


МАКЕДОНСКА БАНКА
ЗА ПОДДРШКА НА РАЗВОЈОТ АД
 Бр. 02-1763/1
29.06 2017 год.
СКОПЈЕ
РЕПУБЛИКА МАКЕДОНИЈА

**MAKEDONSKA BANKA
ZA PODDRSKA NA RAZVOJOT AD** Skopje

**Financial Statements for
Year ended December 31, 2016 and
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER AND MANAGEMENT OF MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

We have audited the accompanying financial statements (page 2 to 44) of MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO Skopje

June 28, 2017

STATEMENT OF COMPREHENSIVE INCOME
For the period from January 1, 2016 to December 31, 2016
(In thousands of Denars)

	Note	2016	2015
Interest income		329,310	347,049
Interest expense		(170,169)	(193,046)
Net interest income	6	<u>159,141</u>	<u>154,003</u>
Fee and commission income		34,769	27,935
Fee and commission expense		(26,254)	(15,373)
Net fee and commission income	7	<u>8,515</u>	<u>12,562</u>
Foreign exchange (losses)/gains, net	8	(275)	3,596
Other operating income	9	512	21,051
Release of/(Impairment) losses of financial assets, net	10	1,864	(195)
Release of/(Impairment) losses of non-financial assets, net	11	11,001	(2,289)
Personnel expenses	12	(34,428)	(35,173)
Depreciation and amortization	13	(9,792)	(9,886)
Other operating expenses	14	<u>(21,819)</u>	<u>(17,523)</u>
Profit before tax		114,719	126,146
Income tax expense	15	<u>(11,563)</u>	<u>(12,711)</u>
Profit for the year		<u>103,156</u>	<u>113,435</u>
Other comprehensive income			
Revaluation reserve related to foreclosed assets		247	13,320
Decrease of revaluation reserve, reclassified in the Statement of Financial Position		<u>(13,320)</u>	<u>(610)</u>
Other comprehensive (loss)/income for the year, net of tax		<u>(13,073)</u>	<u>12,710</u>
Total comprehensive income for the year		<u>90,083</u>	<u>126,145</u>
Profit attributable to:			
Owner of the Bank		103,156	113,435
Total comprehensive income attributable to:			
Owner of the Bank		90,083	126,145
Earnings per share	27		
Basic (in Denars)		269	295
Diluted (in Denars)		269	295

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

The financial statements were approved by the Management of the Bank as of January 24, 2017 and adopted by the Bank's Supervisory Board on January 27, 2017.

Signed on behalf of MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje:

Dragan Martinovski
 Chief Executive Officer




Besim Bilali
 Chief Operating Officer



STATEMENT OF FINANCIAL POSITION
As of December 31, 2016
(In thousands of Denars)

	<u>Note</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Cash and cash equivalents	16	1,761,462	3,033,016
Loans and advances to banks	17.1	12,696,836	13,696,974
Loans and advances to other customers	17.2	102,074	137,852
Investments in securities	18	153,389	-
Income tax receivables (current)	23	1,039	-
Other receivables	19	5,666	4,092
Foreclosed assets	20	9,525	11,597
Intangible assets	21	10,292	14,754
Property and equipment	22	121,581	93,800
Total assets		<u>14,861,864</u>	<u>16,992,085</u>
LIABILITIES			
Borrowings	24	12,368,130	14,591,821
Special reserve for off-balance sheet items	25	14,689	13,029
Income tax liabilities (current)	23	-	2,652
Other liabilities	26	13,832	9,453
Total liabilities		<u>12,396,651</u>	<u>14,616,955</u>
EQUITY			
Share capital	27	1,193,792	1,193,792
Reserves		1,168,265	1,067,903
Retained earnings		103,156	113,435
Total equity		<u>2,465,213</u>	<u>2,375,130</u>
Total liabilities and equity		<u>14,861,864</u>	<u>16,992,085</u>
Commitments and contingencies	29	<u>552,555</u>	<u>407,633</u>

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(In thousands of Denars)

	<u>Share capital</u>	<u>Reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance, January 1, 2015	1,193,792	947,682	107,511	2,248,985
Profit for the year	-	-	113,435	113,435
Other comprehensive income for the year, net of tax	-	12,710	-	12,710
Allocation to statutory reserve	-	107,511	(107,511)	-
Balance, December 31, 2015	<u>1,193,792</u>	<u>1,067,903</u>	<u>113,435</u>	<u>2,375,130</u>
Balance, January 1, 2016	1,193,792	1,067,903	113,435	2,375,130
Profit for the year	-	-	103,156	103,156
Other comprehensive loss for the year, net of tax	-	(13,073)	-	(13,073)
Allocation to statutory reserve	-	113,435	(113,435)	-
Balance, December 31, 2016	<u>1,193,792</u>	<u>1,168,265</u>	<u>103,156</u>	<u>2,465,213</u>

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

STATEMENT OF CASH FLOWS

For the period from January 1, 2016 to December 31, 2016
(In thousands of Denars)

	<u>2016</u>	<u>2015</u>
Cash flow from operating activities		
Profit before taxation	114,719	126,146
<i>Adjusted for:</i>		
Depreciation of:		
Intangible assets	5,124	5,130
Property and equipment	4,668	4,756
Capital loss from:		
Sale of foreclosed assets	-	242
Interest income	(329,310)	(347,049)
Interest expense	170,169	193,046
Impairment losses of financial assets, net		
Additional impairment losses	4,528	5,981
Release of impairment losses	(6,392)	(5,786)
Impairment losses of non-financial assets, net		
Additional impairment losses	2,319	2,899
Release of impairment losses	(13,320)	(610)
Special reserve:		
Additional provisions	10,225	5,493
Release of provisions	(8,565)	(9,093)
Interest received	358,544	388,563
Interest paid	(176,225)	(212,320)
Profit from operations before changes in operating assets:	<u>136,484</u>	<u>157,398</u>
<i>(Increase)/decrease of operating assets:</i>		
Loans and advances to banks	1,000,138	(1,060,191)
Loans and advances to other customers	(18,005)	(507)
Foreclosed assets	(309)	(15,597)
Other receivables	(1,542)	3,975
Other liabilities	4,378	1,973
Net cash flow used in operating activities before taxation	<u>1,121,144</u>	<u>(912,949)</u>
Income tax paid	(11,563)	(21,656)
Net cash flow used in operating activities	<u>1,109,581</u>	<u>(934,605)</u>
Cash flow from investing activities		
(Investments in securities)	(152,812)	-
Purchase of intangible assets	(662)	(1,026)
Purchase of property and equipment	(32,449)	(4,334)
Net cash flow used in investing activities	<u>(185,923)</u>	<u>(5,360)</u>
Cash flow from financing activities		
Repayment of borrowings	(2,195,212)	(2,424,516)
Increase of borrowings	-	4,201,787
Net cash flow from financing activities	<u>(2,195,212)</u>	<u>1,777,271</u>
Net increase of cash and cash equivalents	<u>(1,271,554)</u>	<u>837,306</u>
Cash and cash equivalents as of 1 January	<u>3,033,016</u>	<u>2,195,710</u>
Cash and cash equivalents as of December 31	<u><u>1,761,462</u></u>	<u><u>3,033,016</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

1. GENERAL INFORMATION

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje (hereinafter referred to as "the Bank" or "MBDP") is a state owned Shareholding Company incorporated and domiciled in the Republic of Macedonia.

The address of the Bank's registered office is as follows: St. Dimitrie Chupovski 26, 1000 Skopje Republic of Macedonia.

