equity		**105,488,945**	**100,897,069**
Commitments and contingent liabilities	33	**15,862,667**	**14,096,767**

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 2018.

Signed on behalf of Komercijalna banka AD Skopje:

Maja Stevkova Sterieva, PhD
Chief Finance Officer

Ilija Iloski
Chief Operating Officer

Hari Kostov
Chief Executive Officer

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

	Share capital	Share premium	Fair value reserve	Statutory reserve	Other reserves	Retained earnings	Total equity, attributable to the shareholders of the Group	Non-controlling Interest*	Total equity
Balance, January 1, 2016	2,279,067	771,527	9,427	455,813	6,012,735	681,413	**10,209,982**	7,726	**10,217,708**
Total comprehensive income									
Profit for the year		-	-	-	-	781,751	**781,751**	4,316	**786,067**
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets)									
Net change in fair value		-	(3,256)		-	-	**(3,256)**	-	**(3,256)**
Tax on other comprehensive income		-	(617)		-	-	**(617)**	-	**(617)**
Total other comprehensive income		-	(3,873)		-	-	**(3,873)**	-	**(3,873)**
Total comprehensive income for the year		-	**(3,873)**		-	**781,751**	**777,878**	**4,316**	**782,194**
Transactions with owners, recognized directly in equity									
Treasury shares sold		-	-	-	-	(43)	**(43)**	-	**(43)**
Transfer to other reserve		-	-	-	240,225	(240,225)	-	-	-
Dividends paid		-	-	-		(284,833)	**(284,883)**	-	**(284,883)**
Total contributions by and distributions to owners	**-**	**-**	**-**	**-**	**240,225**	**(525,101)**	**(284,876)**	**-**	**(284,876)**
Balance, December 31, 2016	**2,279,067**	**771,527**	**5,554**	**455,813**	**6,252,960**	**938,063**	**10,702,984**	**12,042**	**10,715,026**
Balance, January 1, 2017	2,279,067	771,527	5,554	455,813	6,252,960	938,063	10,702,984	12,042	10,715,026
Total comprehensive income									
Profit for the year		-	-	-	-	1,244,217	**1,244,217**	8,830	**1,253,047**
Other comprehensive income, net of tax									
Fair value reserve (available-for-sale financial assets)									
Net change in fair value		-	4,217		-	-	**4,217**	-	**4,217**
Tax on other comprehensive income		-	(977)		-	-	**(977)**	-	**(977)**
Total other comprehensive income		-	3,240		-	-	**3,240**	-	**3,240**
Total comprehensive income for the year									
Transactions with owners, recognized directly in equity									
Transfer to other reserve	**-**	-	**-**	-	437,529	(437,529)	**-**	-	**-**
Dividends paid	**-**	-	**-**	-	-	(341,860)	**(341,860)**	-	**(341,860)**
Total contributions by and distributions to owners					**437,529**	**(779,389)**	**(341,860)**	**-**	**(341,860)**
Balance, December 31, 2017	**2,279,067**	**771,527**	**8,794**	**455,813**	**6,690,489**	**1,402,891**	**11,608,581**	**20,872**	**11,629,453**

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

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

	Notes	2017	2016
Profit before tax		1,392,984	879,784
Non – controlling interest, included in consolidated profit and loss		(8,830)	(4,316)
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets	22,24	179,023	184,303
Gain on sale of property and equipment	9	(4,229)	(107)
Gain on sale of assets acquired through foreclosure procedure	9	(166,318)	(101,265)
Loss on sale of assets acquired through foreclosure procedure	11	68,864	909
Impairment losses on assets acquired through foreclosure procedure		106,960	353,855
Depreciation of investment property	23	-	837
Impairment losses on financial assets	12	1,662,213	1,708,600
Dividend income		(11,526)	(6,210)
Interest income	6	(3,809,180)	(3,636,963)
Interest expense	6	491,892	557,777
Net trading income		(16,549)	(13,079)
Share of profit from associates accounted for using the equity method		(55,128)	(43,625)
Operating loss before changes in operating assets and liabilities:		**(169,824)**	**(119,500)**
Restricted accounts		(59,837)	(560,558)
Mandatory reserves in foreign currency with NBRM		69,396	(171,230)
Financial assets at fair value through profit and loss		(53,318)	(27,231)
Loans and advances to banks		4,248,527	(876,402)
Loans and advances to customers		(1,637,695)	594,801
Collected collateral		(671,456)	407,899
Other assets		(798,517)	(95,762)
Non current assets held for sale and disposal group		(268)	-
Deposits from banks and other financial institutions		(376,983)	283,656
Amounts owed to other depositors		4,322,190	3,313,348
Other liabilities		89,705	86,113
		4,961,920	**2,835,134**
Interest received		3,824,144	3,714,880
Interest paid		(523,814)	(592,899)
Income tax paid		(122,181)	(103,071)
Net cash generated from operating activities		**8,140,069**	**5,854,044**
Cash flows from investing activities			
Acquisition of property and equipment		(63,837)	(78,545)
Acquisition of intangible assets		(14,344)	(11,092)
Proceeds from sale of property and equipment		4,271	221
Outflows for non current assets held for sale		(268)	-
Acquisition of investments securities		(10,866,284)	(9,509,277)
Proceeds from sale of investments		7,192,951	9,658,194
Dividends received		41,661	28,811
Net cash flows generated from/(used in) investing activities		**(3,705,850)**	**88,312**
Cash flows from financing activities			
Proceeds from borrowed funds		625,199	1,830,720
Repayments of borrowed funds		(1,037,898)	(2,345,026)
Dividends paid		(341,860)	(284,883)
Net cash (used in)/generated from financing activities		**(754,559)**	**(799,189)**

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

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

	Notes	2017	2016
Net change of cash and cash equivalents			
Cash and cash equivalents at beginning of year		28,565,944	23,422,777
Net increase/(decrease) in cash and cash equivalents		3,679,660	5,143,167
Cash and cash equivalents at the end of the year	15	**32,245,604**	**28,565,944**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

1. General Information

Komercijalna Banka AD - Skopje (hereinafter “the Bank”), is a shareholding company having its registered office in the Republic of Macedonia. The head office of the Bank is Orce Nikolov str. No. 3, 1000 Skopje. The Bank operates in the Republic of Macedonia with a network of branch 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;
- Placing loans and advances domestically and abroad, including factoring and financing commercial transactions;
- Issuance and administration of payment instruments (cards, cheques, traveler 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 with foreign currencies;
- Trading with securities;
- Providing services of a bank-custodian of investment and pension funds;
- Keeping 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 are within the scope of activities only by a bank.

The shares of the Bank are listed on the Macedonian Stock Exchange official market in the segment of super-listing of joint stock companies with special reporting requirements, and is one of the ten companies comprising 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 set up and manage open and closed ended investment funds as approved by the Securities and Exchange Commission. It manages four open-end investment funds, KB Publikum-Balanced, KB Publikum-Bonds, KB Publikum-Cash and KB Publikum-MBI 10. These funds are not legal entities and do not perform specific activities.

The consolidated financial statements of the Bank for the year ended 31 December 2017 were authorised for issue by the Supervisory Board on 27 February 2018.

2. Basis of Preparation of Consolidated Financial Statements

(a) Statement on Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standard Board ("IASB").

(b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.
- foreclosed assets measured at the lower of cost or fair value less costs to sale.

(c) Functional and Presentation Currency

The presented consolidated financial statements are expressed in thousands of Denars. The Denar represents the functional and presentation currency of the Group.

(d) Use of Estimates and Judgments

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

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

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in Note 3.20 to the consolidated financial statements.

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

(e) Changes in accounting policies

The Group consistently applied the accounting policies as set out in Note 3 to all periods presented in t hese consolidated financial statements.

(f) Changes in accounting estimates

For the year ended 31 December 2017, there were no changes in accounting estimates.

2. Basis of Preparation of Consolidated Financial Statements (Continued)

(g) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**

  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments did not have any impact on the Group's financial position or performance.

- **IAS 7: Disclosure Initiative (Amendments)**

  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendment did not have any impact on the Group's financial position or performance.

- The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement did not have any impact on the Group's financial position or performance.

  Ø ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

(h) Standards issued but not yet effective and not early adopted

- **IFRS 9 Financial Instruments – Classification and measurement**

  The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application of the standard is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank will not restate comparative information.

  During 2017, the Bank has started a project analysis for the impact assessment of all three aspects of IFRS 9 using the support of an external consultant. The project has the following stages: analysis and assessment of the current situation, understanding of the main processes; discussion and clarification of the new IFRS 9 requirements; identification and analysis of the significant deficiencies from the IFRS 9 requirements (gap analysis) and action plan to address them; initial impact assessment of the effects; detailed action plan with measures to be taken by the Bank to fully implement the new IFRS 9 in the most effective way, including development of a risk assessment model; full implementation of the new requirements, including adoption of new policies and procedures and technical specification in the core banking system.

  As of the date of issuance of the current financial statements the Bank performed reclassification of financial instruments according to the requirements of IFRS 9. There were no changes in the measurement basis and no financial impact from the reclassification, except for the following:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

2. Basis of Preparation of Consolidated Financial Statements (Continued)

(h) Standards issued but not yet effective and not early adopted (Continued)

- **IFRS 9 Financial Instruments – Classification and measurement (Continued)**

Previous category (IAS 39)	New category (IFRS 9)	Effects of reclassification
Financial instruments at fair value through profit or loss – debt securities	Financial instruments at amortized cost	The fair value as at the reclassification date is the new amortized cost

For the purpose of implementing the IFRS 9 the Bank has worked in cooperation with an external consultants. The process of implementation included developing relevant parameters as prescribed by the standard. The Bank is in the final phase of completing the internal methodology which will serve as a base for calculating impairment provision in accordance with IFRS 9.
Based on the current developed model which is subject to Bank's testing and verification, the Bank estimates that the implementation of IFRS 9 will not have a material financial impact on the existing impairment allowance.

IFRS 9 is a comprehensive standard and the effects on the financial statements of the Bank will highly depend on the data available in the core bank system and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9.

- **IFRS 15 Revenue from Contracts with Customers**
The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. This Standard did not have any impact on the Group's financial position or performance.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. This Standard did not have any impact on the Group's financial position or performance.

- **IFRS 16: Leases**
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group is currently in the process of evaluating the potential effect of this Standard.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. This Standard did not have any impact on the Group's financial position or performance.

2. Basis of Preparation of Consolidated Financial Statements (Continued)

(h) Standards issued but not yet effective and not early adopted (Continued)

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments did not have any impact on the Group's financial position or performance.

- **IAS 40: Transfers to Investment Property (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments did not have any impact on the Group's financial position or performance.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendment did not have any impact on the Group's financial position or performance.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The amendments did not have any impact on the Group's financial position or performance.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Interpretations did not have any impact on the Group's financial position or performance.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The amendments did not have any impact on the Group's financial position or performance.

2. Basis of Preparation of Consolidated Financial Statements (Continued)

(h) Standards issued but not yet effective and not early adopted (Continued)

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Interpretations did not have any impact on the Group's financial position or performance.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments did not have any impact on the Group's financial position or performance.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  - ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

3. Summary of Significant Accounting Policies

3.1 Basis of consolidation

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to 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. Any gain on a bargain purchase is recognised in profit or loss immediately. 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.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3. Summary of Significant Accounting Policies (continued)

3.1 Basis of consolidation (consolidation)

3.1.2 Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

3.1.3 Subsidiaries

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

3.1.4 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI 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 control is lost.

3.1.5 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction 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.

3.2 Interest Income and Expense

Interest income and expense are recognized in profit or loss 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 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 carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.3 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.

3.4 Dividend Income

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

3. Summary of Significant Accounting Policies (continued)

3.5 Foreign currency Transactions

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia (“NBRM”) at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the end of the reporting period 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 profit or loss 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 end of the reporting period.

3.6 Financial Assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, available-for-sale financial assets, loans and receivables. The classification depends on the nature and the purposes of the financial assets and is determined at initial recognition. Financial assets are recognized and derecognized on settlement date, which represents the date when the asset is delivered to the Group.

3.6.1 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 National Bank of the Republic of Macedonia (“NBRM”) and other financial assets such as treasury and government bills, as highly liquid assets with maturity up to three months 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.

3.6.2 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include 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 at cost and subsequently measured at fair value as determined based on their market price.

All the respective realized and unrealized gains and losses are included in profit or loss for the period. Interest, if realized, during the period of ownership of these securities, is recognized as net trading income in the profit or loss for the period. The purchase and disposal of securities held-for-trading is recognized at settlement date, which represents the date when the asset is delivered to/from the Group. When the settlement date and the trade date are different, then the Group recognizes the changes in fair value from the trade date to the settlement date through profit and loss.

3.6.3 Available-for-sale Financial Assets

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

Available-for-sale financial assets are initially recognized at cost, including all transaction costs, and subsequently re-measured at fair value based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments. Transaction costs represent the costs that are directly attributable to acquisition of the financial asset.

Unrealized gains and losses arising on changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously accumulated in the other comprehensive income should be recognized in profit or loss for the period. Interest calculated using the effective interest method and impairment losses are recognized in the profit or loss for the period.

3. Summary of Significant Accounting Policies (Continued)

3.6 Financial Assets (Continued)

3.6.4 Held-to-maturity Financial Assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. If the Group is to sell other than, an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale and the Group will not be able to classify financial assets held-to-maturity for the current and next two years. These financial assets are measured at amortized cost using the effective interest rate method.

