

 Part of the  
ProCredit Group

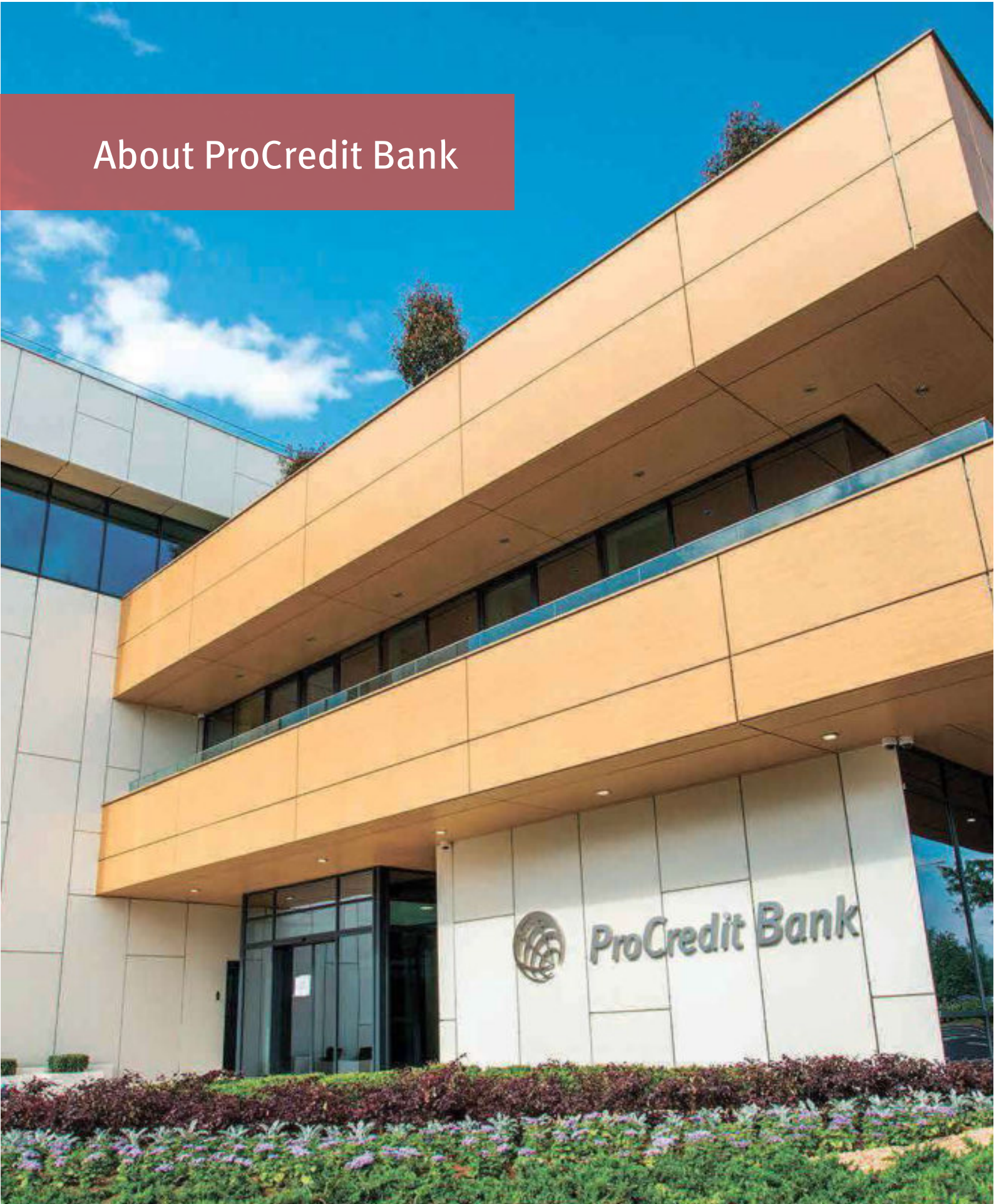


***ProCredit Bank***

***Annual Report 2018***



# About ProCredit Bank





## Mission statement

ProCredit Bank is a development-oriented commercial bank. We offer excellent customer service to small and medium enterprises and to private individuals who have the capacity to save and who prefer to do their banking through electronic channels. In our operations, we adhere to a number of core principles: We value transparency in our communication with our customers, we do not promote consumer lending, we strive to minimise our ecological footprint, and we provide services which are based both on an understanding of each client's situation and on sound financial analysis.

We focus on small and medium-sized enterprises, as we are convinced that these businesses create jobs and make a vital contribution to the economies in which they operate. By offering simple and accessible deposit facilities and online banking services and by investing in financial education, we aim to promote a culture of saving and financial responsibility among business clients as well as private individuals.

Our shareholders expect a sustainable return on investment over the long term, rather than being focused on short-term profit maximisation. We invest extensively in the training and development of our staff in order to create an open and efficient working atmosphere and to provide friendly and competent service for our clients.

## Business ethics

Part of the overall mission of the ProCredit group is to set standards in the financial sectors in which we operate. We want to make a difference not only in terms of the target groups we serve and the quality of the financial services we provide, but also with regard to business ethics. Our strong corporate values play a key role in this respect. Six essential principles guide the operations of the ProCredit institutions:

**Transparency:** We provide transparent information to our customers, to the general public and to our employees. For example, we ensure that customers fully understand the terms of the contracts they conclude with us, and we engage in financial education in order to raise public awareness of the dangers of intransparent financial offers.

**A culture of open communication:** We are open, fair and constructive in our communication with each other, and deal with conflicts at work in a professional manner, working together to find solutions.

**Social responsibility and tolerance:** We offer our clients sound, well founded advice. Before offering loans to our clients, we assess their economic and financial situation, their business potential and their repayment capacity in order to avoid over-indebtedness and to provide appropriate financial services. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

**High professional standards:** Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.

**A high degree of personal integrity and commitment:** Complete honesty is required of all employees in the ProCredit group at all times, and any breaches of this principle are dealt with swiftly and rigorously.