The Banks' sole shareholder is the Government of the Republic of Macedonia. The Bank's main activities include funding the startup of businesses and the development of small and medium size enterprises, financing exports with loans and issuing financial guarantees, export and domestic credit insurance, factoring, issuance of letter of guarantees, trading activities etc. Loans are granted through participating banks in the Republic of Macedonia which bear the ultimate risk of collection of the receivables and directly as well.

In accordance with the amendment of the Law for founding of the Macedonian Bank for Development Promotion (Official Gazette of the Republic of Macedonia No. 105/09), apart from other changes introduced, the Bank is allowed to perform loan financing directly to the customers or jointly with the other Banks or non-banking financial institutions. In addition, according to the changes in the Law on MBDP, the Bank has transferred previously established Guarantee Fund for issuing letter of guarantees for secure of payments of long term loans for investments approved by banks and other financial institutions in Republic of Macedonia to micro, small and medium sized enterprises, sole proprietorships and craftsmen registered in Republic of Macedonia, to the initial capital of the bank. The letters of guarantees issued from the Guarantee Fund until the date of entering into force of this Law are the responsibility of MBDP.

The Bank does not hold any investment in subsidiaries. Also, the Bank shares are not listed on any stock exchange market. The number of employees of the Bank as at 31 December 2016 is 40 (2015: 41 employees).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the International Accounting Standards Board (the "IASB").

The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (included derivative financial instruments) held at fair value through profit or loss, under the going concern assumption.

(c) Functional and reporting currency

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

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

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 3.23 to the financial statements.

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

(e) Standards and Interpretations effective in the current period

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

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” -Bearer Plants** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements** (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)”** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank’s financial statements.

(f) Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following new standards and amendments to existing standards were in issue, but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 “Revenue from Contracts with Customers”** and further amendments (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

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

(f) Standards and Interpretations in issue not yet adopted (Continued)

- **Amendments to IFRS 2 “Share-based Payment”** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **Amendments to 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- **Amendments to IAS 7 “Statement of Cash Flows”** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic accounting policies used in the preparation of the financial statements are shown below. These policies are consistently applied to all years presented, unless otherwise indicated.

3.1 Foreign currency translation

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

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

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD). The exchange rates used for translation at 31 December 2016 and 2015 were as follows:

	<u>31.12.2016</u>	<u>31.12.2015</u>
1 EUR	MKD 61.4812	MKD 61.5947
1 USD	MKD 58.3258	MKD 56.3744
1 CHF	MKD 57.2504	MKD 56.9583
1 GBP	MKD 71.8071	MKD 83.4617

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.2 Offsetting**

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

3.3 Interest income and expense

Interest income and expense are recognized in the profit or loss for all interest bearing financial assets and liabilities using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability over the relevant period. The effective interest rate is the rate that exactly 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. The calculation of the effective interest rate includes all fees and points paid or received, (transaction costs, and discounts or premiums) that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss include interest on financial assets and liabilities at amortized cost on an effective interest rate basis.

3.4 Fee and commission income

Fee and commission income with exception to the fees for approving of loans, is recognized in the profit or loss on an accrual basis when the service has been provided. Fees for approving of loans are deferred and amortised over the duration of period of the loan using the effective interest method.

3.5 Financial assets

Financial assets are classified in the following categories: loans and receivables, financial assets at fair value through profit and loss, financial assets available-for-sale and financial assets held to maturity. Management classifies its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. They are recognized when the cash is advanced. As at 31 December 2016, loans and receivables of the Bank consist of loans and advances to banks, loans and advances to customers including factoring receivables and other receivables.

Financial assets at fair value through profits and losses

This category of financial assets consists of securities held for trading and securities at fair value through profits and losses classified as it at initial recognition. A financial asset is classified as asset held for trading if it is acquired or incurred principally for the purpose of generating profit through short-term fluctuations in the price or if it is included in the portfolio for which a short-term actual form of profit gain exists. As at 31 December 2016 and 2015 the Bank has no assets classified under this category.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices. As at 31 December 2016 and 2015 the Bank has no assets classified under this category.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. If the Bank sells a significant amount of the financial assets held to maturity before they reach the maturity date, then the entire category of these assets will be reclassified in financial assets available-for-sale.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Initial recognition and derecognition

Purchases and sales of financial assets available – for – sale and held to maturity financial assets are recognized on trade – date – the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets except for financial assets not carried at fair value through profit or loss.

Financial assets cease to be recognized after the rights to receive cash flows from the funds ends or after their transfer, and the Bank transferred substantially all risks and benefits of ownership.

Subsequent measurement

After initial recognition, the Bank measures financial assets carried at fair value through profit or loss, or as available-for-sale, at fair values without any deduction for transaction costs it may incur on their sale.

The fair value of quoted financial assets is their bid prices at the Statement of financial position date.

If the market on which the financial asset is quoted is not active, the Bank establishes fair values by using a valuation technique. Valuation techniques include the use of recent arm's length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost. Investments held to maturity and loans and receivables are measured at amortized cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the profit or loss in the period in which they arise.

Net changes in the fair value of financial assets classified as fair value through profit and loss include interest income.

Unrealised gains and losses arising from changes in the fair value of financial assets available-for-sale are recognised directly in Statement of comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss.

When financial assets available-for-sale are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Where financial assets available-for-sale are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

3.6 Impairment of financial assets

Assets carried at amortized cost

The Bank assesses on a monthly basis whether there is objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
- Delinquency in contractual payments of principal or interest;
- Days in arrears for payment of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Initiation of bankruptcy proceedings;
- Activating the collateral.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Impairment of financial assets (Continued)

The Bank assesses the existence of objective evidence for impairment on individual basis for individually significant financial assets.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses based on the loan) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance for impairment and the amount of the impairment loss is recognized in the current Statement of comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment and are recognized as income in the current period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

3.7 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. No amortization is charged for assets under development. The following are approximations of estimated useful life applied to significant items of intangible assets:

	2016	2015
Software	4 years	4 years
Rights and licenses	4 years	4 years

3.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses, if any. Cost includes all expenses directly attributable to purchase of assets.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged through profit or loss during the financial period in which they are incurred.

Depreciation is charged on a straight - line basis in order to allocate the acquisition cost of property, building and equipment over their useful lives. No depreciation is charged for land and construction in progress. The following are approximations of estimated useful life applied to significant items of property and equipment:

Buildings	50 years
Furniture and equipment	4-5 years
Other assets	4-10 years

The residual values of assets and the estimated useful life are reviewed and if necessary are corrected at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Foreclosed assets

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and are reported in other assets as non-current assets held for sale. The assets are not used by the Bank for its core operations. Initially, these assets are measured at fair value less cost to sell, as estimated and documented upon repossession. Foreclosed assets are measured at fair value less costs to sell at each reporting period.

3.10 Impairment of non-financial assets

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

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

3.11 Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, unrestricted cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid financial assets with original maturities of three months or less.

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

3.12 Provisions

A provision is recognized when there is a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

3.13 Employee benefits

The Bank contributes to its employees as prescribed by the local social security legislation. Contributions, based on salaries, are made to the national Pension Fund and the obligatory private pension funds. There is no additional liability regarding these contributions. In addition, all employers in the Republic of Macedonia are obligated to pay to the employees on retirement a separate minimum amount regulated by law.

The Bank has not provided for the employees' accrued separate minimum amount on retirement, as this amount would not have a material effect on the financial statements.