3.6.5 Loans and receivables

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

Loans to customers and financial institutions are stated at their net amount reduced by allowance for impairment and un-collectability.

3.6.6 Impairment of Financial Assets

The Group assesses at end of each reporting period whether there is objective evidence that a financial asset is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that Financial asset previously recognized in other comprehensive income – is removed from other comprehensive income and recognized in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss for the period. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The amount of the impairment loss for financial assets carried at amortized cost is calculated as the difference between the asset’s carrying amount and the present value of expected future cash flows discounted at the financial instrument’s original effective interest rate. Interest of the impaired assets continues to be recognized through the unwinding of the discount.

3.6.7 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 “claim” means a loan, a commitment such as a letter of credit, guarantee or commitment to extend the credit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items are presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the profit or loss.

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 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;

3. Summary of Significant Accounting Policies (Continued)

3.6 Financial Assets (Continued)

3.6.7 Impairment Losses on Loans and Receivables (Continued)

- All allowances for losses on impairment and un-collectability are reviewed and tested monthly, and any further changes in the amount and timing of expected future cash flows in comparison to previous assessments result in changes in allowances for losses on impairment and un-collectability recorded in profit or loss;

- Any loan which, is considered impossible to be collected, is written off against the relevant allowance for losses on impairment. Further collections are recorded in the profit or loss;

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

For more details, refer to 4.1. Credit risk.

3.6.8 De-recognition of Financial Assets

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

3.7 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.

3.7.1 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.

3.7.2 Borrowings

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

3.7.3 De-recognition of Financial Liabilities

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

3.8 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3. Summary of Significant Accounting Policies (Continued)

3.8 Fair value measurement (Continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.9 Investments in Associates

An associate is an entity, over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If the Group holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that the Group has significant influence. A substantial or majority ownership by another investor does not necessarily preclude the Group from having significant influence.

Investments in associates are measured using the equity method, by which the investment is initially recognized at cost. Subsequent to the initial measurement, carrying amount is increased or decreased to recognize the Group’s share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment.

3.10 Property and Equipment

Property and equipment is recorded at cost, less accumulated depreciation and accumulated impairment losses, if any. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the profit or loss as an expense as incurred. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is charged at estimated rates to write off the cost of assets over their estimated useful lives, using the straight-line method. Land is not depreciated. 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
Leasehold improvements	5 years

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

3. Summary of Significant Accounting Policies (Continued)

3.11 Intangible Assets

Intangible assets 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. 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.

3.12 Impairment of non-financial assets

The management of the Group regularly reviews the carrying amounts of the Group's non-financial assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is written down to its recoverable amount. An impairment loss is recognized as an expense of the current period. If the recoverable amount of an asset is increased due to change in the indications and factors of impairment at the moment the last impairment loss is recognized, the carrying amount of the asset is increased to its current recoverable amount. A reversal of an impairment loss is recognized as income immediately.

3.13 Investment property

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

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

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

3.14 Assets Acquired Through Foreclosure Proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in assets acquired through foreclosure proceedings. These assets are initially measured at the lower of the appraised value, less estimated cost to sell, charged to the Group, and the cost of the foreclosed asset. The appraised value is determined by local certified appraiser on the date of foreclosure.

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

3.15 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, citizens, 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 Bank 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.

3. Summary of Significant Accounting Policies (Continued)

3.16 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

3.17 Employment benefits

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

The Group is obliged to pay to its employees a termination lump sum upon retirement equal to two monthly average salaries paid in the Republic of Macedonia. The Group records provisions for retirement to allocate such costs by periods to which they relate. In accordance with IAS 19, these benefits are considered defined pension benefit plans. The carrying amount of the Bank's liabilities arising from employee benefits is 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.

The calculations are made under the following parameters and used indicators (bases) valid on 31 December each year:

- Rate of growth of average monthly salary per year in the Republic of Macedonia: 1% for the Year 2016 and 2% for the Year 2017, estimated growth of future salaries in Republic of Macedonia, taking into consideration the rate of inflation;
- Discount rate: 3.9% for the Year 2016 and 3.9% for the Year 2017, derived from long-term risk-free securities;
- Severance pay for retiring to the extent of 2 average net salaries per employee in the Republic of Macedonia, paid out in the previous 3 months: MKD 22.315,00 for the Year 2016 and MKD 23.165,00 for the Year 2017, published by the State Statistical Office of the Republic of Macedonia in December for each year respectively.

3.18 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 Bank and mainly includes suppliers payable,, other liabilities, accrued deferred liabilities and deferred income.

3.19 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.

3.20 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.

3. Summary of Significant Accounting Policies (Continued)

3.20.1 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.

3.20.2 Other reserves

Under local statutory legislation, there is requirement 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 Statute.

Other reserves are formed in addition to statutory reserve, based on decisions by the bodies for distribution of profit, and can be used to cover certain losses or for other expenses. The maintenance of the level of reserves is determined by the fulfillment of the capital requirements prescribed by NBRM 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.

3.21 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.

The diluted earnings per share 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.

3.22 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 recognised in respect of 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 is not recognised for taxable temporary differences arising on the initial recognition of goodwill.
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.

3. Summary of Significant Accounting Policies (Continued)

3.23 Leases

Assets leased out under operating lease are included in the statement of financial position as investment property. The Group leases assets as operating leases. Rental income and expenses is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

3.24 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.

In the Republic of 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 presently not readily available.

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

Allowance for 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 profit and loss, 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. For more details, refer to 4.1. Credit risk.

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.

Investment property and assets acquired through foreclosure procedures

Information about the assumptions made in measuring fair value are included in the following notes:

- Note 23 – investment property;
- Note 26 – assets acquired through foreclosure procedure.

3. Summary of Significant Accounting Policies (Continued)

3.24 Critical Accounting Judgments and Estimates (Continued)

Determination of control over investees

Management applies its judgment to determine whether the control indicators set out in accounting policy 3.1 indicate that the Group has a control over an investee or an investment fund.

Investment funds

The Group acts as fund manager to four investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the funds (comprising any carried interests and expected management fees) and the investors' rights. The assets of the investment funds are legally separated from the assets of the Group, In case of bankruptcy of the Group, the assets of the investment funds belong to the holders of stakes in the investment funds. In addition, the Group has week aggregate economic interests in the funds. As a result, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is a 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 most important types of risks identified, evaluated and mitigated by the Group's risk management policies are credit risk, liquidity risk, market risk and operational risk.

Risk Management Framework

The Group has established a Strategy for risk management, 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 Group's necessary capital adequacy, general review of the business strategy of the Group, 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. The Supervisory Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The 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 an organizational structure, with clearly defined competences and responsibilities. The Risk Management and Planning Division is responsible for monitoring and reporting of global risk exposure, while the organizational units of the Group, which create risk exposure are responsible for practical application of risk management. The Internal Audit Department is responsible for review of risk management.

4.1 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 principally 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.

Taking into consideration the latest events arising from the global financial crisis, the Group applies more restrictive credit policy, higher precautions in assessing the creditworthiness of each customer and projects subject to financing.

A Credit Risk Management

The Group has an established 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 is 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 is 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 level of business unit in the Group includes each Division where the credit risk is undertaken and the persons with special rights and responsibilities that performs the management function in the Division. The duties of these organizational units in the Group are regulated in the appropriate Policies adopted from the Supervisory Board. The organizational unit in the Group responsible for credit risk management is Risk Management and Planning Division – Credit Risk Management Department.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

A Credit Risk Management (Continued)

All credit exposures exceeding 10% of the Group's own funds up to the legally determined limit of exposure towards a single client (up to 25% of regulatory capital) are subject to approval by the Supervisory Board.

The Credit Committee oversees the overall credit operation of the Group. Also, the Credit Committee is mainly responsible for approving and proposing to the Risk Management Committee and Board of Directors, all policies, procedures and amendments thereto relating to the extension of credit, to ensure that these policies are applied consistently and complied with throughout the Group, to approve credit exposure between 3% and 10% from own funds.

Board of directors, Corporate Lending Division Manager and Department Managers are authorized for approving credit exposures up to 3% of the Group's own funds.

B Credit Risk Assessment

(a) Loans and Advances

In assessing credit risk of loans and advances to customers and banks at a counterparty level, the Group uses three components:

(I) the 'probability of default' by the client or counterparty on its contractual obligation (expected cash flows);
(II) the likely recovery ratio on the defaulted obligations, the 'loss given default';
(III) the amount and quality of the collateral for the exposure.

These credit risk measurements, which reflect expected loss, i.e. the 'expected loss model' and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Group's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the end of the reporting period (the 'incurred loss model') rather than expected losses (Note 4.1.D).

(i) The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the group are segmented in four rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principal, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Group's internal rating scale

Group's rating	Description of the grade
A	Pass/acceptable for financing
B	Watch (careful)
C	Sub-standard
D+E	Suspicious (doubtful)+Loss

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

B Credit Risk Assessment (Continued)

(a) Loans and Advances (Continued)

Group's rating grade A (pass/acceptable for financing) includes:

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

Group's rating grade B (Watch (careful)) includes:

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

Group's rating grade C (Sub-standard) includes:

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

The Group may not classify credit exposure to the client under bullet points 6 and 7 in C risk category, if:

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

B Credit Risk Assessment (Continued)

(a) Loans and Advances (Continued)

Group’s rating grade D (Suspicious (doubtful) loss) includes:

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

Group is rating grade E (Suspicious (doubtful) loss) includes:

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

(ii) Loss given default or loss severity represent the Group’s expectations of the extent of loss on a claim should default occurs. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigations.

(iii) Amount and quality of the collateral depends on the terms, type (immovable property, movable property, inventories, receivables) and the possibility for its enforcement. The Group divides the clients in two groups: one where the exposure of the Group is secured with value of the collateral that is lower than the amount of the exposure and second where the value of the collateral is higher than the amount of the exposure. The collateral is not taken into calculation of the expected cash flows from the financial assets, only as an input into the internal rating of the client.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

B Credit Risk Assessment (Continued)

(b) Debt Securities and Other Bills

The Group is striving to maintain acceptable level of credit risk exposure regarding debt securities, so investment activities are primarily in government debt securities.

C Risk Limit Control and Mitigation Policies

The Group manages and controls concentration of credit risk to clients, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Measures for specific control and mitigation of credit risk are prescribed in the act that regulates credit activities and procedures are obtaining collateral and credit-related contingencies

(a) Collateral

Collateral is considered as a secondary factor in granting a credit facility. Security by itself, with its lack of ability to generate cash flow, is insufficient to justify the granting of credit facilities. The principal collateral types for loans and advances are:

(i) For corporate entities

- Cash
- Property
- Equipment and vehicles
- Inventory
- Receivables
- Guarantees (Bank guarantees, guarantees from legal entities)
- Securities (Debt securities issued by the Government of RM, Securities issued by legal entities).

Loans to corporate entities are generally secured.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

C Risk Limit Control and Mitigation Policies (Continued)

(ii) For individuals
- Property
- Cars
- Deposits
- Securities (Debt securities issued by the Government of RM, Securities issued by legal entities)
- In some cases draft or draft with endorsers covering the total receivables.

Loans to individuals are generally secured.

(b) Credit-related contingencies

The primary purpose to these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. The Group issues collateralized and uncollateralized guarantees and letters of credit. The Group monitors the term of maturity of these credit commitments, because long-term commitments have greater degree of credit risk than short-term commitments, also as uncollateralized commitments regarding collateralized commitments.

D Impairment and Provisioning Policies

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relates to individually significant exposures.

According to the Group's policy, there are four internal rating grades. The majority of the allowance for impairment comes from the bottom two grades. The table below shows the structure of the Group's loans and advances portfolio regarding internal rating system and the associated allowance for impairment for each internal rating grade:

	December 31, 2017		December 31, 2016	
	Loans %	**Impairment %**	**Loans %**	**Impairment %**
Pass/acceptable for financing (A)	75.2	1.0	76.3	1.1
Watch (careful) (B)	8.1	8.0	6.5	6.3
Sub-standard (C)	1.7	28.3	1.7	26.6
Suspicious (doubtful)+ Loss (D) +(E)	15.0	81.1	15.5	84.6
Total	**100.00**	**14.0**	**100.00**	**14.8**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

E Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements, After Impairment

	In thousands of Denars Year ended December 31, 2017	 2016
Credit risk exposure relating to balance sheet assets		
Loans and advances to banks	5,834,393	10,084,209
Loans to customers		
Loans to individuals		
- overdrafts (exemption off-balance sheet exposure)	1,038,951	1,085,024
- credit cards (exemption off-balance sheet exposure)	987,232	1,033,505
- loans	11,091,945	10,850,672
Loans to corporate entities		
- Large corporate clients	15,259,266	14,943,371
- Small and medium size companies (SMEs)	16,988,847	17,355,582
Financial assets at fair value through profit and loss	481,925	411,339
Financial assets available for sale	8,839,390	3,675,230
Financial assets held to maturity	1,899,035	3,374,729
Other assets	1,320,785	593,157
	63,741,769	**63,406,818**
Credit risk exposure relating to off-balance sheet assets/liabilities		
Guarantees	8,724,105	8,771,527
Letters of credit	2,709,755	923,166
Unused overdrafts on current accounts	1,167,992	1,148,506
Unused credit cards limits	1,736,911	1,737,632
Unused credit limits-noncallable	1,523,904	1,515,935
	15,862,667	**14,096,766**
Total credit risk exposure	**79,604,436**	**77,503,584**

The table above does not include cash and cash equivalents because the risk is minimal due to the reasons that the majority of the claims are exposures to the NBRM.