These values represent the backbone of our corporate culture and are discussed and actively applied in our day-to-day operations. Moreover, they are reflected in the ProCredit Code of Conduct, which transforms the group's ethical principles into practical guidelines for all staff.



## Management Board

from left to right:

**Emilija Spirovska**

Member of the Management Board

**Jovanka Joleska Popovska**

General Manager

**Mimoza Godanci Aliu**

Member of the Management Board

## A letter from the Bank's Management

Dear all,

As a specialized bank for small and medium enterprises, ProCredit Bank in 2018 was dedicated at providing a professional and complete banking service for development-oriented companies in the country. We are focused on becoming a bank-partner for production companies, businesses oriented toward international trade and institutions that want to invest in energy efficiency and renewable energy sources. One of our challenges is providing financial support to innovative entrepreneurs who have a long-term vision of growth and expansion of their own business and confirmation of this is the growth of our business loan portfolio exactly in this segment. During 2018, the growth of our loan portfolio for financing business clients reached 17% or 44 million euros in absolute amount.

ProCredit Bank is a part of an international banking group and our prevalence in several countries in South-Eastern Europe and Germany offers to the clients additional benefits, such as: business-to-business meetings for clients in our regional bank network, convenient international payments system and a possibility for international financial limit of the companies.

Professional customer service is one of the main factors for our success and as well the long-term cooperation with enterprises. We are continuously investing in improving the quality of our staff and we are organizing specialized trainings for all employees. Additionally, we follow the modern Western European standards of banking operations and through our network of Zones 24/7 and e-banking platforms, we provide customers with practical and modern service 24 hours a day.

The quality of our portfolio remains one of the key indicators of our success. We are proud that we closed 2018 with only 1% rate of non-performing loans, which is several times the rate of the banking sector average. In addition, another indicator that speaks of ProCredit Bank's success is the efficiency of our operations. By offering the same quality of service and enhancing the functionalities of our electronic platforms, we achieved a 2.2-million-euro loan portfolio per employee.

During 2018, we focused on cooperation with private individuals who have a dynamic lifestyle, regular monthly income, a chance to save and a desire to manage their funds and accounts 24/7 online through our digital platforms. We have created simple services, online applications for all the products and services that private individuals use in the bank and we enabled banking directly through their mobile device without the need to visit one of our affiliates. We continue to work in the same direction and to be a bank partner to all clients who are looking for a bank that understands their business and provides them with fast, simple and modern services.

Sincerely,

Jovanka Joleska Popovska



Emilija Spirovska



Mimoza Godanci Aliu



## Key points for ProCredit Bank ProCredit

**FitchRatings**  
**BB+**

ProCredit is the only bank in Macedonia rated by the international rating agency Fitch Ratings to receive a continual rating upgrade since 2005.

**SUPERVISED BY**  
**BaFin**



We work in accordance with the best international banking practices and the regulatory standards in Germany, a banking system proven to be the most stable in Europe. At a consolidated level, ProCredit Banks are under supervision of BaFin - The German Federal Financial Supervisory Authority.

## Loan Portfolio

**EUR 333 million**  
Total Loan Portfolio

**88%** are placed in loans for small and medium enterprises which contribute for the development of the local

**14%** growth of the loan portfolio in comparison with 2017

**15%** are placed in loans for energy efficient projects and project for environmental protection economy

**1%** are non-performing loans

## ProCredit Holding

The sole owner of ProCredit Bank is ProCredit Holding (ProCredit Holding AG & Co. KGaA) which holds a controlling stake in each ProCredit institution. The main functions of ProCredit Holding with regard to banks in the group are to provide equity and debt financing, to indicate the strategic guidelines for development and supervision.



Zeitinger Invest GmbH - is a limited liability company based in Frankfurt, specialized in consultancy for financial institutions. The company is the leading shareholder and strategic investor in the ProCredit Group.



KFW - German development bank, under the supervision of the German Federal Government. Finances investments in developing countries and enjoys highest AAA credit rating by Fitch Ratings



DOEN – Dutch Foundation focused on achieving green, socially-inclusive and creative society. DOEN supports inspiring initiatives, by issuing subsidies, providing a loan or equity investments

Other shareholders:



## ProCredit group

The ProCredit group is made up of development-oriented commercial banks operating in South Eastern and Eastern Europe and South America, as well as a bank in Germany.





# Annual Report 2018 - IFRS

Balance Sheet	EUR'000		MKD'000		Growth MKD
	2018	2017	2018	2017	
Total Assets	458,975	371,493	28,224,643	22,843,394	23.56%
Gross loan portfolio	333,419	292,677	20,503,585	17,996,927	13.94%
Business loan portfolio (principal)	303,229	259,174	18,647,067	15,936,779	17.01%
Housing Improvement loan portfolio (principal)	9,746	8,585	599,308	527,876	13.69%
Other	20,444	35,608	1,257,210	1,532,271	-17.90%
Allowance for impairment of loans	7,391	5,844	454,517	359,362	26.92%
Net Loan portfolio	326,028	286,833	20,049,068	17,637,564	13.67%
Liabilities to customers	325,962	252,298	20,045,017	15,513,995	29.21%
Liabilities to banks and financial institutions(excluding PCH)	80,648	69,024	4,959,419	4,244,324	16.85%
Shareholder equity	43,073	40,597	2,648,786	2,496,365	6.11%
<b>Income Statement</b>					
Operating Income	13,727	14,770	844,120	908,188	-7.05%
Operating Expenses	8,812	9,280	541,870	570,611	-5.04%
Operating Profit before tax	4,915	5,490	302,250	337,577	-10.46%
Net Profit	4,416	4,937	271,544	303,560	-10.55%
<b>Key ratios</b>					
Cost/income ratio	63.06%	65.44%			
ROE	10.80%	13.48%			
Capital Ratio	13.94%	16.95%			
Nonperforming loans	0.76%	0.59%			
<b>Operational Statistic</b>					
Number of clients	24,760	37,120			
out of which business clients	6,516	8,601			
Loans Outstanding	6,236	8,147			
Number of deposit accounts	33,954	49,596			
Number of staff	162	187			
Number of branches and Service Centers /Points	7	11			

# **CORPORATE GOVERNANCE REPORT OF PROCREDIT BANK AD SKOPJE**

(as required under the Decision on good Corporate governance  
rules for Banks (Official Gazette of the R.M. 24/2018))



## Introduction

This report is prepared in order to demonstrate the corporate governance conducted within ProCredit Bank R. Macedonia for the year ending 31 December 2018 which shows the governing bodies of the bank, the independence of their members and the overall organizational structure of the bank which is created in order to prevent conflicts of interest, in accordance to the requirements set in the Banking Law and the Decision on good Corporate governance rules for Banks.