The Bank does not operate any pension scheme or retirement benefit plans and consequentially, has no liability for pensions. The Bank is not obliged to provide additional benefits for its current or previous employees.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Current and deferred income tax

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

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

3.15 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities at amortized cost consist of borrowings and other liabilities.

Borrowings

Borrowings are initially recognized at fair value, being their issue proceeds (fair value of consideration received) corrected by transaction costs incurred. Borrowings are subsequently carried at amortized cost. Borrowings are derecognized at the moment of their settlement, cancellation or expiration.

Other liabilities

Other liabilities are recognised initially at fair value and subsequently are stated at amortised cost using the effective interest rate method. Other liabilities are derecognized at the moment of their settlement, cancellation or expiration.

3.16 Share capital and reserves

Share capital

Share capital represents the nominal value of shares that have been issued.

Reserves

Reserves, which comprise of reserves for securities as well as statutory reserves, are generated throughout the period, distributed from the accumulated gains based on legal regulation and decisions by the Bank's Management.

Retained earnings

Retained earnings comprise of non-distributed earnings from the current and past periods.

Dividends

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

3.17 Earnings per share

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

3.18 Managed funds

Assets and liabilities managed on behalf of and for the account of the banks and the Government of the Republic of Macedonia are included in the statement of financial position on a net basis. Net liabilities in the statement of financial position represent the temporary difference between liabilities payments for the account of the banks.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

3.20 Segment reporting

A business segment is a distinguishable component of an entity engaged in providing an individual – or a group of related – product(s) or service(s) subject to risks and rewards that are different from those of other business segments. A geographical segment is a distinguishable component defined as for a business segment, but subject to risks and rewards related to particular economic environments.

3.21 Commitments and contingencies

The Bank undertakes liabilities in its operating activities arising from loan placements accounted for in the off Statement of financial position accounts, which primarily include guarantees, letter of credits and potential commitments from factoring. The insured receivables are recorded in the off balance sheet accounts of the Bank. The Bank is exposed to a maximum of 90% of the invoiced amount and its insured receivables are reinsured in foreign reinsurance companies.

3.22 Events after the reporting period

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

3.23 Critical accounting estimates and judgments

The Bank makes estimates and assumptions, which affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

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

Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2016, Management assesses that the useful lives represent the expected utility of the assets to the Bank. The carrying amounts are analyzed in Note 21 and 22. Actual results, however, may vary due to technical obsolescence.

Impairment of non-financial assets

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT

The Bank's aim is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the Bank's financial performance.

The risk represents probability of particular activity or event to have a direct adverse impact on profits and / or own resources, or cause difficulty in achieving the objectives of the Bank. The risk is appropriately managed when identified, understood, evaluated, when monitoring is performed and when controlled.

Key elements of the risk management process of the Bank are: clearly defined organizational structure, internal acts for identifying, measuring, monitoring and control, stress tests rules, rules for implementation of new products and proper use of instruments for protection and reduction of certain risks.

Risk Management Committee establishes and implements policies for undertaking and managing certain risk, proposes their review and monitors and evaluates the effectiveness of the overall process of risk management. The Supervisory Board approves policies for undertaking and managing risks and monitors their implementation. Established policies for managing individual risks, enabling identification, measurement, monitoring and control of risk to which they refer, provide reasonable assurance that the operations are directed to achieving the objectives of the Bank in accordance with applicable rules and regulations, and with the approved exposure limits by the Supervisory Board. Limits to exposures to individual risks are subject to reviewed, at least once per year, depending on internal and external conditions in which the Bank operates. Additionally, the Board of Directors establishes and implements procedures for identification, measurement, monitoring and internal controls of the process of managing risks. Considering that the process of risk management is important for each employee of the Bank trainings are conducted in order to create constructive environment where all employees will understand their duties and responsibilities.

Internal Audit Department conducts regular and periodic evaluations of the implementations of the internal controls, policies and procedures for undertaking and managing individual risks.

The process of risk management is in accordance with the Strategy for the Bank to undertake and manage risks.

Bank is exposed to the following risks:

- Credit risk;
- Liquidity risk;
- Market risks (interest rate risk, currency risk).

This note represents information for Bank's exposure for each of these risks, objectives, policies and managing processes and methods used for Bank's risk measurement.

For all these risks the Bank establishes specific policies for managing individual types of risks and procedures for identification, assessment, monitoring and control of the individual risk.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit risk

Management of credit risk is part of the integrated process for management with all financial risks on which the Bank is exposed. Managing with the credit risk is a process that allows governing bodies to identify credit risk and thereby choose which exposures to reduce and which to increase and in what way.

Prior approving the exposure to credit risk, the Bank identifies all significant factors that may affect the riskiness of the client, or Bank's exposure to the client. Bank shall classify each active balance/off-balance sheet item by the degree of credit risk that it is exposed to on an individual basis based on the creditworthiness of the client, the orderliness in settlement of obligations and the quality of collateral.

In measuring the credit risk, the basic indicators that the Bank uses are information for the exposure on the likelihood that the debtor will enter bankruptcy or other financial reorganization, the probability of deterioration in the solvency or other significant financial difficulties of the debtor, the breach of agreement by the debtor etc. Instruments for protection and reduction of credit risk used by the Bank are the system of exposure limits, quality of collateral, system of early warning, appropriate valuation of the credit risk components, use of relevant information, defining market risks etc.

Clearly defined organisational structure is an important element of the process of managing with credit risk that provides exposures to credit risk within the limits set by the Supervisory Board.

The Supervisory Board approves the exposure to individual from over 10% of own funds of the Bank, and exposure to individual bank from over 25% of own funds of the Bank. Exposures to credit risk under these limits are approved by the Credit Committee and Insurance Committee.

Credit and Guarantee Division, Credit Insurance Division and Division for Treasury and Liquidity monitor all credit exposures in terms of established limits.

The Board of Directors is responsible for internal control in terms of exposure to credit risk due to that internal acts are established with set risk limits that intend to assist in the risk control and risk management. Namely, the process of control aims to minimize the impact of risk on capital and profit in accordance with the strategic objectives of the Bank.

The provision for impairment at year-end is derived from each of the Bank's internal rating grades. The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit risk (Continued)

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

	In thousands of Denars	
	31 December 2016	31 December 2015
Credit risk exposure relating to on balance sheet assets		
Cash and cash equivalents	1,758,489	3,026,314
Placement with, and loans to banks	12,696,836	13,696,974
Loans to customers	102,074	137,852
Investments in securities	153,389	-
Income tax receivables (current)	1,039	-
Other receivables	5,291	3,744
	<u>14,717,118</u>	<u>16,864,884</u>
Credit risk exposure relating to off-balance sheet assets/liabilities		
Other off-balance sheet commitments (credit insurance activities)	567,244	420,662
Gross exposure	<u>567,244</u>	<u>420,662</u>
Less: Provision for off-balance sheet items	(14,689)	(13,029)
	<u>552,555</u>	<u>407,633</u>
Total credit risk exposure	<u>15,269,673</u>	<u>17,272,517</u>

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit risk (Continued)

4.1.2 Loans to customers neither past due nor impaired, past due but not impaired and individually impaired

	Neither past due nor impaired	Past due but not impaired	Individ. Impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2016								
Government	65,398	-	-	65,398	-	-	-	65,398
Corporate loans	-	-	38,670	38,670	1,994	-	1,994	36,676
Total	65,398	-	38,670	104,068	1,994	-	1,994	102,074

	Neither past due nor impaired	Past due but not impaired	Individ. impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2015								
Government	77,420	-	-	77,420	-	-	-	77,420
Corporate loans	-	-	237,375	237,375	176,943	-	176,943	60,432
Total	77,420	-	237,375	314,795	176,943	-	176,943	137,852

All the loans to customers neither past due nor impaired have been mapped to the group of the satisfactory credit risk based on the criteria of the internal credit-quality grading system.