The above table presents a worst case scenario of credit risk exposure to the Group as at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet items, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 64.3% of the total maximum exposure is derived from loans and advances to banks and customers (2016: 71.9%); 19.9% represents off-balance-sheet items (2016: 18.2%).

Management is confident in its ability to continue to control and sustain minimum exposure to credit risk to the Group resulting from both loans and advances portfolio and off balance sheet items based on the following:

- 83.3% of the loans and advances are categorised in top two grades on the internal rating system (2016: 82.8%);
- Loans and advances to customers are collateralized and loans to banks are mostly in first investment grade-high credit worthiness banks ;
- 13.7% of loans and advances are considered neither past due nor impaired (2016: 19.38%).
- The increase of off-balance-sheet items generally resultiing in increase of financial Letters of credit, unused overdrafts on current accounts.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

F Loans and Advances

Loans and advances are summarized as follows:

In thousands of Denars

	Year ended December 31, 2017		Year ended December 31, 2016	
	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired	2,196,753	5,830,158	2,176,673	10,081,042
Past due but not impaired	103,341	-	219,886	-
Impaired	50,456,309	5,850	50,764,645	4,374
Gross	**52,756,403**	**5,836,008**	**53,161,204**	**10,085,416**
Less: allowance for impairment	(7,390,162)	(1,615)	(7,893,050)	(1,207)
Net	**45,366,241**	**5,834,393**	**45,268,154**	**10,084,209**

Further information on the impairment allowance for loans and advances is provided in Notes 19 and 20**.**

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal rating system, these are claims classified in A risk category and ranked in the best ranks.

In thousands of Denars

	December 31, 2017	December 31, 2016
Loans and advances to banks	5,830,158	10,081,042
Loans to customers		
Loans to individuals		
- Loans	337,656	356,692
Loans to corporate entities		
- Large corporate clients	1,475,505	1,537,408
- Small and medium size companies (SMEs)	383,592	282,573
Total	**8,026,911**	**12,257,715**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

F Loans and Advances (Continued)

(b) Loans and advances past due but not impaired

The amount of past due but not impaired loans included exposures which are past due up to 30 days, and are mostly cash covered. Gross amount of loans and advances by class of customer that were past due but not impaired were as follows:

In thousands of Denars
December 31, 2017

	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to customers	103,341	-	-	**103,341**
Value of collateral				**699,534**

In thousands of Denars
December 31, 2016

	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to customers	213,281	6,605	-	**219,886**
Value of collateral				**275,854**

(c) Loans and advances individually impaired

i) Loans and advances

The breakdown of individually impaired loans and advances by class and the fair value of related collateral held by the Group as security, are as follows:

In thousands of Denars
December 31, 2017

	Large corporate clients	Small and medium size companies (SMEs)	Loans and advances to banks	Overdrafts	Credit cards	Retail loans	Total	Allowance for Individually impaired loans
Gross amount	16,188,296	21,036,690	5,850	1,108,246	1,051,461	11,071,616	**50,462,159**	**7,391,776**
Value of collateral	**23,948,114**	**30,999,322**	**-**	**-**	**234**	**13,367,207**	**68,314,877**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

F Loans and Advances (Continued)

(c) Loans and advances individually impaired (Continued)

In thousands of Denars
December 31, 2016

	Large corporate clients	Small and medium size companies (SMEs)	Loans and advances to banks	Overdrafts	Credit cards	Retail loans	Total	Allowance for Individually impaired loans
Gross amount	16,683,832	21,031,626	4,374	1,155,863	1,098,589	10,794,735	**50,769,019**	**7,894,257**
Value of collateral	**23,848,453**	**29,759,291**	**-**	**4,304**	**442**	**12,619,127**	**66,231,617**	

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

F Loans and Advances (Continued)

(c) Loans and advances individually impaired (Continued)

The disclosed fair value of collateral is determined by certified appraisals and represents estimated value realizable by the legal owners of the assets. The Group makes valuations of the market value of residential property or commercial real estate at least once a year. The Group shall provide an appraisal of the market value of the property in a shorter period as well, in case of a significant decline of market prices of similar properties.

Breakdown of the collateral:

- Most of the Retail loans are covered by the property for private use (flats, houses),
- Loans for corporate clients are covered by: 1) commercial real estate 2) property for private use and pledge over movables.

Value of collateral for mitigating of credit risk

	Loans and advances to customers	
in thousands of denars	**Current year 2017**	**Previous year 2016**
Value of collateral of credit exposure assessed for impairment on an individual basis		
First-class collateral instruments		
cash deposits (in depot and/or restricted in accounts held with the Bank)	1,119,180	1,223,323
government securities	-	-
government unconditional guarantees	-	-
bank guarantees	17	-
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (besides bank Guarantees and guarantees from insurance companies)	61,142	61,133
Guarantees from individuals	1	1
Mortgage on real estate		
property for private use (flats, houses)	17,433,672	17,292,667
business facility	34,731,604	34,289,954
Pledge over movables	15,140,209	13,678,522
Other types of collateral	887,266	952,928
Total value of collateral of credit exposure assessed for impairment on an individual basis	**69,373,091**	**67,498,528**

ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2017 amounts to Denar 5,850 thousand (2016: 4,374 thousand). Generally, no collateral is held by the Group for these placements.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

F Loans and Advances (Continued)

(d) Loans and advances renegotiated

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Bank had provided initially and that it would not otherwise consider.

Once the loan is restructured it is classified as substandard in at least C risk grade and remains in the same rating grade at least two quarters independent of satisfactory performance after restructuring. The restructured loans as at 31 December 2017 and 31 December 2016 are as follows:

	In thousands of Denars	
	December 31, 2017 Carrying amount	December 31, 2016 Carrying amount
Restructured loans	**989,481**	**1,677,060**

The restructured loans are classified in C and D risk grades, with impairment in the range from 28% to 51%. Out of the total exposure, the amount of 823,098 thousand denars is up to 90 days and the amount of 166,383 thousand denars is over 90 days overdue.

G Debt Securities, Treasury Bills and Other Eligible Bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills based on the respective issuer as at 31 December 2017. Issuer of the investment securities is the Central Bank of the Republic of Macedonia and the Republic of Macedonia. Fitch Ratings assigned its BB+ long term default rating and BB+ local currency long term default rating to the Republic of Macedonia.

				In thousands of Denars December 31, 2017
Issuer	**Cash and cash equivalents**	**Trading securities**	**Investment securities**	**Total**
Central bank of Republic of Macedonia	6,124,553	-	-	6,124,553
Republic of Macedonia	-	96,431	10,673,500	10,769,931
Total	**6,124,553**	**96,431**	**10,673,500**	**16,894,484**

				In thousands of Denars December 31, 2016
Issuer	**Cash and cash equivalents**	**Trading securities**	**Investment securities**	**Total**
Central bank of Republic of Macedonia	5,778,123	-	-	5,778,123
Republic of Macedonia	-	23,165	6,984,971	7,008,136
Total	**5,778,123**	**23,165**	**6,984,971**	**12,786,259**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

H Repossessed Collateral

As at December 31, 2017 and 2016 the Group assets obtained through foreclosure procedures amount to:

	In thousands of Denars	
	December 31, 2017 Carrying amount	**December 31, 2016 Carrying amount**
Property and equipment (note 26)	**1,396,265**	**734,316**

I Concentration of Risks of Financial Assets with Credit Risk Exposure

a) Geographical sectors

The following table breaks down the Group's credit exposure at their carrying amount, categorized by geographic region, based on the country of domicile of counterparties:

				In thousands of Denars	
	Total	**Republic of Macedonia**	**EU Countries**	**Non-EU Countries in Europe**	**Other countries**
ASSETS					
Cash and cash equivalents	**37,208,775**	17,928,440	13,004,155	5,894,026	382,154
Financial assets at fair value through P&L	**481,925**	**481,925**	-	-	-
Loans and advances to banks	**5,834,393**	49,313	3,354,599	1,967,702	462,779
Loans and advances to customers					
Loans to individuals					
- Term Loans	**11,091,945**	**11,091,945**	-	-	-
- Overdrafts	**1,038,951**	**1,038,951**	-	-	-
- Credit cards	**987,232**	**987,232**	-	-	-
Loans to corporate entities					
- Large corporate customers	**15,259,266**	15,259,266	-		-
- SMEs	**16,988,847**	16,988,847	-	-	-
Financial assets available for sale	**8,839,390**	**8,837,520**	1,408	-	462
Financial assets held-to-maturity	**1,899,035**	**1,899,035**	-	-	-
Other assets	**1,320,785**	**1,320,785**	-	-	-
Total assets at 31 December 2017	**100,950,544**	**75,883,259**	**16,360,162**	**7,861,728**	**845,395**

All assets included in Other assets satisfy the conditions and criteria of financial assets.

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December 31, 2017

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

I Concentration of Risks of Financial Assets with Credit Risk Exposure (Continued)

a) Geographical sectors (Continued)

The following table breaks down the Group's credit exposure at their carrying amount, categorized by geographic region, based on the country of domicile of our counterparties:

In thousands of Denars

	Total	Republic of Macedonia	EU Countries	Non-EU Countries in Europe	Other countries
ASSETS					
Cash and cash equivalents	**33,538,674**	16,385,554	11,039,402	4,859,317	1,254,401
Financial assets at fair value through P&L	**411,339**	411,339	-	-	-
Loans and advances to banks	**10,084,209**	18,310	3,792,643	5,810,548	462,708
Loans and advances to customers					
Loans to individuals					
- Term Loans	**10,850,672**	10,850,672	-	-	-
- Overdrafts	**1,085,024**	1,085,024	-	-	-
- Credit cards	**1,033,505**	1,033,505	-	-	-
Loans to corporate entities					
- Large corporate customers	**14,943,371**	14,943,371	-		-
- SMEs	**17,355,582**	17,233,671	121,911	-	-
Financial assets available for sale	**3,675,230**	3,673,296	1,408	526	
Financial assets held-to-maturity	**3,374,729**	3,374,729	-	-	-
Other assets	**593,157**	593,157	-	-	-
Total assets at 31 December 2016	**96,945,492**	**69,602,628**	**14,955,364**	**10,670,391**	**1,717,109**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

I Concentration of Risks of Financial Assets with Credit Risk Exposure (Continued)

b) Industry sector

The following table breaks down the Group's credit exposure at their carrying amount, categorized by industry sector of our counterparties:

In thousands of Denars

	Total	Manufac-turing	Commerce and finance	Retail customers	Agriculture	Government and local authorities	Construc-tion	Transport	Trade	Other
ASSETS										
Cash and cash equivalents	**37,208,775**	-	37,208,775	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	**481,925**	-	385,494	-	-	96,431	-	-	-	-
Loans and advances to banks	**5,834,393**	-	5,834,393	-	-	-	-	-	-	-
Loans and advances to customers										
Loans to individuals										
- Term Loans	**11,091,945**	-	-	11,091,945	-	-	-	-	-	-
- Overdrafts	**1,038,951**	-	-	1,038,951	-	-	-	-	-	-
- Credit cards	**987,232**	-	-	987,232	-	-	-	-	-	-
Loans to corporate entities										
- Large corporate customers	**15,259,266**	4,192,747	37,845	-	126,387	1,377,547	751,598	134,212	4,231,775	4,407,155
- SMEs	**16,988,847**	3,971,997	8,702	-	799,283	192,533	2,978,492	678,620	4,713,007	3,646,213
Financial assets available for sale	**8,839,390**	-	64,925	-	-	8,774,465	-	-	-	-
Financial assets held to maturity	**1,899,035**	-	-	-	-	1,899,035	-	-	-	-
Other assets	**1,320,785**	-	1,320,785	-	-	-	-	-	-	-
Total assets at 31 December 2017	**100,950,544**	**8,164,744**	**44,860,919**	**13,118,128**	**925,670**	**12,340,011**	**3,730,090**	**812,832**	**8,944,782**	**8,053,368**

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit Risk (Continued)

I Concentration of Risks of Financial Assets with Credit Risk Exposure (Continued)

b) Industry sector (Continued)

The following table breaks down the Group’s credit exposure at their carrying amount, categorized by industry sector of our counterparties:

In thousands of Denars

	Total	Manufac-turing	Commerce and finance	Retail customers	Agriculture	Government and local authorities	Construc-tion	Transport	Trade	Other
ASSETS										
Cash and cash equivalents	**33,538,674**	-	33,538,674	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	**411,339**	-	388,174	-	-	23,165	-	-	-	-
Loans and advances to banks	**10,084,209**	-	10,084,209	-	-	-	-	-	-	-
Loans and advances to customers										
Loans to individuals										
- Term Loans	**10,850,672**	-	-	10,850,672	-	-	-	-	-	-
- Overdrafts	**1,085,024**	-	-	1,085,024	-	-	-	-	-	-
- Credit cards	**1,033,505**	-	-	1,033,505	-	-	-	-	-	-
Loans to corporate entities										
- Large corporate customers	**14,943,371**	5,530,685	13,211	-	250,140	1,474107	857,672	30,167	3,289,514	3,497,875
- SMEs	**17,355,582**	4,053,342	89,949	-	843,512	43,279	2,613,786	692,117	5,923,688	3,095,909
Financial assets available for sale	**3,675,230**	-	64,988	-	-	3,610,242	-	-	-	-
Financial assets held to maturity	**3,374,729**	-	-	-	-	3,374,729	-	-	-	-
Other assets	**593,157**	-	593,157	-	-	-	-	-	-	-
Total assets at 31 December 2016	**96,945,492**	**9,584,027**	**44,772,362**	**12,969,201**	**1,093,652**	**8,525,522**	**3,471,458**	**722,284**	**9,213,202**	**6,593,784**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk

The Group takes on exposure to market risk. Market risk arises from open positions in interest rate, currency, and price risk, all of which are exposed to general and specific market movements. The Group estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The Supervisory Board sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

A Market Risk Measurement

Regarding market risk managing and measuring, the Group's management on a regular basis through adequate analysis and reporting process, is monitoring:

- interest rate changes regarding market movements and internal decisions, and the influence on interest bearing assets and liabilities and the net interest margin;
- changes of foreign currency rates regarding foreign currency assets and liabilities and maintain of adequate structure regarding foreign exchange risk exposure;

The aim of the Group is maximizing the stability and profitability, by applying the optimum combination of foreign currency and interest rate structure of the assets and liabilities.