The main purpose of the successful corporate governance is demonstration of standardization of the processes, procedures, and the bank's behavior based on the principles of responsibility, transparency and decentralization and control over the decision making process. In this respect, the report contains description of the managing structure of the bank and the manner in which these principles are applied in practice in order to provide sound corporate governance management.



## 1. Shareholders structure of ProCredit bank

ProCredit Holding AG & Co. KGaA is the sole shareholder of ProCredit bank Macedonia with a stake of 100% or owner of 2.957.351 shares with nominal value of 5 EUR per share.

The shareholders of the bank have established a managing structure within the bank in accordance to the Banking law and the related bylaws.

## 2. Information and data on the composition and the functioning of the Supervisory Board, Managing Board and other bank bodies

### 2.1. Information on the number and the composition of the bank bodies

The **Supervisory Board** of ProCredit bank consists of the following five members:

- Borislav Kostadinov
- Christian Kistner,
- Sandrine Massiani,
- Kaspar Baumann and
- Jordan Damchevski.

In 2018, Mr. Christian Kistner was appointed as new member of the supervisory board, representing the sole shareholder in the board, replacing the member Ms.Christina Reifschneider

During 2018 no changes of the members of the Managing Board have occurred.

Currently the Managing Board of the Bank consists of the following 3 (three) members:

- Jovanka Joleska Popovska - General manager;
- Emilija Spirovska – Member of managing Board
- Mimoza Godanci Aliu – Member of managing board

All 3 (three) members are equally responsible for the banking operations and the liabilities of the bank.

**Risk Management Committee** as of 31 December 2018 consists of the following five members:

- Jovanka Joleska Popovska, General Manager and member of the Managing Board or
- Emilija Spirovska, member of the Managing Board
- Mimoza Godanci Aliu, member of the Managing Board
- Stevce Kuzmanovski, Extended Management - Head of Business Department
- Biljana Hadzijaneva, Head of Credit risk management Department

The members of the Risk Management Committee are elected from among the persons with special rights and responsibilities employed in the Bank and one of the members of the Bank's Managing Board. All members of the Risk Management Committee, in addition to the requirements determined by law, have appropriate experience in the area of finance and banking.

The **Audit Committee** of the Bank consists of the following five members:

- Borislav Kostadinov
- Christian Kistner;
- Sandrine Massiani;
- Dietrich Ohse and
- Krsto Nestorov.

Three of the members of the Audit Committee are elected from among the members of the Supervisory Board, and two members are independent members. In accordance to the requirements of the Banking Law, Krsto Nestorov is a certified auditor.

## **2.2. Procedure for appointing and dismissing members and their qualifications**

The procedure for appointing and dismissing members and their qualifications is based on the relevant criteria and other conditions defined in the Banking Law and the Charter of the Bank. When appointing the members of the Supervisory Board, the Bank's General Assembly of Shareholders takes great care to ensure that all members of this body have the requisite professional expertise and experience and also exhibit the various personal qualities needed to successfully discharge the responsibilities of a member of the Supervisory Board.

Members of the Managing Board, persons with special rights and responsibilities, or net debtors of the Bank may not be at the same time members of the Supervisory Board.

The members of the Supervisory Board are elected by the General Assembly of Shareholders for a period of four years, with the right of re-election. The Supervisory Board consists of five members out of which two represent independent members of the Supervisory Board.

The General Assembly of Shareholders of the Bank may not appoint the Supervisory Board members without a prior consent of the Governor of the National Bank of the Republic of Macedonia. On the other hand, the Supervisory Board of the Bank may not appoint a member of the Managing Board without a prior consent of the Governor of the National Bank of the Republic of Macedonia.

When appointing the members of the Audit Committee, the Bank's Supervisory Board must ensure that the persons selected meet the following criteria:

- Members must have the requested professional expertise and experience and fully understand the role of the Audit Committee and its sphere of responsibility within the Bank;
- Members must be capable of making independent judgments and assessments and approach their work in an unbiased, objective manner;
- Members must be well acquainted with the Bank's operations and its products and services;

- Members must understand the risks to which the Bank is exposed;
- Members must be acquainted with the Bank's internal control systems and risk management policies;
- Members must have a good knowledge of accounting and auditing.

### **2.3. The criteria for independence for a member of the Supervisory Board and the Audit Committee**

In accordance with the Banking Law, ProCredit Bank strictly complies with the principle of independence in respect of the membership in the managing bodies and decision making process. The term "Independent member" as stipulated by Banking Law and practice within the bank means:

- a member that is not employed or does not represent a person with special rights and responsibilities in the bank,
- a member that is not a shareholder with qualified holding in the bank or does not represent a shareholder with qualified holding in the bank,
- a member that does not work, or has not been working in an audit company over the last three years which at that time audited the operations of the bank,
- a member that has not got any financial interest or business relation with the bank in an amount exceeding Denar 3,000,000 annually, on average, over the last three years.

### **2.4. Defining of the material interest and business relations with the bank**

Members of the Supervisory Board receive payment for the performance of their duties determined with the agreement for their appointment and travel expenses related to the performance of their duties are reimbursed.