4.1.3 Renegotiated loans to customers

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

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

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

During 2016 the Bank has not renegotiated loans (2015: Denar 5,037 thousand).

4.1.4 Foreclosed assets

During 2016, the Bank conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Bank has not sold any assets (2015: 1 asset) at a total value of Denar nul thousand (2015: Denar 1,053 thousand), whereas it foreclosed 3 assets (2015: 4 assets) at a total value of Denar 309 thousand (2015: Denar 16,650 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit risk (Continued)

4.1.5 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2016 and 2015. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Placements with and loans to banks		Loans to customers		Investment in financial assets held-to-maturity		Cash and cash equivalents		Other receivables		Off balance exposure		Total	
	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<i>In thousands of Denars</i>														
<i>Geographical location</i>														
Republic of Macedonia	12,696,836	13,696,974	66,767	93,755	153,389	-	859,734	780,482	1,987	1,909	18,406	9,786	13,797,119	14,582,906
EU member countries	-	-	35,307	44,097	-	-	898,755	2,245,832	2,805	1,827	329,825	257,867	1,266,692	2,549,643
Europe (other)	-	-	-	-	-	-	-	-	-	-	54,164	30,587	54,164	30,587
OECD member countries (without the European member-countries of OECD)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (over 10% of total credit risk exposure))	-	-	-	-	-	-	-	-	499	8	149,939	109,309	150,438	109,317
Total	12,696,836	13,696,974	102,074	137,852	153,389	-	1,758,489	3,026,314	5,291	3,744	552,555	407,633	15,268,634	17,272,517

Exposure of loans and receivables according to the geographical location of the debtors shows highest concentration in the Republic of Macedonia 90% (2015: 86%).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1 Credit risk (Continued)

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

Industry sector (Continued)

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

	In thousands of Denars	
	2016	2015
<i>Industry</i>		
Non-residents	534,152	397,847
Agriculture, forestry and fishing	-	54
Food industry	1,014	1,276
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	1	-
Construction	14	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	16,975	8,385
Transportation and storage	53	-
Accommodation and food service activities	48	-
Information and communication	149	10
Professional, scientific and technical activities	134	53
Administrative and support service activities	15	8
Total	<u>552,555</u>	<u>407,633</u>

4.2 Market risk

Market risk is the risk that changes in market prices, such as changes in interest rates, changes in equity prices, exchange rates and/or market prices of securities will affect the Bank's profit or the value of own financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits by optimizing the yield.

The Bank is exposed to the risk of fluctuations of interest rates as a result of which the interest bearing assets and interest bearing liabilities mature or their interest rate changes at different times or in different amounts. In the case of assets and liabilities with variable interest rates, the Bank is also exposed to basic risk, which arises from the difference in changing the variable interest rates.

Managing this risk, which has a direct impact on revenues and the economic value of the banking activities of the Bank, is part of an integrated system of risk management in the Bank. The Macedonian Bank for Development Promotion establishes system of risk management from changes in interest rates in accordance with the scope and type of activities performed and the degree of risk exposure from changing interest rates.

To measure this risk the Bank applies the technique of gap analysis – maturity structure of interest sensitivity assets and liabilities in certain time periods. In function of monitoring and control, the Bank establishes limits for exposure to risk from changing interest rates, and adequate management with this risk directed to achieving the goals and objectives of the Bank.

Activities for risk management are aimed at optimizing net interest income, with market interest rates that are consistent with the business strategies of the Bank.

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.1 Foreign exchange risk

The measurement of the currency risk is performed through indicator in the relation between aggregate foreign exchange position and the Bank's own assets. In the policy for managing of currency risk this internal limit is defined, which is different from the one prescribed by the law on banks, since according to the Law for establishment of Macedonian Bank for Development and Promotion the procedures for open foreign currency position are not applicable to the Bank. Monitoring of this risk on a regular basis provides safety for the Supervisory and Managing Board that the established control system functions appropriately.

The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2016 and 2015:

	In thousands of Denars				
	December 31, 2016				
	EUR	Other currency	Total foreign currency	In reporting currency	Total
ASSETS					
Cash and cash equivalents	898,755	-	898,755	862,707	1,761,462
Placement with, and loans to banks	12,696,836	-	12,696,836	-	12,696,836
Loans to customers	100,842	-	100,842	1,232	102,074
Investments in securities	-	-	-	153,389	153,389
Other receivables	5,285	-	5,285	381	5,666
Total assets	13,701,718	-	13,701,718	1,017,709	14,719,427
LIABILITIES					
Borrowings	12,268,069	-	12,268,069	100,061	12,368,130
Other liabilities	10,641	-	10,641	3,191	13,832
Total liabilities	12,278,710	-	12,278,710	103,252	12,381,962
Net currency gap	1,423,008	-	1,423,008	914,457	2,337,465

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.1 Foreign exchange risk (Continued)

	In thousands of Denars December 31, 2015				
	EUR	Other currency	Total foreign currency	In reporting currency	Total
ASSETS					
Cash and cash equivalents	2,245,833	-	2,245,833	787,183	3,033,016
Placement with, and loans to banks	13,626,972	-	13,626,972	70,002	13,696,974
Loans to customers	124,952	-	124,952	12,900	137,852
Other receivables	3,715	-	3,715	377	4,092
Total assets	<u>16,001,472</u>	<u>-</u>	<u>16,001,472</u>	<u>870,462</u>	<u>16,871,934</u>
LIABILITIES					
Borrowings	14,484,612	-	14,484,612	107,209	14,591,821
Other liabilities	7,270	-	7,270	2,183	9,453
Total liabilities	<u>14,491,882</u>	<u>-</u>	<u>14,491,882</u>	<u>109,392</u>	<u>14,601,274</u>
Net currency gap	<u>1,509,590</u>	<u>-</u>	<u>1,509,590</u>	<u>761,070</u>	<u>2,270,660</u>

At December 31, 2016, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 142,301 thousand higher (2015: Denar 150,959 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 142,301 thousand lower (2015: Denar 150,959 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.2 Interest rate risk

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2016, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2016 would respectively decrease/increase by approximately Denar 44,030 thousands (2015: Denar 43,791 thousands).

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2016 and 2015.

	In thousands of Denars		
	December 31, 2016		
	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	1,758,023	3,439	1,761,462
Placement with, and loans to banks	12,594,748	102,088	12,696,836
Loans to customers	35,308	66,766	102,074
Investments in securities	152,813	576	153,389
Other receivables	144	5,522	5,666
Total assets	<u>14,541,036</u>	<u>178,391</u>	<u>14,719,427</u>
LIABILITIES			
Borrowings	12,339,553	28,577	12,368,130
Other liabilities	-	13,832	13,832
Total liabilities	<u>12,339,553</u>	<u>42,409</u>	<u>12,381,962</u>
Net interest gap:	<u>2,201,483</u>	<u>135,982</u>	<u>2,337,465</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2 Market risk (Continued)

4.2.2 Interest rate risk (Continued)

	In thousands of Denars December 31, 2015		
	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	3,025,521	7,495	3,033,016
Placement with, and loans to banks	13,669,916	27,058	13,696,974
Loans to customers	60,106	77,746	137,852
Other receivables	644	3,448	4,092
Total assets	16,756,187	115,747	16,871,934
LIABILITIES			
Borrowings	14,557,188	34,633	14,591,821
Other liabilities	-	9,453	9,453
Total liabilities	14,557,188	44,086	14,601,274
Net interest gap:	2,198,999	71,661	2,270,660

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

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2016, profit for the year would have been Denar 44,030 thousand (2015: 43,980 Denar thousand) higher. Conversely, if the interest rates had been 200 bp lower with all other variables held constant, profit for the year would have been Denar 44,030 thousand (2015: Denar 43,980 thousand) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Liquidity risk

Liquidity risk represents the risk for the Bank of becoming incapable to provide sufficient funds for settlement of its liabilities when such liabilities fall due, or to provide such funds at much higher costs. Liquidity risk arises from the inability of the Bank to timely and quickly convert assets into cash with minimal costs and the inability to properly manage unexpected changes in the sources of funds.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Department for treasury and liquidity receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future operations. The Department for treasury and liquidity maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and placements with other banks, to ensure that sufficient liquidity is maintained within the Bank.