All assets and liabilities included in Other assets and other liabilities satisfy the conditions and criteria of financial assets and financial liabilities.

B Foreign Currency Risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight position, which are monitored daily. The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2017 and 2016. Included in the table are the Group's assets and liabilities at carrying amounts categorized by currency.

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December 31, 2017

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

B Foreign Currency Risk (Continued)

(i) Concentrations of assets and liabilities

The Group had the following significant currency positions:

				In thousands of Denars December 31, 2017	
	EUR	**USD**	**MKD**	**Other**	**Total**
Assets					
Cash and cash equivalents	12,060,374	4,729,123	17,928,955	2,490,323	**37,208,775**
Financial assets at fair value through profit and loss	83,599	-	398,326		**481,925**
Financial assets available-for-sale	1,196,134	462	7,642,794		**8,839,390**
Financial assets held-to-maturity	1,108,380	-	790,655		**1,899,035**
Loans and advances to banks	5,417,250	-	49,313	367,830	**5,834,393**
Loans and advances to customers	16,138,038	253,229	28,974,974	-	**45,366,241**
Investments in associates			235,164		**235,164**
Other assets	310,731	111,817	897,934	303	**1,320,785**
Total assets	**36,314,506**	**5,094,631**	**56,918,115**	**2,858,456**	**101,185,708**
Liabilities					
Deposits from banks and other financial institutions	135,931	146,618	813,575	181,147	**1,277,271**
Deposits from customers	34,808,143	4,913,293	47,946,885	2,731,986	**90,400,307**
Borrowings	1,113,044	-	124,779	-	**1,237,823**
Other liabilities	118,394	28,608	537,514	3,733	**688,249**
Total liabilities	**36,175,512**	**5,088,519**	**49,422,753**	**2,916,866**	**93,603,650**
Net on-balance sheet financial position	**138,994**	**6,112**	**7,495,362**	**(58,410)**	**7,582,058**
Contingencies and commitments	**5,283,927**	**205,529**	**10,373,209**	**-**	**15,862,665**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

B Foreign Currency Risk (Continued)

(i) Concentrations of assets and liabilities

				In thousands of Denars December 31, 2016	
	EUR	**USD**	**MKD**	**Other**	**Total**
Assets					
Cash and cash equivalents	10,829,113	4,116,209	16,385,554	2,207,798	33,538,674
Financial assets at fair value through profit and loss	23,165	-	388,174	-	411,339
Financial assets available-for-sale	1,409	526	3,673,295	-	3,675,230
Financial assets held-to-maturity	1,192,901	-	2,181,828	-	3,374,729
Loans and advances to banks	9,722,397	-	18,310	343,502	10,084,209
Loans and advances to customers	14,795,602	718,460	29,754,092	-	45,268,154
Investments in associates	-	-	210,171	-	210,171
Other assets	200,970	109,367	282,704	116	593,157
Total assets	36,765,557	4,944,562	52,894,128	2,551,416	97,155,663
Liabilities					
Deposits from banks and other financial institutions	356,965	228,007	928,281	135,210	1,648,463
Deposits from customers	33,534,115	4,625,288	45,580,513	2,375,421	86,115,337
Borrowings	1,525,744	-	124,778	-	1,650,522
Other liabilities	163,722	15,625	407,991	11,205	598,543
Total liabilities	**35,580,546**	**4,868,920**	**47,041,563**	**2,521,836**	**90,012,865**
Net on-balance sheet financial position	1,185,011	75,642	5,852,565	29,580	7,142,798
Contingencies and commitments	**4,544,190**	**427,189**	**9,125,388**	**-**	**14,096,767**

The table below summarizes the sensitivity analysis for foreign currency risk and the effect on the profit or loss:

			In thousands of Denars Effect on profit and loss and equity	
	Increase 2017	**Increase 2016**	**2017**	**2016**
EUR	0.5%	0.5%	695	5,925
USD	5.0%	5.0%	306	3,782
Other	1.0%	1.0%	(584)	296

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

C Interest Rate Risk

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or re-price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Group is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rates, such as the savings rates, LIBOR/EURIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Group's business strategies.

Assets-liability risk management activities are conducted in the context of the Group's sensitivity to interest rate changes. In general, the Group is asset sensitive because of the majority of the interest-bearing assets; the Group has the right simultaneously to change the interest rates.

In order to minimize the exposure to legal risk and reputation risk, greater transparency in its operations, and more adequate customer protection, the Group commenced activities for changing the interest rate policy aimed at completely excluding the application of adjustable interest rates in the new loan and deposit agreements with customers, that is the Group began to apply fixed and variable interest rates for agreements for new loans, deposits and credit cards made starting from 01.10.2017.

For this purpose, the Methodology for determining the interest rates of Komercijalna banka AD Skopje was adopted, amendments and modifications were made to the Decision on interest rates of Komercijalna banka AD Skopje, which defines the new variable interest rates, as well as the appropriate changes in the Policy for managing the risk of changes in interest rates in the portfolio of banking activities and the Procedures for identifying, undertaking, measuring, monitoring and controlling the risk of changes in interest rates in the portfolio of banking activities, an appropriate revision of the existing agreements on loan and deposit products was made, appropriate adjustments were made in the applications in order to switch to the new regime of interest rates, etc.

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

C Interest Rate Risk (Continued)

In thousands of Denars	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2017							
Assets							
Cash and cash equivalents	23,048,183	3,794,141	-	-	-	10,366,451	**37,208,775**
Financial assets at fair value through profit and loss	-	-	-	-	-	481,925	**481,925**
Financial assets available –for-sale	548,276	1,421,307	6,702,073	101,086	-	66,648	**8,839,390**
Financial assets held-to-maturity	187,091	-	597,085	1,099,758	-	15,101	**1,899,035**
Loans and advances to banks	50,873	2,952,148	1,876,426	-	-	954,946	**5,834,393**
Loans and advances to Customers	2,385,385	3,087,430	30,291,575	3,508,891	4,319,287	1,773,673	**45,366,241**
Investments in associates	-	-	-	-	-	235,164	**235,164**
Other assets	-	-	-	-	-	1,320,785	**1,320,785**
Total assets	**26,219,808**	**11,255,026**	**39,467,159**	**4,709,735**	**4,319,287**	**15,214,693**	**101,185,708**
Liabilities							
Deposits from banks and other financial institutions	354,582	191,073	497,906	-	-	233,710	**1,277,271**
Deposits from customers	14,021,405	10,131,245	29,180,128	2,349	-	37,065,180	**90,400,307**
Borrowings	94,174	1,339	293,235	679,127	43,171	126,777	**1,237,823**
Other liabilities	-	-	-	-	-	688,249	**688,249**
Total liabilities	**14,470,161**	**10,323,657**	**29,971,269**	**681,476**	**43,171**	**38,113,916**	**93,603,650**
Total interest repricing gap	**11,749,647**	**931,369**	**9,495,890**	**4,028,259**	**4,276,116**	**(22,899,223)**	**7,582,058**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

C Interest Rate Risk (Continued)

In thousands of Denars	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2016							
Assets							
Cash and cash equivalents	19,254,603	3,152,995	-	-	-	11,131,076	**33,538,674**
Financial assets at fair value through profit and loss	-	-	-	-	-	411,339	**411,339**
Financial assets available –for-sale	1,199,131	49,905	2,357,606	-	-	68,588	**3,675,230**
Financial assets held-to-maturity	99,955	567,577	2,108,873	596,993	-	1,331	**3,374,729**
Loans and advances to banks	759,076	2,460,839	6,862,930	-	-	1,364	**10,084,209**
Loans and advances to Customers	2,403,473	2,814,614	30,662,628	3,700,593	4,245,240	1,441,606	**45,268,154**
Investments in associates	-	-	-	-	-	210,171	**210,171**
Other assets	-	-	-	-	-	593,157	**593,157**
Total assets	**23,716,238**	**9,045,930**	**41,992,037**	**4,297,586**	**4,245,240**	**13,858,632**	**97,155,663**
Liabilities							
Deposits from banks and other financial institutions	624,631	365,211	365,037	-	-	293,584	**1,648,463**
Deposits from customers	46,726,514	10,070,238	27,628,038	-	-	1,690,547	**86,115,337**
Borrowings	130,011	3,573	336,760	944,107	108,859	127,212	**1,650,522**
Other liabilities	-	-	-	-	-	598,543	**598,543**
Total liabilities	**47,481,156**	**10,439,022**	**28,329,835**	**944,107**	**108,859**	**2,709,886**	**90,012,865**
Total interest repricing gap	**(23,764,918)**	**(1,393,092)**	**13,662,202**	**3,353,479**	**4,136,381**	**11,148,746**	**7,142,798**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Market Risk (Continued)

C Interest Rate Risk (Continued)

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2017, if variable interest rates had been 100 basis points higher/lower (2016: 100 basis points higher/lower) with all other variables held constant, the Bank's profit or loss for the twelve month period ended 31 December 2017 would increase/decrease by approximately Denar 136,844 thousand (2016: increase/decrease by Denar 102,415 thousand). If adjustable interest rates had been 100 basis points (2016: 150 basis points) higher/lower with all other variables held constant, the Bank's profit or loss for the twelve month period ended 31 December 2017 would respectively decrease /increase by approximately Denar 263,356 thousand (2016: Denar 814,744 thousand).

The sensitive analysis refers to the Bank, because of the insignificant participation (under 1%) of total assets of the subsidiary in the assets of the Bank.

4.3. Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of liquidity risk may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

A Liquidity Risk Management Process

Liquidity risk management policy of the Group defines the method of managing the Group's liquidity.

Perception and monitoring of the Group's liquidity is an essence of its stability and successful working. Implementation of the liquidity risk management policy is done using defined risk management process which includes planning and managing with cash flows, maintaining adequate structure of assets and liabilities, financial instruments for liquidity risk management, adequate diversification of deposits and other liabilities by maturity and client, procedures for identification and monitoring the deposit's stability, monitoring the maturity of assets and liabilities, monitoring the off-balance sheet items, monitoring liquidity ratios, internal liquidity indicators, liquidity stress testing and continuity plan in irregular conditions reporting to Group's bodies and adequate management information system and responsibilities of Group's organizational units in liquidity risk management process. The aim of the Group is maximizing the profitability, by applying the optimum combination of maturity and foreign currency structure of the assets and liabilities.

However, the Group strives to use adequate term structure of funds adjusted to term structure of placements, based on contractual and expected maturity of the deposit base. The primary strategy of the Group is to maintain its liquidity at the highest level.

The table below analyses the undiscounted contractual cash flows of assets and liabilities of the Group into relevant maturity buckets based on the remaining period at the date of the statement of financial position to the contractual maturity date for assets and liabilities. The presented information represents undiscounted cash flows, which include estimated interest payments

Although the Group has a shortage of short-term assets over short-term liabilities maturing within one month, the Group's management considers its deposit base as being stabile and liquidity not jeopardized. This is based on statistical data and calculations of expected maturity in order to determine the funding and stability of the deposit base.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Liquidity Risk (Continued)

A Liquidity Risk Management Process (Continued)

Maturities of assets and liabilities

In thousands of Denars
December 31, 2017

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks and other financial institutions	480,672	195,700	274,186	332,939	-	1,283,497
Deposits from customers	50,322,466	10,115,200	21,713,052	8,609,837	6,422	90,766,977
Borrowings	96,976	1,339	242,549	842,330	81,232	1,264,426
Other liabilities	623,293	4,552	3,905	15,079	41,420	688,249
Total liabilities (contractual maturity dates**)**	**51,523,407**	**10,316,791**	**22,233,692**	**9,800,185**	**129,074**	**94,003,149**
Total assets (contractual maturity dates)	**32,694,536**	**11,242,972**	**23,359,514**	**22,209,589**	**11,444,431**	**100,951,042**

In thousands of Denars
December 31, 2016

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks and other financial institutions	941,109	181,768	396,926	131,396	-	1,651,199
Deposits from customers	46,485,304	10,335,519	22,187,364	7,471,058	4,765	86,484,010
Borrowings	133,299	3,580	330,998	1,083,346	123,105	1,674,328
Other liabilities	532,918	12,977	3,913	12,961	35,774	598,543
Total liabilities (contractual maturity dates**)**	**48,092,630**	**10,533,844**	**22,919,201**	**8,698,761**	**163,644**	**90,408,080**
Total assets (contractual maturity dates)	**30,896,028**	**9,083,709**	**23,390,551**	**22,418,501**	**11,156,703**	**96,945,492**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Liquidity Risk (Continued)

B Assets Held for Managing Liquidity Risk

The Group holds a diversified portfolio of cash, highly marketable assets and highly-liquid securities to support payment obligations in stressed market environment. The Group's assets held for managing liquidity risk comprise:

- Cash and balances with the National Bank of Republic of Macedonia;
- Treasury bills;
- Government bills and Government bonds that are readily acceptable in repurchase agreements with the National Bank of Republic of Macedonia;
- Short-term Loans and advances to banks.