### **2.5. The obligations and the responsibilities of the members of both Supervisory and Managing Board**

The obligations and responsibilities of the members of both Supervisory Board and the Managing Board are set forth in detail in the Banking Law and Bank's Charter.

The Supervisory Board supervises the operations of the Managing Board and approves the policies for conducting financial activities and supervises their implementation.

The Supervisory Board also performs the following activities:

- adopts the business policy and development plan of the bank
- prepare draft proposals for amendments to the Charter
- appoint and dismiss members of the Managing Board of the Bank
- appoint and dismiss members of the Audit Committee
- appoint and dismiss members of the Risk Management Committee
- adopts the financial plan of the Bank

- organize the Internal Audit Department and appoint and dismiss the employees of this department
- approve the annual plan of the Internal Audit Department
- adopts the information security policy
- adopts the risk management policies of the Bank
- adopt Conflict of Interests Policy which identifies any possible conflict of interests and stipulates the measures and activities for prevention of the same
- adopt Remuneration Policy, in compliance with the business policy, the development plan, the financial plan and the Conflict of Interests Policy the Bank
- adopt and implement Policy on the manner of appointing, monitoring the operation of, and relieving of duty of, the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board
- review the reports on the activities of the Managing Board of the Bank
- review the reports of the Audit Committee
- review the reports of the Risk Management Committee
- review the reports of the Compliance Department
- approve the annual account and the financial reports of the Bank
- approve policies applicable within the ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of Macedonia and the standards of the National Bank
- decide on the establishment, relocation, opening and closing of the branches, subsidiaries, related entities and representative offices
- approve exposures to entities exceeding 20% of the Bank's own funds, with the exception of exposures based on purchase of securities issued by the National Bank and the Republic of Macedonia
- approve transactions with related parties with the Bank in amounts exceeding MKD 6,000,000.00
- approve the acquisition of equity holdings and the purchase of securities for amounts greater than 5% of the Bank's own funds, other than the purchase of securities issued by the National Bank of the Republic of Macedonia
- decide on the issuance of securities, including bonds, except shares
- prepare and submit to the General Assembly proposals for the issuance of shares
- approve the proposal of the Audit Committee for appointment of an audit firm or the recommendation for termination of the agreement with the audit firm and assume responsibility for ensuring that audits are conducted appropriately
- adopts the internal audit policy and procedures, monitor the procedures to ensure that they are appropriate, and monitor the efficiency of the operations of the Internal Audit Department and review its reports
- review the supervisory reports, other reports submitted by the National Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities to overcome the identified shortcomings and weaknesses in the Bank's operations,
- approve the annual report on the Bank's operations and submits a written opinion on said report to the Bank's General Assembly of Shareholders

- review the report of the audit firm and submits a written opinion on said report to the General Assembly of Shareholders
- adopts the Code of Conduct of the Bank
- adopts the Code of Corporate Governance which regulates the rules for governance and supervision of the Bank
- decide on other issues as determined by the law.

The Managing Board of the Bank is responsible for the lawful operation of the Bank.

The Managing Board of the Bank performs the following activities:

- manages the operations of the Bank
- represents the Bank
- carries out the decisions of the General Assembly of Shareholders and the Supervisory Board of the Bank, i.e. ensures that they are implemented
- undertakes initiatives and submits proposals for improvement of the Bank's operations
- appoints and dismisses persons with special rights and obligations and adopts and implements Policy on the manner of appointment, monitoring the operation of, and the relieving of duty of, the persons with special rights and responsibilities, except the members of the Supervisory Board, the Risk Management Committee, the Audit Committee and the Managing Board.
- prepares the business policy and development plan of the Bank
- prepares a financial plan for the Bank
- implements policies of ProCredit Group and ensures that these policies are appropriate for the Bank and in compliance with the laws of the Republic of Macedonia and the standards of the National Bank.
- prepares the information security policy of the Bank
- prepares an annual report on the Bank's operations and submits it to the Supervisory Board
- decides on the granting and taking out of loans by the Bank, issuance of guarantees and other forms of sureties and the issuance, provision and acceptance of securities in the framework of the Bank's credit balance, in accordance with the law and the decisions of the General Assembly of Shareholders and the Supervisory Board
- implements the internal procedures of the Bank
- prepares a Code of Conduct for the Bank
- performs other tasks assigned to it by the Supervisory Board.

The Managing Board is also responsible for:

- establishing the appropriate conditions for the operation of the Bank in accordance with the regulations
- monitoring and management of the risks that the Bank is exposed to in its operations
- attaining and maintaining an adequate level of own funds
- ensuring the smooth functioning of the internal control system in all the areas of the bank's operations



- ensuring the smooth functioning of the Internal Audit Department of the Bank on an ongoing basis, i.e. ensuring that the Internal Audit Department has the necessary access to documentation and to the employees of the Bank to allow it to implement its activities on an ongoing basis
- smooth operating of the Compliance Department i.e. ensures that the compliance officer, i.e. the department has access to the documentation and to the employees of the bank for the purpose of uninterrupted conducting of their authorizations.
- keeping the trade and other books and business documentation of the Bank and preparing financial and other reports in accordance with the accounting regulations and accounting standards
- ensuring timely and accurate financial reporting
- ensuring the timeliness and accuracy of the reports submitted to the National Bank of the Republic of Macedonia in accordance with the law and the regulations pursuant to the law; and
- implementing any measures imposed on the Bank by the Governor.

## **2.6. The functions of the members of the Supervisory Board outside**

The members of the Supervisory Board take care to ensure that any activities in which they are engaged outside the Bank, regardless of whether or not they receive compensation for these activities, do not adversely affect their ability to perform their duties and do not damage the Bank's public image.