	In thousands of Denars December 31, 2016						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	1,761,462	-	-	-	-	-	1,761,462
Placement with, and loans to banks	995,127	30,741	2,931,864	3,232,992	4,454,042	1,052,070	12,696,836
Loans to customers	78,674	25,394	-	-	-	-	104,068
Investments in securities	-	-	153,389	-	-	-	153,389
Other receivables	4,669	37	1,983	-	-	-	6,689
Total assets	2,839,932	56,172	3,087,236	3,232,992	4,454,042	1,052,070	14,722,444
LIABILITIES AND EQUITY							
Borrowings	631,700	-	1,856,856	2,459,980	5,467,153	1,952,441	12,368,130
Other liabilities	12,379	69	1,384	-	-	-	13,832
Total liabilities and equity	644,079	69	1,858,240	2,459,980	5,467,153	1,952,441	12,381,962
Off-balance sheet items	406	-	521	2,694	555	-	4,176
Net liquidity gap	2,195,447	56,103	1,228,475	770,318	(1,013,666)	(900,371)	2,336,306

	In thousands of Denars December 31, 2015						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	2,933,356	99,660	-	-	-	-	3,033,016
Placement with, and loans to banks	983,352	61,744	2,845,808	3,294,078	5,386,357	1,125,635	13,696,974
Loans to customers	175,642	2,550	133,971	619	1,858	155	314,795
Other receivables	4,212	78	3,443	183	-	-	7,916
Total assets	4,096,562	164,032	2,983,222	3,294,880	5,388,215	1,125,790	17,052,701
LIABILITIES AND EQUITY							
Borrowings	635,756	-	1,593,916	2,464,508	6,944,853	2,952,788	14,591,821
Other liabilities	8,403	2,701	1,001	-	-	-	12,105
Total liabilities and equity	644,159	2,701	1,594,917	2,464,508	6,944,853	2,952,788	14,603,926
Off-balance sheet items	-	-	521	22,164	4,856	109	27,650
Net liquidity gap	3,452,403	161,331	1,387,784	808,208	(1,561,494)	(1,827,107)	2,421,125

MAKEDONSKA BANKA ZA PODDRSKA NA RAZVOJOT AD Skopje

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3 Liquidity risk (Continued)

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

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

	In thousands of Denars December 31, 2016						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Borrowings	639,355	-	1,963,964	2,566,374	5,596,777	2,059,458	12,825,928
Other liabilities	12,353	69	1,384	-	-	-	13,807
Total liabilities	651,708	69	1,965,348	2,566,374	5,596,777	2,059,458	12,839,735
Off-balance sheet items	406	-	521	2,644	555	-	4,176

	In thousands of Denars December 31, 2015						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Borrowings	643,550	-	1,775,350	2,654,250	7,266,072	3,088,907	15,428,129
Other liabilities	8,403	2,701	1,001	-	-	-	12,105
Total liabilities	651,953	2,701	1,776,351	2,654,250	7,266,072	3,088,907	15,440,234
Off-balance sheet items	-	-	521	22,164	4,856	109	27,650

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.4 Fair value of financial assets and liabilities

	Carrying amount		In thousands of Denars Fair value	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	Financial assets			
Cash and cash equivalents	1,761,462	3,033,016	1,761,462	3,033,016
Placement with, and loans to banks	12,696,836	13,696,974	12,696,836	13,696,974
Loans to customers	102,074	137,852	102,074	137,852
Investments in securities	153,389	-	153,389	-
Other receivables	5,666	4,092	5,666	4,092
	<u>14,719,427</u>	<u>16,871,934</u>	<u>14,719,427</u>	<u>16,871,934</u>
Financial liabilities				
Loans payable	12,368,130	14,591,821	12,368,130	14,591,821
Other liabilities	13,832	9,453	13,832	9,453
	<u>12,381,961</u>	<u>14,601,274</u>	<u>12,381,961</u>	<u>14,601,274</u>

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

Cash and cash equivalents

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

Loans and advances to banks and customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating rates that represent current market interest rates and their fair value is assessed by discounting of future cash flow using the effective interest rate method.

Other financial assets

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

Borrowings

Fair value of borrowings with floating interest rates approximates its carrying value due to adjusting of the interest rates of certain financial liabilities with market interest rates of similar instruments. Fair value of the borrowings under special conditions and for which there are no other financial instruments with same or similar characteristics approximates its carrying value.

Other liabilities

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

Fair value hierarchy

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

- a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b) Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; and
- c) Level 3: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

As of December 31, 2016 and 2015, the Bank does not have financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, as described above.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5 Capital management

The Bank's objective regarding capital management is to comply with the capital requirements of the National Bank of the Republic of Macedonia and to sustain stable and quality capital base, which will support the Bank's development.

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

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

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Tier 1 capital		
Ordinary shares	1,193,792	1,193,792
Statutory reserves and retained earnings	1,014,897	901,462
Less deductible item - intangible assets	(193)	-
Total qualifying Tier 1 capital	<u>2,208,496</u>	<u>2,095,254</u>
Tier 2 capital		
Revaluation reserves	247	13,320
Total qualifying Tier 2 capital	<u>247</u>	<u>13,320</u>
Total regulatory capital	<u>2,208,743</u>	<u>2,108,574</u>
Credit risk-weighted assets		
On-balance sheet	6,698,940	7,443,405
Off-balance sheet	328,614	242,394
Total credit risk-weighted assets	<u>7,027,554</u>	<u>7,685,799</u>
FX risk-weighted assets	<u>1,423,704</u>	<u>1,476,153</u>
Operational risk-weighted assets	<u>334,142</u>	<u>342,796</u>
Risk-weighted assets	<u>8,785,400</u>	<u>9,504,748</u>
Capital adequacy ratio	<u>25.14%</u>	<u>22.18%</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

5. SEGMENT REPORTING

Operating segments

The Bank has one reportable segment, which is the Bank's strategic business unit. The strategic business unit offers different products and services, which are managed separately based on the Bank's management and internal reporting structure. For the strategic business unit, the Managing Board reviews internal management reports.

The following table shows the Balance Sheet and Income Statement by individual business segments identifying income/expenses among the segments.

5.1 Operating segments

The Bank operates in one operating segment Corporate banking, presenting net profit of Denar 103,156 thousand for the year ended December 31, 2016 (2015: Denar 113,435 thousand) and total assets of Denar 14,861,864 thousand (2015: Denar 16,992,085 thousand) and total liabilities of Denar 12,396,651 thousand (2015: Denar 14,616,955 thousand).