C Off-balance Sheet Items (Uncollateralized)

(a) Guarantees

The maturity buckets are based on the remaining contractual maturity date of the guarantees i.e. the earliest period in which the guarantees could be called.

(b) Letter of credit

The maturity groupings based on the remaining contractual maturity date of letter of credit are also included in the table below.

(c) Other

This item includes approved undistributed overdrafts on current accounts and cards and loans in Denars. The maturity buckets based on the remaining contractual maturity date are summarized in the table below:

In thousands of Denars
December 31, 2017

	Up to 1 year	1-5 years	Over 5 years	Total
Guarantees	5,747,783	2,612,709	452,717	8,813,209
Letter of credit	2,590,900	132,440	-	2,723,340
Other	4,509,511	-	-	4,509,511
Total	**12,848,194**	**2,745,149**	**452,717**	**16,046,060**

In thousands of Denars
December 31, 2016

	Up to 1 year	1-5 years	Over 5 years	Total
Guarantees	5,399,665	3,312,680	96,239	8,808,584
Letter of credit	835,339	88,735	-	924,074
Other	4,476,686	-	-	4,476,686
Total	**10,711,690**	**3,401,415**	**96,239**	**14,209,344**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Financial instruments

A Fair value

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.

The following table summarizes the carrying amounts and fair values of financial assets and liabilities not measured at fair value.

Financial instruments not measured at fair value

In thousands of Denars

	Carrying amount		**Fair value**	
	As at 31 December 2017	**As at 31 December 2016**	**As at 31 December 2017**	**As at 31 December 2016**
Financial assets				
Loans and advances to banks	5,834,393	10,084,209	5,834,393	10,084,209
Loans and advances to customers	45,366,241	45,268,154	45,361,621	45,260,976
- Retail customers(individuals)	13,118,128	12,969,201	13,118,128	12,969,201
- large corporate customers	15,259,266	14,943,371	15,259,265	14,943,371
- SMEs	16,988,847	17,355,582	16,984,227	17,348,404
Financial assets held-to-maturity	1,899,035	3,374,729	1,912,045	3,378,655
Financial liabilities				
Deposits from banks and other financial institutions	1,277,271	1,648,463	1,277,271	1,648,463
Deposits from customers	90,400,307	86,115,337	90,400,307	86,115,337
Borrowings	1,237,823	1,650,522	1,237,823	1,650,522

The fair value of the above presented financial assets and liabilities are determined within level 2 fair value measurement hierarchy

a) Loans and advances to banks

The fair value of loans and advances to banks is equal to their carrying amounts due to their short-term maturity.

b) Loans and advances to customers

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

c) Financial assets held-to-maturity

Fair value for assets classified as held-to-maturity 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.

d) Deposits from banks and other financial institutions

Due to their short-term maturity and the insignificant risk of changes in value, the fair value of demand and time deposits is equal to their carrying amounts. The fair value of deposits with adjustable interest rate is their carrying amount.

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Financial instruments (Continued)

A Fair value (Continued)

e) Deposits from 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 1,241,603 thousands (2016: zero). Fixed interest rates refer to time deposits up to one year 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.

f) 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.

B Fair value hierarchy

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 observable.

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.4. Financial instruments (Continued)

B Fair value hierarchy (Continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

				In thousands of Denars December 31,2017
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
- Debt and other fixed income investments securities	96,431	-	-	**96,431**
- Equity investments	383,792	1,702	-	**385,494**
Financial assets available-for-sale				
–Government bills	-	8,671,656	-	**8,671,656**
- Government bonds	-	102,809	-	**102,809**
Total assets	**480,223**	**8,776,167**	**-**	**9,256,390**

				In thousands of Denars December 31,2016
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
- Debt and other fixed income investments securities	23,165	-	-	**23,165**
- Equity investments	385,676	2,498		**388,174**
Financial assets available-for-sale				
–Government bills	-	3,203,202	-	**3,203,202**
- Government bonds	-	407,040	-	**407,040**
Total assets	**408,841**	**3,612,740**	**-**	**4,021,581**

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.5 Operational risk

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 legal risk, as well the risk of money laundering and financing of terrorism, risk of inadequacy of IT systems and other operational risk.

Legal risk is 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 had established a framework for managing the operational risk that is based on Strategy, Policy and Methodology; appropriate organizational structure and established process for managing this risk. The established framework allows within the various Group processes to identify risks arising from these processes, their measurement and taking corrective actions in order to avoid the potential adverse effect on the financial results and capital position of the Group. The adequacy of the established framework for managing operational risk is regularly reviewed.

The Group is identifying and measuring the operational risk by analyzing the collected data on loss events and key risk indicators, as well as applying the method of self-assessment through a qualitative approach and analysis of external data losses at other banks.

The Group sets the capital requirement for operational risk, using the standardized approach in accordance with national legislation.

4.6. Capital management

According to the Decision on consolidated supervision of the Central Bank, if total assets of the subordinated entity represent less than 1% of the assets of the parent entity, subordinated entity will not 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.

The Bank's objectives regarding capital management, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements by the regulator;
- 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 regularly monitored by the Bank's management, employing techniques prescribed by national regulatory authority, i.e. the National Bank of Republic of Macedonia (NBRM). The required information is submitted to regulatory authority on a quarterly basis.

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

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

On the basis of supervisory assessment of the Bank`s risk profile, NBRM has determined a capital addition of 4 percentage points above the minimal legally established level for the capital adequacy, thereby the Bank is obligated to maintain capital adequacy rate on a level higher than 12%. Additionally during 2017 the Bank is obligated to maintain the protective capital buffer prescribed by law, as follows:

- Protective capital conservation buffer with a rate of 2.5% from the risk weighted assets and
- Protective buffer for systemically significant Bank with a rate of 2%[1] from the risk weighted assets.

As at 31.12.2017 the Bank fulfils the prescribed capital requirements, the capital addition and the protective buffers which are covered by the Common Equity Tier 1 Capital.

[1] The total rate of 2% the Bank is obligated to fulfil with a dynamic prescribed by NBRM: 1% until 30.09.2017 and the total of 2% until 31.03.2018.

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.6. Capital management (Continued)

In addition, the Bank has established a Process of determining the Internal Capital (PIC) in accordance with the Decision on risk management, prescribed by the NBRM. The process of determining the internal capital is based on adopted Policy and Procedures and within the process, the Bank:

• determines the internal capital required to cover the acceptable level of risk, in accordance with its risk profile and the size and complexity of current and future financial activities;

• is aiming to establish a sustainable level of capital in long term, taking into account the impact of all material risks, etc.

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

The Bank's regulatory capital is divided in two groups:

- Tier 1 Capital which consists of: Common Equity Tier 1 Capital (CET1) and Additional Tier 1 Capital (AT1); and
- Tier 2 Capital, as defined in the Decision for changes and amendments to the Decision on methodology for determination of the capital adequacy, which came into force on 01.03.2017.

As at 31.12.2017 the Bank has only Tier 1 Capital.

Total risk-weighted asset is a sum of credit risk-weighted assets, currency risk weighted assets, operational risk weighted assets and other risk-weighted assets.

According to national regulations, credit risk-weighted assets (on-balance and off-balance) are distributed by appropriate risk weights according to the level of credit quality (credit rating) of the debtor, taking into consideration credit protection instruments.The capital adequacy ratio is calculated as a ratio between the Bank's regulatory capital and the risk weighted assets.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2017 and 2016 in accordance with the requirements of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements to which the Bank is subject.

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4. FINANCIAL RISK MANAGEMENT (Continued)

4.6. Capital management (Continued)

	In thousands of Denars December 31, 2017
Tier 1 Capital	
Common Equity Tier 1 Capital (CET1)	*10,205,032*
Capital instruments of CET1	2,279,067
Premium on capital instruments of CET1	771,526
Statutory reserves and retained earnings or loss	7,146,303
Comprehensive income or loss	9,771
Deductions of CET1	*(1,635)*
Additional Tier 1 Capital (AT1)	**-**
Total qualifying Tier 1 Capital	**10,205,032**
Tier 2 capital	-
Total qualifying Tier 2 capital	**-**
Total regulatory capital[2]	**10,205,032**
Credit risk-weighted assets	**56,135,497**
FX risk-weighted assets	**210,977**
Operational risk-weighted assets	**7,477,644**
Other risks weighted assets	**-**
Capital adequacy ratio	**16.0%**

Tier 1 capital	**December 31, 2016**
Ordinary and non-cumulative non-voting shares and share premium	3,050,594
Statutory reserves and retained earnings or loss	6,708,773
Items as result of consolidation	-
Deductions from Tier 1 capital	(420)
Total qualifying Tier 1 capital	**9,758,947**
Tier 2 capital	
Cumulative non-voting shares and share premium	-
Hybrid capital liabilities	-
Subordinated liabilities	-
Revaluation reserves	4,937
Total qualifying Tier 2 capital	**4,937**
Deductions from regulatory capital	(259,256)
Total regulatory capital[3]	**9,504,628**
Credit risk-weighted assets	**53,249,576**
FX risk-weighted assets	**1,454,050**
Operational risk-weighted assets	**7,710,206**
Other risks weighted assets	**-**
Capital adequacy ratio	**15.2%**

[2] New methodology applicable since 01.03.2017.
[3] Methodology applicable as at 31.12.2016.

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5. SEGMENT 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;
- Is being reviewed by the Group's Supervisory Board, in order to assess the accomplishments and make decisions for future business activities of the segment; and
- Financial information for the segment is available.

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

- The income 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 of 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 of the users of the goods and of the services and the methods of distribution and offering of the goods and services. As at December 31, 2017 and 2016 the Group does not group two or more operating segments into one.

The operating segments of Komercijalna banka are the same as the business lines (BL) 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.

Geographical areas 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.

As at December 31, 2017 and 2016 there are no significant clients upon which the Group realizes 10% or more from its total business income or expenditure.

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5. SEGMENT REPORTING (Continued)

A. Operating segments

December 31, 2017

In thousands of Denars	BL 1: Services related to financing of medium and large sized enterprises	BL 2: Trading and sales	BL 3: Retail banking	BL 4: Corporate banking	BL 5: Payment and settlement	BL 6: Custody services	BL 7: Asset management	BL 8: Retail brokerage	Other insignificant operating segments	Unallocated	Total
Net interest income	-	1,762	507,976	2,807,321	228	1	-	-	-	-	**3,317,288**
Net fee and commission income	-	1,413	80,227	133,287	577,100	30,900	-	2,696	36,423	-	**862,046**
Dividend income	-	11,356	-	99	-	-	-	-	71	-	**11,526**
Net gains/(losses) on financial instruments classified as held for trading	-	16,102	-	-	-	-	-	-	447	-	**16,549**
Other operating income	-	144,819	772,359	(358,227)	78,661	3,248	-	49	-	15,233	**656,142**
Share of profit of associates accounted for using the equity method	-	-	-	-	-	-	-	-	55,128	-	**55,128**
Income realized between the segments											
Total income per segment	**-**	**175,452**	**1,360,562**	**2,582,480**	**655,989**	**34,149**	**-**	**2,745**	**92,069**	**15,233**	**4,918,679**
Net impairment losses on financial assets	-	-	(114,703)	(1,547,510)	-	-	-	-	-	-	**(1,662,213)**
Personnel expenses	-	(9,176)	(203,768)	(126,381)	(314,309)	(9,176)	-	(9,954)	(6,618)	(192,861)	**(872,243)**
Depreciation and amortization	-	(1,896)	(42,100)	(26,111)	(64,939)	(1,896)	-	(2,057)	(178)	(39,846)	**(179,023)**
Other operating expenses		(9,239)	(384,890)	(216,488)	(100,017)	(1,730)	-	(2,691)	(2,335)	(94,826)	**(812,216)**
Investments in property and equipment											
Total expenses per segment		**(20,311)**	**(745,461)**	**(1,916,490)**	**(479,265)**	**(12,802)**	**-**	**(14,702)**	**(9,131)**	**(327,533)**	**(3,525,695)**
Financial result per segment	-	155,141	615,101	665,990	176,724	21,347	-	(11,957)	82,938	(312,300)	**1,392,984**
Income tax expense											**(139,937)**
Profit for the year											**1,253,047**
Total assets per segment	-	497,931	14,612,512	86,553,636	2,750,184	35,475	-	35,850	257,231		**104,742,819**
Unallocated assets per segment										746,126	**746,126**
Total assets											**105,488,945**
Total liabilities per segment	-	-	69,110,475	24,035,984	96,165	411,058	-	-	1,762	-	**93,655,444**
Unallocated liabilities per segment										204,048	**204,048**
Total liabilities											**93,859,492**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