The functions of the members of the Supervisory Board of ProCredit Bank outside are the following:

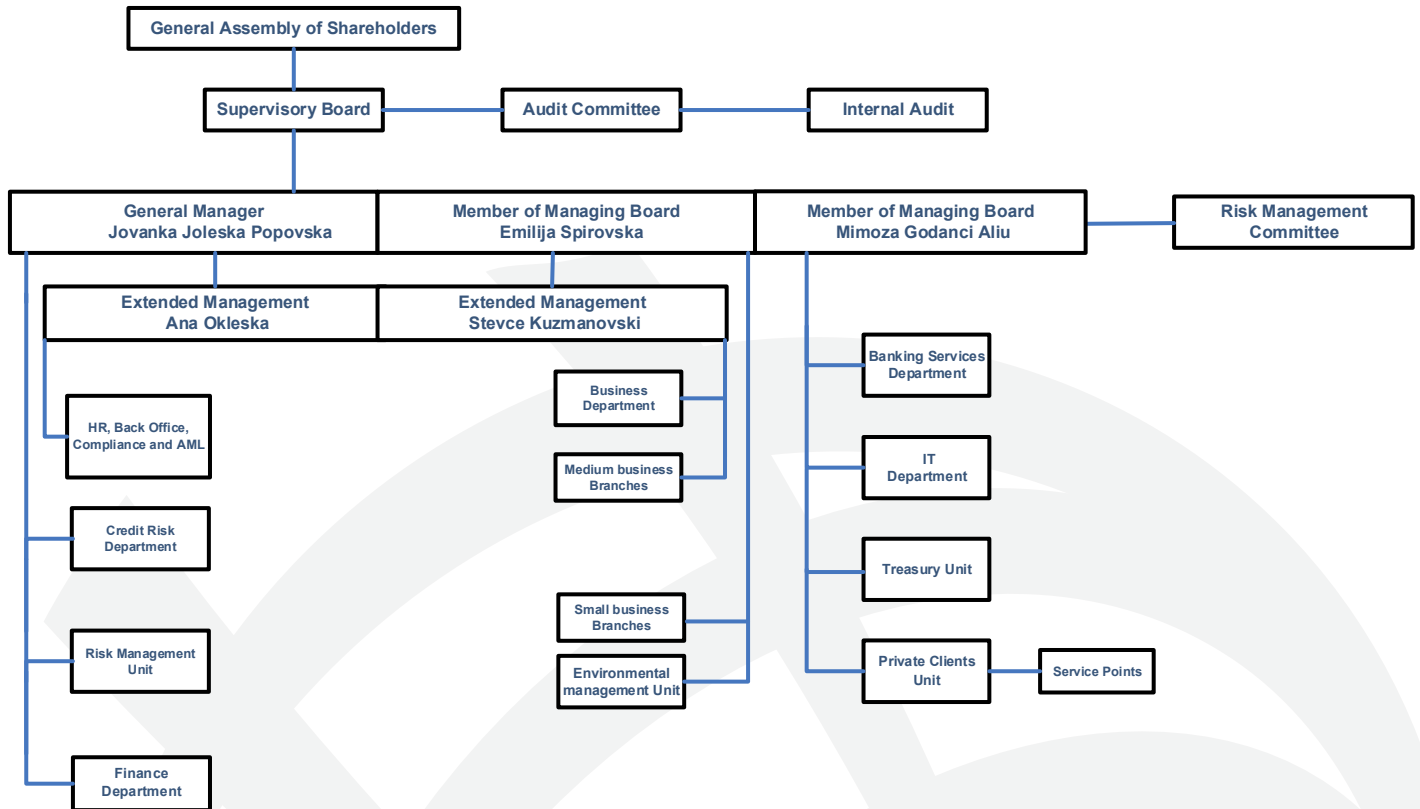
- Borislav Kostadinov (ProCredit Holding AG & Co. KGaA – Member of Management Board),
- Sandrine Massiani (ProCredit Holding AG & Co. KGaA – authorised representative (Prokuristin)) and Manager at ProCredit Reporting dooel import-export, Skopje, Macedonia)
- Christian Kistner (ProCredit Holding AG & Co. KGaA – authorized representative (Prokuristin))
- Kaspar Baumann (Clarmondial AG at Weinrebenstrasse 20, 8708 Männedorf, Switzerland)
- Jordan Damchevski (Senior Economist; Political and Economic Office in the US Embassy in Skopje, Macedonia).

## **3. Information and data on the organizational structure of the bank**

Most of the departments and units which carry out the Bank's activities are organised in departments that are directly supervised by the Managing Board. The organizational structure has been established so that it complies with the overall strategy of the Bank and in order to meet the objectives and goals in line with the Bank's business policy.

With the established organizational structure of the bank, the responsibilities and lines of responsibility, cooperation and exchange of information are precisely defined, where there is a clear segregation between the persons and the organizational units responsible for risk management of the persons and organizational units responsible for undertaking the risks. The division line is up to, including, the Board of Directors.

As of 31 December 2018, the organizational chart is as follows:



During 2018 amendments and a consolidated text of the Remuneration Policy of ProCredit Bank AD Skopje were adopted, with the aim of achieving full compliance with the provisions of the Decision on good corporate governance rules for banks of NBRSM (Official Gazette no. 24/2018). The Remuneration Policy contains clear and transparent rules and criteria for determining the total amount of compensation and, in particular, rules and criteria for clear determination of compensation according to the salary structure of the Bank. In principle, according to the Bank's pay structure, the employees, including also the members of the Managing Board, the persons with special rights and responsibilities and the other Bank employees receive fixed compensation (compensation in the form of salary). The Remuneration Policy also defines the principles and the circumstances when compensation may be variable, which depends on the long-term success in accomplishing the tasks and duties, at the same time taking into consideration the specific risk level. The independent members of the Supervisory Board are entitled to remuneration for their participation and work at the sessions, the amount of which is stipulated in the agreement for their appointment.

#### 4. Information and data on the bank's conflict of interests prevention policy

ProCredit Bank endeavour to prevent conflicts of interest from arising and to ensure that internal information is not used in an inappropriate manner.