5.2 Geographical areas

	In thousands of Denars December 31, 2016					Total
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallocated	
Total income	371,769	(190,736)	-	-	-	181,033
Total assets	13,958,895	902,969	-	-	-	14,861,864

	In thousands of Denars December 31, 2015					Total
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallocated	
Total income	373,397	(182,185)	-	-	-	191,212
Total assets	14,698,359	2,293,726	-	-	-	16,992,085

6. INTEREST INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Interest income		
Cash and cash equivalents	12,772	11,408
Loans and advances to banks	155,591	145,072
Loans and advances to customers	155,672	179,321
Investments in securities	4,955	-
Collected interest previously written off	320	11,248
	<u>329,310</u>	<u>347,049</u>
Interest expense		
Borrowings	170,169	193,046
	<u>170,169</u>	<u>193,046</u>
Net interest income	<u>159,141</u>	<u>154,003</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

6. INTEREST INCOME AND EXPENSE (Continued)

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Interest income		
Non-financial companies	1,966	3,121
Government	158,661	177,283
Banks	168,363	155,397
Collected interest previously written off	320	11,248
	<u>329,310</u>	<u>347,049</u>
Interest expense		
Government	1,052	1,123
Non-residents	169,117	191,923
	<u>170,169</u>	<u>193,046</u>
Net interest income	<u>159,141</u>	<u>154,003</u>

7. FEE AND COMMISSION INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Fee and commission income		
Loans	1,928	4,421
Letter of credit and guarantees	27,041	18,420
Asset management	5,800	5,094
	<u>34,769</u>	<u>27,935</u>
Fee and commission expense		
Payment operations		
domestic	550	822
international	7,106	797
Letter of credit and guarantees	18,598	13,754
	<u>26,254</u>	<u>15,373</u>
Net fee and commission income	<u>8,515</u>	<u>12,562</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

7. FEE AND COMMISSION INCOME AND EXPENSE (Continued)

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Fee and commission income		
Non-financial companies	22,759	21,005
Government	5,741	4,859
Banks	1,488	1,733
Non-residents	4,781	338
	<u>34,769</u>	<u>27,935</u>
Fee and commission expense		
Non-financial companies	4,085	340
Banks	550	820
Non-residents	21,619	14,213
	<u>26,254</u>	<u>15,373</u>
Net fee and commission income	<u>8,515</u>	<u>12,562</u>

8. FOREIGN EXCHANGE (LOSSES)/GAINS, NET

	In thousands of Denars Year ended December 31,	
	2016	2015
Realized foreign exchange gains, net	327	143
Foreign exchange (losses)/gains of allowance for impairment of financial assets, net	(286)	880
Other foreign exchange (losses)/gains, net	(316)	2,573
	<u>(275)</u>	<u>3,596</u>

9. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31,	
	2016	2015
Release from the special reserve and provisions for:		
Off-balance credit exposure	271	3,600
Revenues from contract settlement for DEG - Deutsche Investments		
Investitions Guarantee Fund	-	14,212
Income from foreign currency exchange operations	205	2,335
Other	36	904
	<u>512</u>	<u>21,051</u>

NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

10. (RELEASE OF)/IMPAIRMENT LOSSES OF FINANCIAL ASSETS, NET

	<i>In thousands of Denars</i>				
	Loans and advances to banks	Loans and advances to other customers	Fees and commission receivables	Other receivables	Total
2016					
Allowance for impairment, on individual basis					
Additional allowance for impairment	-	3,643	867	18	4,528
(Release of allowance for impairment)	-	(5,804)	(561)	(27)	(6,392)
	-	(2,161)	306	(9)	(1,864)
2015					
Allowance for impairment, on individual basis					
Additional allowance for impairment	-	5,904	77	-	5,981
(Release of allowance for impairment)	-	(5,718)	(52)	(16)	(5,786)
	-	186	25	(16)	195

11. (RELEASE OF)/IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET

	<i>In thousands of Denars</i>	
	Year ended December 31, 2016	2015
Foreclosed assets		
Additional impairment losses	2,319	2,899
(Release of impairment losses)	(13,320)	(610)
	(11,001)	2,289

12. PERSONNEL EXPENSES

	<i>In thousands of Denars</i>	
	Year ended December 31, 2016	2015
Salaries	21,999	22,619
Mandatory contribution for social and health insurance	11,015	11,320
Other	1,414	1,234
	34,428	35,173

13. DEPRECIATION AND AMORTIZATION

	<i>In thousands of Denars</i>	
	Year ended December 31, 2016	2015
Amortization on intangible assets	5,124	5,130
Depreciation on property and equipment	4,668	4,756
	9,792	9,886

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31,	
	2016	2015
Insurance premiums on property and employees	508	455
Materials and services	13,517	12,222
Administrative and marketing expenses	-	192
Other taxes and contributions	1,136	133
Rent	131	131
Litigation expenses	83	169
Provision for off-balance exposure, net	1,660	-
Loss from disposal of foreclosed assets	-	242
Expenses for membership fee	2,568	2,047
Expenses from foreign currency exchange operations	306	-
Other	1,910	1,932
	<u>21,819</u>	<u>17,523</u>

15. INCOME TAX

In 2016 and 2015 the new Income Tax Law was pronounced whereby the income tax is calculated at a rate of 10% to the profit determined in the Statement of Comprehensive Income, adjusted for certain items in accordance with the law provisions.

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Current income tax expense for the year	11,563	12,711
	<u>11,563</u>	<u>12,711</u>

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

	In thousands of Denars Year ended December 31,	
	2016	2015
Profit before tax	114,719	126,146
Income tax at the statutory income tax rate of 10%	11,472	12,615
Tax on expenses not allowed for tax purposes	91	96
At effective rate of 10.1% (2015: 10.08%)	<u>11,563</u>	<u>12,711</u>

NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

16. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Cash on hand	38	81
Accounts and deposits with NBRM, except for mandatory reserves in foreign currency	2,926	6,610
Current accounts with foreign banks	898,756	2,245,832
Current accounts with domestic banks	9	11
Treasury bills traded on the secondary market	254,258	254,357
Government bills traded on the secondary market	-	199,321
Time deposits with maturities less than or equal to three months	605,000	326,000
Receivables based in interest	475	804
	<u>1,761,462</u>	<u>3,033,016</u>

Treasury bills in the amount of Denar 254,258 thousand (2015: 254,357 thousand) represent bills issued by NBRM with maturity of 28 days and interest at the rate of 3.25% per annum.

Government bonds in the amount of Denar 199,321 thousand as of December 31, 2015 represent bills issued by the Ministry of Finance of the Republic of Macedonia with maturity up to 3 months and interest rate of 1.25% to 1.35%.