5. SEGMENT REPORTING (Continued)

A. Operating segments (Continued)

December 31, 2016

In thousands of Denars	BL 1: Services related to financing of medium and large sized enterprises	BL 2: Trading and sales	BL 3: Retail banking	BL 4: Corporate banking	BL 5: Payment and settlement	BL 6: Custody services	BL 7: Asset management	BL 8: Retail brokerage	Other insignificant operating segments	Unallocated	Total
Net interest income	-	1,285	477,164	2,600,617	119	1	-	-	-	-	**3,079,186**
Net fee and commission income	-	1,879	81,553	161,070	593,404	23,596	-	2,752	21,228	(6)	**885,476**
Dividend income	-	6,106	-	104	-	-	-	-	-	-	**6,210**
Net gains/(losses) on financial instruments classified as held for trading	-	12,870	-	-	-	-	-	-	209	-	**13,079**
Other operating income	-	157,386	(20,855)	432,308	31,966	(8,863)	-	1	3	17,503	**609,449**
Share of profit of associates accounted for using the equity method	-	-	-	-	-	-	-	-	43,625	-	**43,625**
Income realized between the segments	-	-	-	-	-	-	-	-	-	-	
Total income per segment	**-**	**179,526**	**537,862**	**3,194,099**	**625,489**	**14,734**	**-**	**2,753**	**65,065**	**17,497**	**4,637,025**
Impairment charge for credit losses	-		(19,480)	(1,689,120)	-	-	-	-	-	-	**(1,708,600)**
Personnel expenses	-	(8,783)	(194,478)	(123,290)	(314,560)	(8,783)	-	(9,627)	(5,680)	(184,936)	**(850,137)**
Depreciation and amortization	-	(1,924)	(42,611)	(27,013)	(68,921)	(1,924)	-	(2,109)	(118)	(40,520)	**(185,140)**
Other operating expenses	-	(10,321)	(387,009)	(401,604)	(119,674)	(1,761)	-	(2,849)	(1,631)	(88,515)	**(1,013,364)**
Investments in property and equipment	-	-	-	-	-	-	-	-	-	-	
Total expenses per segment	**-**	**(21,028)**	**(643,578)**	**(2,241,027)**	**(503,155)**	**(12,468)**	**-**	**(14,585)**	**(7,429)**	**(313,971)**	**(3,757,241)**
Financial result per segment	-	158,498	(105,716)	953,072	122,334	2,266	-	(11,832)	57,636	(296,474)	**879,784**
Income tax expense											**(93,717)**
Profit for the year											**786,067**
Total assets per segment	-	441,271	14,210,097	82,518,822	2,708,915	35,476	-	36,526	216,564		**100,167,671**
Unallocated assets per segment										729,398	**729,398**
Total assets											**100,897,069**
Total liabilities per segment	-	-	64,772,708	24,613,543	132,326	513,157	-	-	511		**90,032,245**
Unallocated liabilities per segment										149,798	**149,798**
Total liabilities											**90,182,043**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

5. SEGMENT REPORTING (Continued)

B. Geographical areas

In thousands of Denars
December 31, 2017

	Republic of Macedonia	EU member countries	Europe (other)	OECD member countries (without EU members of OECD)	Other (insignificant geographical areas)	Unallocated	Total
Total income	5,668,757	(683,146)	(70,727)	1,472	2,251	72	**4,918,679**
Non-current assets*	4,302,739	-	-	-	-	-	**4,302,739**

In thousands of Denars
December 31, 2016

	Republic of Macedonia	EU member countries	Europe (other)	OECD member countries (without EU members of OECD)	Other (insignificant geographical areas)	Unallocated	Total
Total income	4,587,786	21,763	15,069	12,035	360	12	**4,637,025**
Non-current assets*	3,741,406	-	-	-	-	-	**3,741,406**

*****Non-current assets include items of property and equipment, investment property, intangible assets and assets acquired through foreclosure procedure and non-current assets held for sale and disposal group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

6. NET INTEREST INCOME

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Interest and similar income		
Loans and advances:		
- To banks	1,820	4,729
- To customers	3,311,825	3,208,185
Cash and cash equivalents	297,929	258,597
Investment securities	197,019	164,744
Other	587	708
	3,809,180	**3,636,963**
Interest expense and similar charges		
Deposits from banks and other financial institutions	31,299	21,529
Deposits from customers	446,323	518,240
Other borrowed funds	14,270	18,008
	491,892	**557,777**

Interest income from collected non-performing interest amounts to Denar 735,927 thousand (2016: Denar 264,535 thousand).

As at 31 December 2017 the interest income from financial assets at fair value through profit or loss is Denar 1,189 thousand (2016: Denar 577 thousand).

7. NET FEE AND COMMISSION INCOME

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Fee and commission income		
Payment operations		
-in the country	347,844	377,446
-abroad	189,521	197,676
Letters of credit and guarantees	144,688	171,770
Credit cards	283,642	210,716
Brokerage fees	4,656	4,954
Fiduciary activities	32,846	25,863
Banking services	67,078	71,847
Other	92,354	72,924
	1,162,629	**1,133,196**
Fee and commission expense		
Loans	194,798	153,339
Payment operations		
-in the country	74,255	67,124
-abroad	21,699	13,533
Brokerage fees	971	704
Fiduciary activities	1,838	2,082
Other	7,022	10,938
	300,583	**247,720**

Note 7 – Fee and commission income, in the item Credit cards includes the income on the basis of membership fees for credit cards in the amount of MKD 36,337 thousand. The same in 2016 were included in note 9 – Other operating income within the item Membership fees for credit cards, in the amount of MKD 37,781 thousand.

8. NET GAINS/(LOSSES) ON FINANCIAL INSTRUMENTS CLASSIFIED AS HELD FOR TRADING

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Gains/(losses) from changes in fair value of equity securities, net (realized/unrealized)	16,549	13,079
Net (losses)/gains on financial instruments classified as held for trading	**16,549**	**13,079**

9. OTHER OPERATING INCOME

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Membership fees for credit cards	-	37,781
Net foreign currency transactions	41,915	30,833
Rental income	9,461	8,884
Collected previously written off receivables	306,596	286,624
Gain on sale of Property Plant and Equipment	4,229	107
Gain on sale of assets acquired through foreclosure procedures	166,318	101,265
Other	11,631	18,478
	540,150	**483,972**

Income on the basis of membership fees for credit cards in 2016 was included in note 9 - Other operating income, within the item Membership fees for credit cards, in the amount of MKD 37,781 thousand. In 2017, this income is shown in note 7 - Fee and commission income, in the item Credit cards, in the amount of MKD 36,337 thousand.

10. PERSONNEL EXPENSES

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Wages and salaries	593,193	583,672
Contributions to defined contribution plans	212,964	209,991
Other staff costs	66,086	56,474
	872,243	**850,137**

11. OTHER OPERATING EXPENSES

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Insurance premiums for deposits	290,754	306,446
Services	169,345	169,466
Administration and marketing costs	77,309	71,820
Materials	74,286	73,145
Loss on sale of assets acquired through foreclosure procedure	-	909
Tax and contributions	2,419	2,287
Court litigation expenses	1,289	4,722
Provisions for pension and other employee benefits, net	10,448	2,021
Loss from sale of securities available-for-sale	-	362
Loss from sale of assets acquired through foreclosure procedures	68,864	909
Other	10,542	27,422
	705,256	**659,509**

12. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	In thousands of Denars December 31, 2017	December 31, 2016
Loans and advances to banks (Note 19)	408	(677)
Loans and advances to customers (Note 20)	1,520,184	1,711,191
Other assets (Note 25)	70,874	35,187
Contingencies and commitments (Note 33)	70,818	(37,171)
Cash and Cash equivalents (Note 15)	(71)	70
	1,662,213	**1,708,600**

13. INCOME TAX EXPENSE

The major components of income taxes in profit or loss are as follows:

	In thousands of Denars December 31, 2017	December 31, 2016
Current tax expense		
Current year	94,632	94,317
Deferred tax expense		
Origination of temporary differences	45,305	(600)
Total income tax expenses	**139,937**	**93,717**

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

	In %	December 31, 2017	In %	In thousands of Denars December 31, 2016
Profit before tax		1,392,984		879,784
Tax calculated at a tax rate of 10% (2016: 10%)	10.0	139,299	10.00	87,978
Non-deductible expenses	0.5	6,802	0.7	6,410
Tax-exempt income	(0.4)	(6,164)	(0.1)	(671)
Income tax expense	**10.1**	**139,937**	**10.6**	**93,717**

Recognized deferred tax liabilities

Deferred tax liabilities are attributable to the following:

In thousands of denars	Assets	Liabilities 2017	Net	Assets	Liabilities 2016	Net
Assets acquired through foreclosure procedures	-	(61,942)	(61,942)	-	(16,637)	(16,637)
Available-for-sale financial assets	-	(977)	(977)	-	(617)	(617)
Net tax assets (liabilities)	**-**	**(62,919)**	**(62,919)**	**-**	**(17,254)**	**(17,254)**

13. INCOME TAX EXPENSE (Continued)

Movements in temporary differences during the year

In thousands of denars	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December
2017				
Assets acquired through foreclosure procedures	16,637	45,305	-	61,942
Available-for-sale financial assets	617	-	360	977
	17,254	**45,305**	**360**	**62,919**

14. EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2017 was based on the net profit attributable to ordinary shareholders of Denar 1,244,217 thousand (2016: Denar 781,751 thousand) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2017 of 2,279,067 shares (2016: 2,279,067 shares). The calculation of the basic and diluted earnings per share is:

	December 31, 2017	December 31, 2016
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	1,244,217	781,751
Weighted average number of shares for basic and diluted earnings per share	2,279,067	2,279,067
Basic earnings per share (in Denars)	546	343
Diluted earnings per share (in Denars)	546	343

The calculation of the weighted average number of ordinary shares for the years ended December 31, 2017 and 2016 is as follows:

	Number of shares	
	2017	**2016**
Issued ordinary shares at 1 January	2,279,067	2,279,067
At 31 December	**2,279,067**	**2,279,067**

15. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Cash on hand	1,647,010	1,542,572
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	10,938,256	9,654,838
Current accounts with local banks	2,661	886
Current accounts with foreign banks	5,375,807	5,977,886
Time deposits held with banks up to 3 months	8,156,563	5,609,989
Treasury bills up to 3 months	6,124,553	5,778,123
Other short term highly liquid investments	754	1,650
Included in cash and cash equivalents	**32,245,604**	**28,565,944**
Restricted accounts	829,191	769,354
Mandatory reserves in foreign currency	4,133,980	4,203,376
	37,208,775	**33,538,674**

The level of mandatory reserves in foreign currency held with the Central Bank in the amount of Denar 4,133,980 thousand (2016: Denar 4,203,376 thousand) is determined by the Decision for mandatory reserves prescribed by the Central Bank. Those reserves are calculated based on the average amount of deposits in foreign currencies existing during one calendar month. The Central Bank does not pay any interest on these reserves.

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 10,938,256 thousand (2016: Denar 9,654,838 thousand) represent current account with NBRM and deposit in denars with NBRM with maturity of 7 days in the amount of 6,500,000 thousand (2016: Denar 4,500,000 thousand).

Time deposits up to 3 months in the amount of Denar 8,156,563 thousand (2016: Denar 5,609,989 thousand) relate to deposits placed with domestic and foreign banks, with original maturities from 1 day to 3 months, bearing interest at rates in the range from 0.87% to 1.60% per annum (2016: from 0.85% to 1.27% p.a.).

Treasury bills up to 3 months in the amount of Denar 6,124,553 thousand (2016: Denar 5,778,123 thousand) are debt securities issued by the National Bank of Republic of Macedonia with maturity of 28 days, bearing interest at rate of 3.25% per annum (2016: 3.75% p.a.).

Restricted accounts in the Denar 829,191 thousand (2016: Denar 769,354 thousand) represent collateral for Visa International and MasterCard, collateral for custody activities and obligation for KIBS as a Reserve Guarantee Fund.

Movement in specific allowance for impairment is as follows:

	In thousands of Denars	
	2017	2016
Balance at 1 January	136	66
Net charge/(release) to profit or loss (Note 12)	(71)	70
Release upon foreclosure procedures	(1)	-
Balance at 31 December	**64**	**136**

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	In thousands of Denars	
Held for trading	**December 31, 2017**	**December 31, 2016**
Debt securities		
Government bonds	83,599	23,165
Government bills	12,832	-
Total debt securities	**96,431**	**23,165**
Equity investments	385,494	388,174
	481,925	**411,339**

Government bonds in the amount of Denar 83,599 thousand (2016: Denar 23,165 thousand) refer to structural government bonds, bearing interest at the rate of 2% per year.

Bills held for trading in the amount of Denar 12,832 thousand (2016: 0) refer to investment in government bills.

The quoted equity investments held for trading in the amount of Denar 59,231 thousand (2016: Denar 69,660 thousand) relate to investments in shares issued by domestic banks in the amount of Denar 125 thousand (2016: Denar 99 thousand) and investments in shares issued by domestic non-financial entities in the amount of Denar 59,106 thousand (2016: Denar 69,561 thousand).

The other unquoted equity investments in the amount of Denar 326,263 thousand (2016: Denar 318,514 thousand) relate to investments in the open-end investment fund KB Publikum – Balansiran in the amount of Denars 9,062 thousand (2016: Denar 8,348 thousand), investments in the open-end investment fund KB Publikum - Paricen in the amount of Denar 315,499 thousand (2016: Denar 307,668 thousand), and investments in KD Funds AD Skopje - KD Cash deposit in the amount of 1,702 thousand of denars (2016: 2,498 thousand of denars).