ProCredit Bank implements the following measures for avoiding conflict of interests:

- avoiding any situation that would lead to conflict of interest or occurrence of a conflict of interest.
- it is forbidden to undertake activities within the regular operation of the bank from which the employee may personally have additional financial interest.
- it is prohibited from participating in Bank matters that involve the financial interests of employees' family; partner; or an organization of which employee serve as an officer, director, trustee, or employee.
- it is not allowed to accept gifts, meals, favours, services, entertainment, or anything else of monetary value from any person or organization that seeks action by the Bank, does business with or seeks to do business with the Bank, or may be affected by your work at ProCredit Bank.
- do not participate in the hiring process of new staff if the candidate is a relative or friend of yours.

The employees of the Bank should report any situations in which a conflict of interest might occur.

A written statement shall be submitted regarding any conflicts of interest prior to the meeting of the relevant body at which the transaction in question is to be dealt with in order to permit a thorough review of the situation before a decision is taken, an agreement is concluded or a business activity is initiated. The written statement shall be submitted to both the Supervisory Board and the Managing Board of the Bank, and it shall describe the precise nature of the conflict between the personal interests of the respective member of the Managing Board and the interests of the Bank and explain how it originated.

If a member of the Supervisory Board finds that he/she is in a situation involving a conflict of interest, or can anticipate that he/she will become involved in a situation of this type at some point in the future, he/she shall report this information to the chairperson of the Supervisory Board in a timely manner.

## **5. Information related to enforcement of the Code of Corporate Governance**

The Code of Corporate Governance (the Code) has been duly enforced in each aspect defined by it.

In this manner, during 2018 all procedures defined with the Code, specifically convening the General Assembly of shareholders, appointment of members of Supervisory Board were conducted as prescribed by the Code and the regulations related to these procedures.

In this manner, all criteria as set in the Code and the regulations were met.

Additionally, the co-operation between the Supervisory Board and the Managing Board was as set in the Code; especially in defining the Bank's business objectives; defining the strategies for ensuring sound risk management; determining the Bank's risk profile; establishment of policies to enable the Bank to achieve its goals and the objectives which are defined with regard to its risk profile; holding regular meetings (at least once per quarter); circulating proposals for measures to improve the Bank's corporate governance etc.

Also, the Managing Board has provided the Supervisory Board with all reports and has fulfilled the requirements from the Supervisory Board.

The Internal Audit Department and the compliance function of the bank's operate with the regulations defined in the Code and the legal framework.



**ProCredit Bank AD Skopje**

**Financial Statements**

**for the year ended 31 December 2018**

**With the Independent auditor's report thereon**

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## Independent auditor's report

To the Supervisory Board and Shareholders of ProCredit Bank AD - Skopje

We have audited the accompanying financial statements of ProCredit Bank AD – Skopje (the “Bank”), which comprise the statement of financial position as of 31 December 2018 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

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

### Auditor's responsibility

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

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

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

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers Revizija DOO Skopje*  
PricewaterhouseCoopers Revizija DOO - Skopje  
7 May 2019  
Skopje, Republic of North Macedonia

**PROCREDIT BANK AD – SKOPJE****Financial statements for the year ended 31 December 2018***(All amounts in MKD thousands unless otherwise stated)***Statement of profit or loss**

in '000 MKD	Note	1.1.-31.12.2018	1.1.-31.12.2017
Interest and similar income		911,813	1,002,787
Interest and similar expenses		(274,131)	(246,234)
<b>Net interest income</b>	(22, 25)	<b>637,682</b>	<b>756,553</b>
Allowance for losses on loans and advances to customers	(10, 26)	(34,060)	(14,208)
<b>Net interest income after allowances</b>		<b>603,622</b>	<b>742,345</b>
Fee and commission income		287,405	251,032
Fee and commission expenses		(93,121)	(82,452)
<b>Net fee and commission income</b>	(23, 27)	<b>194,284</b>	<b>168,580</b>
Result from foreign exchange transactions	(28)	61,722	44,126
Net other operating expense	(29)	(15,508)	(46,863)
<b>Operating income (expense)</b>		<b>46,214</b>	<b>(2,737)</b>
Personnel expenses	(30)	(190,255)	(217,878)
Other administrative expenses	(30)	(351,615)	(352,733)
<b>Operating expenses</b>		<b>(541,870)</b>	<b>(570,611)</b>
<b>Profit before tax</b>		<b>302,250</b>	<b>337,577</b>
Income Tax expense	(15,31)	(30,706)	(34,017)
<b>Profit for the year</b>		<b>271,544</b>	<b>303,560</b>



**PROCREDIT BANK AD – SKOPJE****Financial statements for the year ended 31 December 2018***(All amounts in MKD thousands unless otherwise stated)***Statement of Comprehensive Income**

in '000 MKD	Note	1.1.- 31.12.2018	1.1.- 31.12.2017
<b>Profit of the period</b>		<b>271,544</b>	<b>303,560</b>
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Change in fair value reserve from investment securities		66	-
<b>Other comprehensive income for the year, net of tax</b>		<b>66</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>271,610</b>	<b>303,560</b>

## PROCREDIT BANK AD – SKOPJE

## Financial statements for the year ended 31 December 2018

(All amounts in MKD thousands unless otherwise stated)