17. LOANS AND ADVANCES

17.1 Loans and advances to banks

	In thousands of Denars			
	Year ended December 31, 2016		Year ended December 31, 2015	
	Short-term	Long-term	Short-term	Long-term
Loans to banks				
Domestic banks	-	12,669,208	-	13,670,066
Interest based receivables	27,628	-	26,908	-
Current maturity	3,863,276	(3,863,276)	3,863,996	(3,863,996)
Total loans and advances to banks before allowance for impairment	3,890,904	8,805,932	3,890,904	9,806,070
(Allowance for impairment)	-	-	-	-
Total loans and receivables from banks less allowance for impairment	3,890,904	8,805,932	3,890,904	9,806,070

17.2 Loans and advances to customers

a) Analysis of loans by type of customer

	In thousands of Denars			
	Year ended December 31, 2016		Year ended December 31, 2015	
	Short-term	Long-term	Short-term	Long-term
Non-financial entities				
principal amount	36,971	-	234,409	2,632
interest receivables	140	-	334	-
Government				
interest receivables	66,957	-	77,420	-
Current maturity	-	-	674	(674)
Total loans and advances to other customers before allowance for impairment	104,068	-	312,837	1,958
(Allowance for impairment)	(1,994)	-	(176,943)	-
Total loans and receivables from other customers less allowance for impairment	102,074	-	135,894	1,958

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

17. LOANS AND ADVANCES (Continued)

17.2 Loans and advances to customers (Continued)

a) Analysis of loans by type of customer

	<i>In thousands of Denars</i>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Movements of allowance for impairment, individual basis		
Balance as of January 1	176,943	175,883
Allowance for impairment for the year		
additional allowance for impairment	3,643	5,904
(release of allowance for impairment)	(5,804)	(5,718)
Effect of foreign exchange differences	(285)	874
(Written-off receivables)	<u>(172,503)</u>	<u>-</u>
Balance as of 31 December	<u>1,994</u>	<u>176,943</u>

b) Analysis by type of security

	<i>In thousands of Denars</i>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Government unconditional guarantees	<u>102,074</u>	<u>137,852</u>
Total loans and advances from other clients less allowance for impairment	<u>102,074</u>	<u>137,852</u>

As of December 31, 2016, the Bank has no nonperforming loans included in loans and receivables from customers (2015: Denar 174,689 thousand). Written off receivables in the amount of Denar 172,502 thousand result from the new requirements of the Decision on Amending the Decision on Credit Risk Management ("Official Gazette" no. 223/15). According to the amendment up to June 30, 2016, the Bank is obliged to write off credit exposure after two years from the date of 100% impairment or allocated special reserve.

18. INVESTMENTS IN SECURITIES

	<i>In thousands of Denars</i>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Government bills	<u>153,389</u>	<u>-</u>
(allowance for impairment)	<u>-</u>	<u>-</u>
Total investment in financial instruments held to maturity less impairment	<u>153,389</u>	<u>-</u>

Government bills in the amount of Denar 153,389 thousand as of December 31, 2016 represent bills issued by the Ministry of Finance of the Republic of Macedonia with maturity of 6 months and interest rate of 2.3% p.a.

NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

19. OTHER RECEIVABLES

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Trade receivables	1,992	2,505
Deferred income	375	348
Fees and commission receivables	4,322	5,063
	6,689	7,916
(allowance for impairment)	(1,023)	(3,824)
	<u>5,666</u>	<u>4,092</u>
	In thousands of Denars	
	December 31, 2016	December 31, 2015
Movements of allowance for impairment		
Balance at January 1	3,839	3,809
Allowance for impairment for the year:		
additional allowance for impairment	885	77
(release of allowance for impairment)	(588)	(68)
Effect of foreign exchange differences	(1)	6
(Written-off receivables)	(3,112)	-
Balance at December 31	<u>1,023</u>	<u>3,824</u>

20. FORECLOSED ASSETS

	In thousands of Denars				
	Land	Buildings	Equipment	Other	Total
Cost					
Balance at January 1, 2015	264	763	621	1,053	2,701
Additions	-	16,563	87	-	16,650
Disposals	-	-	-	(1,053)	(1,053)
Balance at December 31, 2015	<u>264</u>	<u>17,326</u>	<u>708</u>	<u>-</u>	<u>18,298</u>
Additions	-	309	-	-	309
Balance at December 31, 2016	<u>264</u>	<u>17,635</u>	<u>708</u>	<u>-</u>	<u>18,607</u>
Accumulated amortization					
Balance at January 1, 2015	148	153	223	379	903
Other reconciliations f	(53)	-	-	-	(53)
Charge for the year	34	6,085	111	-	6,230
Transfer to property, plant and equipment	-	-	-	(379)	(379)
Balance at December 31, 2015	<u>129</u>	<u>6,238</u>	<u>334</u>	<u>-</u>	<u>6,701</u>
Charge for the year	27	2,279	75	-	2,381
Balance at December 31, 2016	<u>156</u>	<u>8,517</u>	<u>409</u>	<u>-</u>	<u>9,082</u>
Carrying amount					
Balance at December 31, 2015	<u>135</u>	<u>11,088</u>	<u>374</u>	<u>-</u>	<u>11,597</u>
Balance at December 31, 2016	<u>108</u>	<u>9,118</u>	<u>299</u>	<u>-</u>	<u>9,525</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

21. INTANGIBLE ASSETS

	In thousands of Denars		
	Acquired software from external suppliers	Other intangibles	Total
Cost			
Balance at January 1, 2015	24,004	716	24,720
Additions	1,026	-	1,026
Balance at December 31, 2015	25,030	716	25,746
Balance at January 1, 2016	25,030	716	25,746
Additions	412	250	662
Balance at December 31, 2016	25,442	966	26,408
Accumulated amortization			
Balance at January 1, 2015	5,146	716	5,862
Charge for the year	5,130	-	5,130
Balance at December 31, 2015	10,276	716	10,992
Balance at January 1, 2016	10,276	716	10,992
Charge for the year	5,067	57	5,124
Balance at December 31, 2016	15,343	773	16,116
Carrying amount			
Balance at December 31, 2015	14,754	-	14,754
Balance at December 31, 2016	10,099	193	10,292

NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2016

22. PROPERTY AND EQUIPMENT

	In thousands of Denars				
	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Total
Cost					
Balance at January 1, 2015	121,325	8,655	27,303	21	157,304
Additions	-	-	4,334	-	4,334
Balance at December 31, 2015	121,325	8,655	31,637	21	161,638
Additions	32,449	-	-	-	32,449
Balance at December 31, 2016	153,774	8,655	31,637	21	194,087
Accumulated depreciation					
Balance at January 1, 2015	29,133	8,536	25,407	6	63,082
Charge for the year	3,032	119	1,599	6	4,756
Balance at December 31, 2015	32,165	8,655	27,006	12	67,838
Charge for the year	3,033	-	1,629	6	4,668
Balance at December 31, 2016	35,198	8,655	28,635	18	72,506
Carrying amount					
Balance at December 31, 2015	89,160	-	4,631	9	93,800
Balance at December 31, 2016	118,576	-	3,002	3	121,581

On July 25, 2016 the Bank had purchased business premises from the Commission for Securities of the Republic of Macedonia which occupies 382m². The contract for sale of the business premises was concluded as of September 22, 2016 and according to it, the business premises are not in possession of the Bank by the end of 2016. Therefore, the Bank had not recognized depreciation expense in 2016. The ownership was transferred to the Bank as of March 31, 2017 and from April 1, 2017 the Bank started to depreciate this property.

23. INCOME TAX RECEIVABLES / LIABILITIES

	December 31, 2016	December 31, 2015
Income tax receivables (current)	1,039	-
Income tax liabilities (current)	-	2,652
	1,039	2,652

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

24. BORROWINGS

	December 31, 2016		In thousands of Denars December 31, 2015	
	Short-term	Long-term	Short-term	Long-term
<i>Domestic sources:</i>				
Ministry of Finance	-	100,062	-	107,209
<i>Foreign sources:</i>				
EIB	28,577	11,431,090	34,633	13,622,715
KfV	-	808,401	-	827,264
Current maturity	2,459,979	(2,459,979)	2,195,042	(2,195,042)
	2,488,556	9,879,574	2,229,675	12,362,146

Liabilities for borrowings in the amount of Denar 100,062 thousand (2015: Denar 107,209 thousand) represent liabilities to the Ministry of Finance of the Republic of Macedonia on the basis of Contract for settlement according to which the funds from Almako Banka AD Skopje (in bankruptcy) for crediting of start-ups business were transferred to the Bank. The loan bears an interest at the rate of 1% and maturity up to December 31, 2030.