17. FINANCIAL ASSETS AVAILABLE-FOR-SALE

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Government bills	8,671,656	3,203,202
Government bonds	102,809	407,040
Equity investments	64,925	64,988
	8,839,390	**3,675,230**
Less: Specific allowance for impairment	-	-
	8,839,390	**3,675,230**

Investments in available-for-sale debt securities includes government bills in the amount of 8,671,656 thousands of denars (2016: 3,203,202 thousands of denars) with maturity in 2018, as well as government bonds in the amount of 102,809 thousands of denars (2016: 407,040 thousands of denars) with maturity in 2019.

The investments in equity instruments available-for-sale in the amount of 64,925 thousands of denars (2016: 64,988 thousands of denars) relate to the investments in securities issued by financial institutions for which there is no active market, as well as a lack of recent transactions that could be applied in determination of the fair value. Accordingly, the investments in available-for-sale securities are stated at their cost, less any impairment.

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The Group does not plan to sell those investments whose operations are related to the regular operations of the Group, while the rest of the investments will be sold only when the Group will estimate that there are favourable conditions for their disposal.

17. FINANCIAL ASSETS AVAILABLE-FOR-SALE (Continued)

Movement in specific allowance for impairment is as follows:

	In thousands of Denars	
	Year ended December 31 2017	Year ended December 31 2016
Balance at 1 January	-	2,624
Write off	-	(2,624)
Balance at 31 December	**-**	**-**

18. FINANCIAL ASSETS HELD-TO-MATURITY

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Government bonds	1,711,943	598,885
Government bills	187,092	2,775,844
	1,899,035	**3,374,729**

Debt securities include government bonds in the amount of 1,711,943 thousands of denars (2016: 598,885 thousands of denars) with maturity in the period from 2018 to 2020 and interest rates from 2.1% to 2.7%).

The bills issued by the Government of the Republic of Macedonia in the amount of 187,092 thousands of denars (2016: 2,775,844 thousands of denars) bear interest at an annual rate from 2.2% to 2.6%.

Total current portion of the financial assets held-to-maturity amounts to Denar 795,713 thousand (2016: Denar 2,777,737 thousand).

19. LOANS AND ADVANCES TO BANKS

	In thousands of Denars December 31, 2017	December 31, 2016
Placements with foreign banks	5,786,703	10,067,105
Placements with domestic banks	49,305	18,311
	5,836,008	**10,085,416**
Less: Specific allowance for impairment	(1,615)	(1,207)
	5,834,393	**10,084,209**

Total current portion of the loans and advances to banks amounts to Denar 4,879,432 thousand (2016: Denar 9,129,398 thousand).

Movement in specific allowance for impairment is as follows:

	In thousands of Denars 2017	2016
Balance at 1 January	1,207	1,884
Net charge/(release) to profit or loss (Note 12)	408	(677)
Balance at 31 December	**1,615**	**1,207**

20. LOANS AND ADVANCES TO CUSTOMERS

	In thousands of Denars December 31, 2017	December 31, 2016
Individuals (retail customers):		
- Overdrafts	1,109,189	1,155,863
- Credit cards	1,052,147	1,099,519
- Term loans	11,423,716	11,180,282
	13,585,052	13,435,664
Corporate entities:		
- Large corporate customers	21,502,788	21,500,996
- SMEs	17,668,563	18,224,544
	39,171,351	39,725,540
	52,756,403	53,161,204
Less: Allowance for impairment	(7,390,162)	(7,893,050)
	45,366,241	**45,268,154**
Current	18,928,128	18,084,655
Non- current	26,438,113	27,183,499

20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loans and advances to customers include accrued interest and other receivables of Denar 167,015 thousand (2016: Denar 193,005 thousand).

Out of the total loans and advances to other customers the Group has pledged a lien with regard to the sub-loans approved from the credit line of the European Investment Bank ("EIB"), and from the Italian credit line (IKL), in favour of MBDP. As at 31 December 2017 the amount of the pledged loans and advances is in the amount of 1,179,808 thousands of denars (2016: 1,593,485 thousands of denars).

Movement of allowance for impairment is as follows:

Retail customers

In thousands of Denars

	Overdrafts	Credit cards	Loans	Total
Balance at 1 January 2016	**198,218**	**254,468**	**647,035**	**1,099,721**
Net charge/(release) to profit or loss (Note 12)	19,709	(11,703)	110,028	118,034
Write offs	(147,088)	(176,751)	(427,454)	(751,293)
Balance at 1 January 2017	**70,839**	**66,014**	**329,609**	**466,462**
Net charge/(release) to profit or loss (Note 12)	19,575	20,318	9,553	49,446
Write offs	(20,176)	(21,416)	(70,837)	(112,429)
Balance at 31 December 2017	**70,238**	**64,916**	**268,325**	**403,479**

Corporate entities

In thousands of Denars

	Large corporate customers	SMEs	Total
Balance at 1 January 2016	**3,496,123**	**7,640,546**	**11,136,669**
Net charge/(release) to profit or loss (Note 12)	(214,950)	1,808,106	1,593,156
Release upon foreclosure procedures	-	(3,914)	(3,914)
Write offs	-	(5,299,323)	(5,299,323)
Balance at 1 January 2017	**3,281,173**	**4,145,415**	**7,426,588**
Net charge/(release) to profit or loss (Note 12)	(782,314)	2,253,052	1,470,738
Release upon foreclosure procedures	(26,116)	-	(26,116)
Write offs	-	(1,884,527)	(1,884,527)
Balance at 31 December 2017	**2,472,743**	**4,513,940**	**6,986,683**

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21. INVESTMENTS IN ASSOCIATES

The Group owns 49% of equity interest, which is equal to 49% of the voting rights in KB Prvo Penzisko Drustvo AD Skopje. The principle place of business of KB Prvo is Republic of Macedonia.

The shares of KB Prvo Penzisko Drustvo AD Skopje are not publicly listed and consequently do not have published price quotations.

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
KB Prvo Penzisko Drustvo AD Skopje	210,171	189,147
Share of results for the year ended 31 December	55,128	43,625
Dividends received	(30,135)	(22,601)
	235,164	**210,171**

Summary financial information on the associates is presented below:

In thousands of Denars
December 31, 2017

	Assets	Liabilities	Equity	Revenues	Profit/Loss	Interest held
KB Prvo Penzisko Drustvo AD Skopje	491,418	18,257	473,161	245,172	112,506	49%
	491,418	**18.257**	**473,161**	**245,172**	**112,506**	

In thousands of Denars
December 31, 2016

	Assets	Liabilities	Equity	Revenues	Profit/Loss	Interest held
KB Prvo Penzisko Drustvo AD Skopje	440,011	17,856	422,155	225,751	89,031	49%
	440,011	**17,856**	**422,155**	**225,751**	**89,031**	

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

22. PROPERTY AND EQUIPMENT

In thousands of Denars

	Land and Buildings	Furniture & Equipment	Assets in course of construction	Leasehold improvements	Total
Carrying amount 1 January 2016	2,788,675	219,897	18,294	10,911	**3,037,777**
Additions	-	-	105,493	-	**105,493**
Transfers	34,900	60,241	(101,170)	1,639	**(4,390)**
Disposals and write off	-	-	-	(113)	**(113)**
Depreciation charge	(78,099)	(86,321)	-	(6,164)	**(170,584)**
Carrying amount 31 December 2016	**2,745,476**	**193,817**	**22,617**	**6,273**	**2,968,183**
At 31 December 2016					
Cost	3,271,935	1,222,587	22,617	56,202	**4,573,341**
Accumulated depreciation	(526,459)	(1,028,770)	-	(49,929)	**(1,605,158)**
Carrying amount for 31 December 2016	**2,745,476**	**193,817**	**22,617**	**6,273**	**2,968,183**
Carrying amount 1 January 2017	2,745,476	193,817	22,617	6,273	**2,968,183**
Additions	-	-	63,837	-	**63,837**
Transfers	3,715	55,408	(59,348)	225	**-**
Disposals and write off	-	(42)	-	-	**(42)**
Depreciation charge	(79,129)	(82,992)	-	(4,073)	**(166,194)**
Carrying amount 31 December 2017	**2,670,062**	**166,191**	**27,106**	**2,425**	**2,865,784**
At 31 December 2017					
Cost	3,275,649	1,208,036	27,106	55,171	**4,565,962**
Accumulated depreciation	(605,587)	(1,041,845)	-	(52,746)	**(1,700,178)**
Carrying amount 31 December 2017	**2,670,062**	**166,191**	**27,106**	**2,425**	**2,865,784**

The amount of commitments for the purchase of property and equipment in 2017 amounts to Denar 2,387 thousand (2016: Denar 1,250 thousand). As at 31 December 2017 and 31 December 2016 the Group does not have any property and equipment pledged as collateral.

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23. INVESTMENT PROPERTY

	In thousands of Denars 2017	2016
At 1 January		
Cost	-	33,510
Accumulated depreciation	-	(5,725)
Carrying amount	**-**	**27,785**
Carrying amount 1 January	-	27,785
Depreciation charge	-	(837)
Transfer to owner-occupied premises	-	(26,948)
Carrying amount 31 December	**-**	**-**
At 31 December		
Cost	-	-
Accumulated depreciation	-	-
Carrying amount	**-**	**-**

24. INTANGIBLE ASSETS

	In thousands of Denars 2017	2016
Cost		
Balance at 1 January	287,988	281,286
Other additions	14,344	11,092
Disposals and write offs	-	(4,390)
Balance at 31 December	**302,332**	**287,988**
Accumulated amortisation		
Balance at 1 January	249,081	239,752
Charge for the year	12,829	13,719
Disposals and write-offs	-	(4,390)
Balance at 31 December	**261,910**	**249,081**
Carrying amount at 31 December	**40,422**	**38,907**
Carrying amount at 1 January	**38,907**	**41,534**

As at 31 December 2017 the Group does not have any commitments for the intangible assets (31 December 2016: none).

25. OTHER ASSETS

	In thousands of Denars December 31, 2017	December 31, 2016
Credit card receivables	408,131	296,760
Other bad and doubtful receivables	77,017	60,652
Trade receivables	205,479	199,483
Receivable from insurance company	8,191	7,806
Inventory of office materials	21,689	16,333
Inventory of numismatic collections	15,008	16,842
Fee and commission receivables	35,423	39,539
Advances for property and equipment	8,135	975
Other receivables by other basis in denars	620,183	63
Other assets	28,824	41,477
	1,428,080	**679,930**
Less: Allowance for impairment	(107,295)	(86,773)
	1,320,785	**593,157**

The current portion of other assets amounts to Denar 1,318,642 thousand (2016: Denar 591,396 thousand).

Movement in specific allowance for impairment is as follows:

	In thousands of Denars Year ended December 31 2017	Year ended December 31 2016
Balance at 1 January	86,773	209,322
Net charge/ (release) to profit or loss (Note 13)	70,874	35,187
Release upon foreclosure procedures	(5,146)	(584)
Write-off	(45,206)	(157,152)
Balance at 31 December	**107,295**	**86,773**

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

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26. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEDURES

	In thousands of Denars	
	December 31, 2017	December 31, 2016
Foreclosed collateral		
Land	139,085	63,280
Buildings	808,672	576,720
Residential buildings and apartments	146,916	47,795
Other	301,592	46,521
	1,396,265	**734,316**

The fair value of the acquired assets through foreclosure procedure as at 31 December 2017 is in the amount of 2,008,892 thousands of denars (as at 31 December 2016 is in the amount of 1,346,020 thousands of denars).

Certified property valuators, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, determined the fair value of foreclosed assets.

The fair value measurement for foreclosed assets has been categorized as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of foreclosed assets, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account expected rental growth rate, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates. Among other factors, the discount rate estimation considers the quality of a building and its location (prime vs secondary) and lease terms.	• Expected market rental growth (2%). • Occupancy rate (58% - 80% for business facilities and warehouses) • Risk-adjusted discount rates (8%, 10%,13 depending on the type of real estate which is estimated, 8% for residential, retail and office facilities, 10-13% for logistics and warehouses)	The estimated fair value would increase (decrease) if: ••expected market rental growth were higher (lower); ••the occupancy rate were higher (lower); or ••the risk-adjusted discount rate were lower (higher).

27. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Demand deposits		
Banks and other financial institutions	275,868	642,600
Insurance companies	76,573	84,367
Time deposits		
Banks and other financial institutions	242,682	564,333
Insurance companies	488,420	350,209
Restricted deposits		
Banks and other financial institutions	189,881	-
Insurance companies	3,847	6,954
	1,277,271	**1,648,463**
Current	950,558	1,519,803
Non-current	326,713	128,660

Deposits from banks and other financial institutions include accrued interest payable of Denar 8,366 thousand (2016: Denar 3,737 thousand).

28. DEPOSITS FROM OTHER CUSTOMERS

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Public institutions		
Current / settlement accounts	273,904	221,529
Time deposits	55,573	75,888
Companies		
Current / settlement accounts	20,281,883	20,178,995
Time deposits	2,723,412	2,313,893
Retail customers		
Current / demand accounts	21,857,926	18,482,170
Time deposits	42,721,777	42,673,163
Restricted deposits		
Citizens	1,431,987	1,310,925
Companies	1,053,845	858,774
	90,400,307	**86,115,337**

Deposits from other customers include accrued interest payable of Denar 213,092 thousand (2016: Denar 249,216 thousand).

Restricted deposits in the total amount of Denar 2,485,832 thousand (2016: Denar 2,169,699 thousand) relate to Deposits from other customers, placed for payments abroad, letters of credit, deposits placed as collateral for securing repayment of loans and guarantees, and received early repayments of loans.