## Statement of financial position

in '000 MKD

Assets	Note	31.12.2018	IFRS 9	
			01.01.2018	31.12.2017
Cash and balances with the Central bank	(8, 32)	5,355,723	3,009,549	3,010,902
Loans and advances to banks	(9, 33)	1,632,910	1,070,632	1,071,230
Investment securities	(34)	100,371	-	-
Loans and advances to customers	(6,10,35)	20,049,068	17,513,999	17,637,564
Property, plant and equipment	(12, 13, 37)	793,124	839,636	839,636
Intangible assets	(11, 36)	6,448	5,796	5,796
Current tax assets	(15, 39)	11,221	-	-
Deferred tax assets	(15, 39)	2,740	12,645	-
Other financial assets	(40)	126,355	92,507	87,102
Other non-financial assets	(40)	146,683	190,955	191,164
<b>Total assets</b>		<b>28,224,643</b>	<b>22,735,719</b>	<b>22,843,394</b>
<b>Liabilities</b>				
Liabilities to banks	(16, 41)	1,802,162	985,733	985,733
Liabilities to customers	(16, 42)	20,045,017	15,513,995	15,513,995
Borrowings	(43)	3,157,257	3,258,591	3,258,591
Other financial liabilities	(44)	25,262	19,458	19,458
Other non-financial liabilities	(44)	9,278	24,594	24,594
Provisions	(17, 18, 45)	32,840	36,039	23,825
Current tax liabilities	(15, 39)	-	16,127	16,127
Deferred tax liabilities	(15, 39)	-	-	700
Subordinated debt	(19, 46)	504,041	504,006	504,006
<b>Total liabilities</b>		<b>25,575,857</b>	<b>20,358,543</b>	<b>20,347,030</b>
Subscribed capital	(48)	908,713	908,713	908,713
Share premium		74,633	74,633	74,633
Legal reserve		90,871	90,871	90,871
Retained earnings		1,573,578	1,302,034	1,422,148
Revaluation reserve		991	925	-
<b>Total equity</b>		<b>2,648,786</b>	<b>2,377,176</b>	<b>2,496,365</b>
<b>Total equity and liabilities</b>		<b>28,224,643</b>	<b>22,735,719</b>	<b>22,843,394</b>

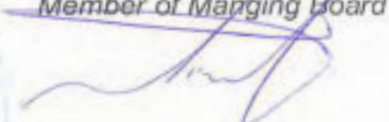
The Bank's financial statements for the fiscal year 2018 were approved for issue by the Supervisory Board on April 30, 2019 and signed on their behalf by:

Jovanka Joleska-Popovska  
General Manager

Emilija Spirovska  
Member of Managing Board

Mimoza Godanci Aliu  
Member of Managing Board





**PROCREDIT BANK AD – SKOPJE**

Financial statements for the year ended 31 December 2018

*(All amounts in MKD thousands unless otherwise stated)***Statement of Changes in Equity**

in '000 MKD

	Share capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total
Balance at January 1, 2018	908,713	74,633	90,871	1,422,148	-	2,496,365
Change on initial application of IFRS 9	-	-	-	(120,114)	925	(119,189)
Restated balance at January 1, 2018	908,713	74,633	90,871	1,302,034	925	2,377,176
Profit for the year	-	-	-	271,544	-	271,544
Other comprehensive income, net of tax	-	-	-	-	-	-
Revaluation of available-for-sale investments	-	-	-	-	66	66
Total other comprehensive income for the year	-	-	-	-	66	66
Total comprehensive income	-	-	-	271,544	66	271,610
Transfer to legal reserve	-	-	-	-	-	-
Transactions with owners of the Bank	-	-	-	-	-	-
Distributed dividends	-	-	-	-	-	-
Capital increase (Note 48)	-	-	-	-	-	-
Balance at December 31, 2018	908,713	74,633	90,871	1,573,578	991	2,648,786

in '000 MKD

	Share capital	Share premium	Legal reserve	Retained earnings	Revaluation reserve	Total
Balance at January 1, 2017	723,625	74,633	84,505	1,124,954	-	2,007,717
Profit for the year	-	-	-	303,560	-	303,560
Other comprehensive income, net of tax	-	-	-	-	-	-
Revaluation of available-for-sale investments	-	-	-	-	-	-
Total other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income	-	-	-	303,560	-	303,560
Transfer to legal reserve	-	-	6,366	(6,366)	-	-
Transactions with owners of the Bank	-	-	-	-	-	-
Distributed dividends	-	-	-	-	-	-
Capital increase (Note 48)	185,088	-	-	-	-	185,088
Balance at December 31, 2017	908,713	74,633	90,871	1,422,148	-	2,496,365

**PROCREDIT BANK AD – SKOPJE****Financial statements for the year ended 31 December 2018***(All amounts in MKD thousands unless otherwise stated)***Statement of cash flows**

in '000 MKD	01.01-31.12.2018	01.01-31.12.2017
Profit of the period	271,544	303,560
Income tax expenses (continuing operations)	30,706	34,017
<b>Profit before tax (including discontinued operations)</b>	<b>302,250</b>	<b>337,577</b>
Non-cash items included in the profit of the period and transition to		
Depreciation of PPE and amortization of intangibles assets	60,209	63,113
Gains / losses from disposal of fixed assets	1,035	(5,155)
Other non-cash expenses and income	(603,622)	(742,345)
<b>Subtotal</b>	<b>(240,128)</b>	<b>(346,810)</b>
Net change in assets and liabilities from operating activities:		
Loans and advances to banks	(715,978)	(255,174)
Loans and advances to customers	(2,442,416)	(1,612,500)
Other assets from operating activities	2,488	(83,669)
Liabilities to banks and to international	812,345	140,353
Liabilities to customers	4,553,984	840,553
Other liabilities from operating activities	(168,144)	85,496
Interest received	908,665	972,937
Interest paid	(294,496)	(223,423)
Income tax paid	(11,221)	(7,681)
<b>Cash flow from operating activities*</b>	<b>2,405,099</b>	<b>(489,918)</b>
Proceeds from disposal of fixed assets	1,615	5,661
Payments for purchase of fixed assets	(16,998)	(2,265)
Investment securities acquired	(99,380)	-
<b>Cash flow from investing activities</b>	<b>(114,763)</b>	<b>3,396</b>
Proceeds from borrowings	7,814,995	9,537,891
Payments of borrowings	(7,914,808)	(9,524,564)
<b>Cash flow from financing activities</b>	<b>(99,813)</b>	<b>13,327</b>
<b>Cash and cash equivalents at end of previous year</b>	<b>3,072,697</b>	<b>3,545,892</b>
Cash flow from operating activities	2,405,099	(489,918)
Cash flow from investing activities	(114,763)	3,396
Cash flow from financing activities	(99,813)	13,327
<b>Cash and cash equivalents at end of the year</b>	<b>5,263,220</b>	<b>3,072,697</b>