Major part of the borrowings relate to the borrowed funds from the European Investment Bank (EIB) in the amount of Denar 11,459,667 thousand (2015: Denar 13,657,348 thousand) on the basis of four framework agreements:

- EIB I concluded as of June 25, 2009, with maturity up to April 16, 2021,
- EIB II concluded as of October 12, 2011, with maturity up to October 16, 2019,
- EIB III concluded as of July 10, 2012, with maturity up to October 16, 2020, and
- EIB IV concluded as of December 31, 2013, with maturity up to October 16, 2023.

Borrowings in the amount of Denar 808,401 thousand (2015: Denar 827,264 thousand) relate to credit lines from KfW. Liabilities to KfW consist of two credit lines, one of which consists of two tranches with maturities up to June 30, 2037 and December 30, 2044 and December 30, 2034. Credit lines bear interest at the rate of 0.75% to 2% per year.

25. SPECIAL RESERVE FOR OFF-BALANCE SHEET ITEMS

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Balance at January 1	13,029	16,629
Additional provisions during the year	10,225	5,493
(Release of provisions during the year)	(8,565)	(9,093)
Balance at December 31	14,689	13,029

Special reserve for off-balance sheet items of the Bank arise from financial guarantees in respect of guarantee contracts for collections from short-term export and issued financial guarantees for loans in commercial banks.

26. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Trade payables	713	267
Fee and commission liabilities	5,891	4,437
Deferred income from previous years	4,825	3,687
Other	2,403	1,062
	13,832	9,453

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

27. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2016 and 2015 consists of 384,103 fully paid up ordinary shares with a nominal value of Denar 3,108. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2016 and 2015 officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2016		December 31, 2015	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
Government of Republic of Macedonia	100%	1,193,792	100%	1,193,792
	100%	1,193,792	100%	1,193,792

b) Reserves

Statutory reserves

In accordance with the local regulations, the Bank is required to set aside 5 percent of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/10 of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute. As at December 31, 2016 the statutory reserves amounted to Denar 1,014,897 thousand (2015: Denar 901,462 thousand)

Other reserves

Other reserves in the amount of Denar 153,368 thousand (2015: Denar 166,441 thousand) consist of funds from the Insurance fund formed in 2005 in the amount of Denar 153,121 thousand (2015: Denar 153,121 thousand) against political risks, solely for the purposes of insurance support, as well as revaluation reserves related to foreclosed assets in the amount of Denar 247 thousand (2015: Denar 13,320 thousand).

28. EARNINGS PER SHARE

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

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

	December 31, 2016	December 31, 2015
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	103,156	113,435
Weighted average number of shares for basic and diluted earnings per share	384,103	384,103
Basic earnings per share (in Denars)	269	295
Diluted earnings per share (in Denars)	269	295

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

29. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Other unsecured contingent liabilities	567,244	420,662
Total contingent liabilities before special reserve	567,244	420,662
(Special reserve)	(14,689)	(13,029)
	552,555	407,633

Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2016, legal proceedings filed against the Bank amounted to Denar 36,349 thousand (2015: Denar 36,153 thousand). The Bank had not recognized provision for the risks arising from the litigations, since professional advices indicate that there is no possibility of significant loss. Related risks have been analyzed regarding the possibility of occurrence.

Pension plans

Bank has no defined pension plans, since the Management considers that the present value of the future liabilities to employees would not have a material effect on the financial statements as of December 31, 2016 and 2015.

Guarantees (insurance) for collection of receivables

The Bank has contingent liabilities based on issued policies for insurance receivables. Insurers generally insure from commercial risks, i.e., bankruptcy and extended payment from the buyer. In case of occurrence of the above-mentioned risks, claims are paid to the insurer. These contingent liabilities have off balance credit risk and special reserve is allocated respectively.

Receivables from and liabilities to reinsurers, receivables from policyholders for fee and commissions, receivables from policyholders in the event of recourse claims paid, and liabilities to policyholders based on claims paid are recognized in the Statement of financial position, as well as the corresponding impairment of receivables from insurers and reinsurers.

30. MANAGED FUNDS

	December 31, 2016			In thousands of Denars December 31, 2015		
	Assets	Liabilities	Net- position	Assets	Liabilities	Net- position
Loans in Denars	1,546,524	1,546,524	-	1,544,966	1,544,966	-
Loans in foreign currencies	245,359	245,359	-	217,724	217,724	-
	1,791,883	1,791,883	-	1,762,690	1,762,690	-

The Bank is authorized to be an agent of the Government of the Republic of Macedonia, placing loans from the Italian credit line, from the funds of the Republic of Macedonia for the Project for Self-employment, funds from the International Bank for Reconstruction and Development for the Project for Sustainable Energy, Renewable Credit Fund and Compensation Funds, to the final borrowers through selected commercial banks in the Republic of Macedonia. The Bank is not exposed to any credit risk in respect of the above placements, as it does not guarantee placements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

31. RELATED PARTIES TRANSACTIONS

Related parties are persons with special rights and responsibilities in the Bank and also persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares or that enable a significant influence on the Bank's managing), affiliates and entities, as well as the responsible persons of these shareholders - legal entities, Bank's subsidiaries and other persons related to the Bank.

The Bank's Management consider that these transactions are carried out on normal market terms and conditions and during the normal course of business activities.

Sole owner of the Bank is the Government of the Republic of Macedonia. The Bank shall not lend or issue guarantees to the Republic of Macedonia, public enterprises and the institutions users of the Budget funds.

Statement of financial position

	In thousands of Denars	
	December 31, 2016	December 31, 2015
Assets		
Other loans and advances	66,957	77,420
Investments in securities	153,389	199,321
	<u>220,346</u>	<u>276,741</u>
Liabilities		
Borrowings	100,062	107,209
	<u>100,062</u>	<u>107,209</u>

Statement of comprehensive income

	In thousands of Denars	
	Year ended December 31, 2016	2015
Income		
Interest income	158,661	177,283
Fee and commission income	5,741	4,859
	<u>164,402</u>	<u>182,142</u>
Expenses		
Interest expense	1,052	1,123
	<u>1,052</u>	<u>1,123</u>

The total short-term employee benefits to key management personnel amounted to Denar 19,075 thousand (2015: Denar 17,881 thousand).

32. TAXATION RISK

The Republic of Macedonia currently has several tax laws in effect, as imposed by the Ministry of Finance of the Republic of Macedonia. The applicable taxes include: value added tax, corporate income tax, and personal income tax, among others. Apart from that, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of Macedonia. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention. Tax returns, together with all other areas regulated by the law (such as customs and foreign exchange controls) are reviewed and controlled by competent authorities by several authorized vested in powers to assess severe fines and penalties.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

32. TAXATION RISK (Continued)

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Bank may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Bank may need to pay additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities are for five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability. The afore-described situation creates tax risks in the Republic of Macedonia that are substantially more significant than those typically existing in countries with more developed tax systems.

33. EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period, which requires adjustments to the financial statements or appropriate disclosure.

34. EXCHANGE RATES

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

	December 31, 2016	In Denars December 31, 2015
1 USD	58.3258	56.3744
1 EUR	61.4812	61.5947