Current portion of deposits from other customers amounts to Denar 82,150,718 thousand (2016: Denar 79,008,187 thousand).

29. BORROWINGS

In thousands of Denars

	December 31, 2017		December 31, 2016	
	Short-term	Long-term	Short-term	Long-term
Domestic borrowings:				
MBDP (Macedonian Bank for Development Promotion)	-	-	68	10,606
MBPR- ZKDF (Macedonian Bank for Development Promotion funds granted from Agriculture Credit Discount Fund)	1,262	10,188	8,148	15,953
Agency for Managing Accounts	-	115,970	-	115,970
NBRM- Primary issue	-	8,809	-	8,809
Foreign borrowings administered through domestic financial and government institutions:				
MBDP – IKL (Macedonian Bank for Development Promotion funds granted from Italian Credit Line)	10	1,537	72	11,374
MBDP – EIB (Macedonian Bank for Development Promotion funds granted from EIB)	2,234	1,040,872	3,105	1,456,518
MF - FSR (Ministry of finance funds granted from former lender Council of Europe Social Development Fund)	-	-	8	7,859
	3,506	**1,177,376**	**11,401**	**1,627,089**
Foreign borrowings:				
MIDF B.V	-	-	13	12,019
EBRD	544	56,397	-	-
	544	**56,397**	**13**	**12,019**
Current	340,864	-	467,877	-
Non-current	-	896,959	-	1,182,645

Borrowings include accrued interest payable of Denar 2,802 thousand (2016: Denar 3,296 thousand). Current portion of long-term borrowings is Denar 336,814 thousand (2016: Denar 456,463 thousand).

As at 31.12.2017, the Bank was complied with the financial covenants of the Agreement with EBRD.

29. BORROWINGS (Continued)

Creditor	Currency	Interest rate	Year of maturity	Type of security
MBDP	MKD/EUR	3.0%	According to the agreements concluded with final users	4 bills of exchange
MBDP – IKL	EUR	3%	According to the agreements concluded with final users	12 bills of exchange * Pledge of receivables under sub-loan agreements with final users in the form of Notary deed
MBDP – 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
MBDP - 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 Managing Accounts	MKD	-	2020	unsecured
EBRD (previously MIDF B.V)	EUR	6.5% fixed, 5% adjustable	According to the agreements concluded with final users	unsecured

The Group has pledged a lien in the form of a notary deed in favor 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 2017 the amount of borrowings for which the Group has pledged receivables is 1,011,972 thousands of denars (2016: 1,368,652 thousands denars).

In 2017 Transfer and amendment and restatement agreement with MIDF B.V. and EBRD was signed with which MIDF B.V. fully transferred all rights and obligations in favor of EBRD, due to cessation of the existence of the company.

30. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Credit card liabilities	394,888	284,998
Liabilities to Ministry of Finance	9,114	9,585
Suppliers payable	19,662	17,445
Advances received	33,108	17,198
Fee and commission	7,587	7,913
Provision for pension and other employee benefit	60,032	53,218
Liabilities for VAT	6,445	2,829
Undistributed foreign payments from legal companies and citizens	94,502	118,827
Other liabilities	62,911	86,530
	688,249	**598,543**
Current	631,750	549,808
Non-current	56,499	48,735

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31. EQUITY

(a) Share capital

In number of issued shares

	Ordinary shares		Non-voting shares	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
In number of shares				
At 1 January	2,279,067	2,279,067	-	-
At 31 December	**2,279,067**	**2,279,067**	**-**	**-**

At 31 December 2017 the authorized share capital comprised of 2,279,067 (2016: 2,279,067) ordinary shares. Ordinary shares have a par value of Denar 1,000 (2016: Denar 1,000). All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at Shareholders' Assembly. All shares rank equally with regard to the Group's residual assets.

According to the shareholders book as at 31 December 2017, on 84,105 ordinary shares i.e 3.69% from the total shareholder capital of the Bank (as at 31 December 2016, 102,951 ordinary shares i.e. 4.52%) there is limitation of the rights established based on the law and/or Decision or act of the competent body.

As at 31 December 2017 the Group does not hold treasury shares. The Open-end Investment Funds managed by the Bank's subsidiary, KB Publikum Invest AD Skopje owns 17,114, i.e. 0.75% of the total share capital of the Bank, where OIF KB Publikum- Balanced owns 3.409 ordinary shares, i.e. 0.1496% of the total share capital of the Bank and OIF KB Publikum MBI 10 owns 13,705 ordinary shares, i.e 0.601% of the total share capital of the Bank (as at 31 December 2016 OIF KB Publikum- Balanced owned 2,109 ordinary shares, i.e. 0.0925%).

The below stated shareholders have more than 5% ownership of the Bank's ordinary shares:

	In %	
Shareholder	**December 31, 2017**	**December 31, 2016**
East Capital Explorer Investments AB, Stockholm	10.0	10.0
European Bank for Reconstruction and Development, London	-	5.25

(b) Dividends

The following dividends were recognised as distributions to owners during the year ended 31 December.

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
150 Denars per ordinary share (2016: 125 Denars)	341,860	284,883

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

	In thousands of Denars	
	December 31, 2017	**December 31, 2016**
Announced dividends after December 31	410,232	341,860

		In Denars
	December 31, 2017	**December 31, 2016**
Dividend per ordinary share	180	150

32. GROUP SUBSIDIARIES

See accounting policy Note 3.1.

(a) Significant subsidiaries

The significant subsidiary of the Group is KB Publikum. Its principle place of business is the Republic of Macedonia. The Bank holds 64.29% of ownership interest (2016: 64.29%).

(b) Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities.

(c) NCI in subsidiaries

The following table summarises the information relating to the Group's subsidiary that has material NCI.

KB Publikum

in thousands of denars	**Note**	**31 December 2017**
Assets		
Cash and cash equivalents		38
Held for trading financial assets		17,202
Bank deposits		38,040
Property and equipment	22	176
Intangible assets	24	737
Other assets		4,016
Total assets		**60,209**
Liabilities		
Liabilities to suppliers and other liabilities		1,761
Total liabilities		**1,761**
Net assets		**58,447**
Carrying amount of non-controlling participation		**20,872**

	For the period from 01.01.2017 - 31.12.2017
Revenue	38,543
Expenses	(13,816)
Profit	**24,727**
Total comprehensive income	**24,727**
Profit of non-controlling interest	**8,830**

	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)**

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32. GROUP SUBSIDIARIES (Continued)

(d) NCI in subsidiaries (Continued)

in thousands of denars	Note	31 December 2016
Assets		
Cash and cash equivalents		43
Held for trading financial assets		3,607
Bank deposits		27,750
Property and equipment	22	178
Intangible assets	24	325
Other assets		2,329
Total assets		**34,232**
Liabilities		
Liabilities to suppliers and other liabilities		511
Total liabilities		**511**
Net assets		**33,721**
Carrying amount of non-controlling participation		**12,042**

	For the period from 01.01.2016 - 31.12.2016
Revenue	22,095
Expenses	(10,008)
Profit	**12,087**
Total comprehensive income	**12,087**
Profit of non-controlling interest	**4,316**

	For the year ended 31 December 2016
Cash flows from operating activities	10,945
Cash flows from investing activities	(10,918)
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	**27**

33. CONTIGENCIES AND COMMITMENTS

(a) Off-balance sheet items

The following table indicates the contractual amounts of the Group's contingencies and commitments by category:

	In thousands of Denars	
	December 31 2017	December 31, 2016
Guarantees		
in domestic currency	6,174,495	5,902,083
in foreign currency	2,638,715	2,906,502
	8,813,210	**8,808,585**
Letters of credit	2,723,340	924,074
Unused credit card limits	1,199,841	1,177,461
Unused overdrafts on current accounts	1,766,179	1,766,422
Unused credit limits – non cancelable	1,543,492	1,532,802
Total	**16,046,062**	**14,209,344**
Less: provision for off-balance sheet items	(183,395)	(112,577)
	15,862,667	**14,096,767**

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

These commitments and contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Many 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.

Movement in provision is as follows:

	In thousands of Denars Year ended December 31 2017
Balance at January 1	112,577
Additional provisions during the year	244,700
(release of provisions during the year)	(173,874)
Exchange rate effect	(8)
As at 31 December	**183,395**

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33. CONTIGENCIES AND COMMITMENTS (continued)

(b) Litigations

For part of the contingent liabilities in the amount of 263,189 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 263,189 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.

(c) Taxation risk

The Group's 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 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.

34. RELATED PARTY TRANSACTIONS

Persons related to the Group are the following: persons with special rights and responsibilities and persons related thereto (classified as key management personnel), shareholders with qualified holding in the Group (direct or indirect ownership of at least 5% of the total number of shares or the issued voting shares in a Group or which makes it possible to exercise a significant influence in the Group) and entities related thereto and responsible persons of those shareholders – legal entities (classified as other related parties). In addition, the Group has investments in associates.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and borrowings. The volumes of related party transactions and outstanding balances at the year-end, are as follows:

	Placements as at 1 January 2017	**Placements during the year**	**Withdrawals during the year**	**Placements as at 31 December 2017**
	1	2	3	4=(1+2-3)
1. Assets				
Current accounts				
a) Associates	-	-	-	-
b) Key management personnel of the Group	-	-	-	-
c) Other related parties	-	-	-	-
Trading assets				
a) Associates	-	-	-	-
b) Key management personnel of the Group	-	-	-	-
c) Other related parties	-	-	-	-
Mortgage loans				
a) Associates	-	-	-	-
b) Key management personnel of the Group	62,950	28,858	18,643	73,165
c) Other related parties	-	-	-	-
Consumer loans				
a) Associates	-	-	-	-
b) Key management personnel of the Group	33,523	3,230	11,656	25,097
c) Other related parties	-	-	-	-
Other loans and claims				
a) Associates	123	183	283	23
b) Key management personnel of the Group	146,873	89,064	50,664	185,273
c) Other related parties	-	-	-	-
Investment in securities				
a) Associates	210,171	55,128	30,135	235,164
b) Key management personnel of the Group	-	-	-	-
c) Other related parties	-	-	-	-
2.Liabilities				
Deposits				
a) Associates	4,190	735,838	739,298	730
b) Key management personnel of the Group	644,205	3,558,621	3,536,061	666,765
c) Other related parties	-	-	-	-

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34. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from related party transactions

In thousands of Denars

	Year ended December 31, 2017				Year ended December 31, 2016			
	Associates	Key management personnel of the Group	Other related parties	Total	Associates	Key management personnel of the Group	Other related parties	Total
Income								
Interest Income	-	12,025	-	**12,025**	-	11,480	-	**11,480**
Income from fees and commissions	209	4,312	-	**4,521**	218	5,363	-	**5,581**
Net gains from trading	-	-	-	**-**	-	-	-	**-**
Dividend income	-	-	-	**-**	-	-	-	**-**
Capital gains from sale of non-current assets	-	-	-	**-**	-	-	-	**-**
Other income	55,205	3,124	-	**58,329**	43,701	4,602	-	**48,303**
Transfers between entities	-	-	-	-	-	-	-	-
Total Income	**55,414**	**19,461**	**-**	**74,875**	**43,919**	**21,445**	**-**	**65,364**
Expenses								
Interest expense	1	7,976	-	**7,977**	1	8,336	-	**8,337**
Fee and commission expense	-	-	-	**-**	-	-	-	**-**
Net losses from trading	-	-	-	**-**	-	-	-	**-**
Expenditures for procurement of non-current assets	-	-	-	**-**	-	-	-	**-**
Impairment of financial assets, on net basis	(3)	(267)	-	**(270)**	-	4,135	-	**4,135**
Other expenditures	51	1,559	-	**1,610**	70	3,741	-	**3,811**
Total Expenses	**49**	**9,268**	**-**	**9,317**	**71**	**16,212**	**-**	**16,283**

34. RELATED PARTY TRANSACTIONS (Continued)

Key management personnel

	In thousands of Denars Year ended December 31, 2017	Year ended December 31, 2016
Salaries and other short - term benefits	134,284	125,996
	134,284	**125,996**

35. FUNDS MANAGED ON BEHALF OF THIRD PARTIES

	In thousands of Denars December 31, 2017	December 31, 2016
Banks and other financial institutions	14,571	34,639
Companies	406,359	511,867
Individuals	53,269	49,124
	474,199	**595,630**

The Group manages assets on behalf of third parties which are in the form of loans to companies for various investments. The Group receives fee income for providing these services. Funds managed on behalf of third parties are not assets of the Group and are not recognized in the statement of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments, however, has a fiduciary responsibility to properly handle and invest client funds.

Income and expenses of the Funds managed on behalf of third parties are accrued to the account of the respective third party and the Group has no liability in connection with these transactions.

36. LEASE COMMITMENTS

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows

	Total	Maturity period for operating lease payments		
In thousands of Denars		up to 1 year	from 1 to 5 years	over 5 years
Balance at December 31, 2017	46,232	1,868	7,472	36,892
Total	**46,232**	**1,868**	**7,472**	**36,892**
Balance at December 31, 2016	48,100	1,868	7,472	38,760
Total	**48,100**	**1,868**	**7,472**	**38,760**

37. SUBSEQUENT EVENTS

No material events subsequent to the reporting date have occurred which require disclosure in the consolidated financial statements.

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38. EXCHANGE RATES

Official exchange rates used in the translation of the items denominated in foreign currencies in the statement of financial position were as follows:

	December 31, 2017	In Denars December 31, 2016
1 EUR	61.4907	61.4812
1 USD	51.2722	58.3258