**PROCREDIT BANK AD – SKOPJE****Financial statements for the year ended 31 December 2018***(All amounts in MKD thousands unless otherwise stated)***Notes to the Financial Statements****A. Basis of Preparation**

- 1) Compliance with International Financial Reporting Standards
- 2) Compliance with local law
- 3) Use of assumptions and estimates
- 4) Accounting developments

**B. Summary of Significant Accounting Policies**

- 5) Measurement basis
- 6) Financial assets
- 7) Foreign currency translation
- 8) Cash and cash equivalents
- 9) Loans and advances to banks
- 10) Allowance for losses on loans and advances
- 11) Intangible assets
- 12) Property, plant and equipment
- 13) Impairment of non-financial assets
- 14) Leases
- 15) Income tax
- 16) Financial liabilities
- 17) Provisions
- 18) Post-employment benefits and other employee benefits
- 19) Subordinated debt
- 20) Equity capital
- 21) Financial guarantee contracts
- 22) Interest income and expense
- 23) Fee and commission income and expenses
- 24) Dividend income

**C. Notes to the Income Statement**

- 25) Net interest income
- 26) Allowance for impairment losses on loans and advances
- 27) Net fee and commission income
- 28) Result from foreign exchange transactions
- 29) Net other operating income/ (expense)
- 30) Personnel and other administrative expenses
- 31) Other tax expenses

**D. Notes to the Balance Sheet**

- 32) Cash and balances with the Central Bank
- 33) Loans and advances to Banks
- 34) Investment securities
- 35) Loans and advances to customers
- 36) Intangible assets
- 37) Property, plant and equipment
- 38) Leasing
- 39) Current and deferred tax assets/liabilities
- 40) Other assets
- 41) Liabilities to Banks
- 42) Liabilities to customers
- 43) Borrowings
- 44) Other liabilities
- 45) Provisions
- 46) Subordinated debt
- 47) Financial liabilities reconciliation
- 48) Equity capital

**PROCREDIT BANK AD – SKOPJE****Financial statements for the year ended 31 December 2018***(All amounts in MKD thousands unless otherwise stated)***E. Risk Management**

- 49) Management of the overall Bank risk profile – capital management
- 50) Management of individual risks
- 51) Credit risk
- 52) Financial risks
- I. Counterparty and issuer risk

**F. Additional Notes**

- 53) Fair value of financial instruments
- 54) Pledged assets
- 55) Contingent liabilities and commitments
- 56) Related party transactions
- 57) Key management compensation
- 58) Significant post-balance sheet events
- 59) IFRS 9
- 60) Exchange rates
- 61) Address and general information

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***Notes to the Financial Statements****A. Basis of Preparation****1) Compliance with International Financial Reporting Standards**

ProCredit Bank AD Skopje ("the Bank") prepares its financial statements in accordance with the International Financial Reporting Standards (IFRS).

The Bank is fully owned by ProCredit Holding AG which is the ultimate parent company of the ProCredit Group. The major shareholder of ProCredit Holding are credible international institutions, among which KfW -, IFC, a member of the World Bank Group - and Stichting DOEN, or the DOEN Foundation.

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

Management prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources and analysed the impact of the recent financial crisis on future operations of the Bank.

**Functional and presentation currency**

All amounts are presented in thousands of Macedonian denars (MKD), unless otherwise stated. For computational reasons, the figures in the tables may exhibit rounding differences of ± one unit (MKD, %, etc.).

**2) Compliance with local law**

ProCredit Bank AD Skopje is a joint stock company. For supervisory purposes ProCredit Bank AD qualifies as a Bank according to the Macedonian Banking Law and is therefore supervised by the National Bank of the Republic of Macedonia (NBRM).

The Bank's financial statements for the fiscal year 2018 were approved for issue by the Supervisory Board on April 25, 2018.

**3) Use of assumptions and estimates**

The Bank's financial reporting and its financial results are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparing the financial statements.

All estimates and assumptions necessary for compliance with the IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events and are considered appropriate under the given circumstances.

**Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

Accounting policies and the management's judgement with respect to certain items are especially critical for the Bank's results and financial situation due to their materiality in amount. This applies to the following positions:

*(a) Impairment of financial assets*

By applying IFRS 9, the Incurred-Loss Model from IAS 39 is replaced by the Expected-Loss Model. Loss allowances are established in an amount equivalent to the expected loss for all financial assets recognised at amortised cost, for all funding instruments recognised at fair value with changes in fair value reported in Other Comprehensive Income (FVOCI), and for off-balance-sheet business. Expected credit losses are recorded in an approach with various stages. The Bank reports the balance sheet items "Central bank reserves", "Loans and advances to banks", "Investment securities", "Loans and advances to customers" and "Other assets" net (including loss allowances). Further information on the bank's accounting policy on loan loss provisioning can be found in Note (10) and Note (51). In order to have more understandable presentation of the IFRS 9 implementation, the Bank has presented additional column in the statement of financial position as at 1 January 2018.

**4) Accounting developments**

*a) Standards, amendments and interpretations that are already effective*

- IFRS 9 "Financial Instruments" has an impact on the classification and measurement of financial instruments and on the recognition of impairment. The impact of the first application is shown under Note (59). IFRS 9 is applicable for annual periods beginning on or after 1 January 2018.
- IFRS 15 "Revenue from Contracts with Customers" and Clarifications to IFRS 15 "Revenue from Contracts with Customers" have a minor impact on the financial statements. In general, the recognition of proceeds from existing contracts with our customers is transaction-based. Both are effective for annual periods beginning on or after 1 January 2018.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" has a minor impact on the financial statements. The interpretation is effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 40 "Transfers of Investment Property" has a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2018.



**Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)**(b) Standards, amendments and interpretations issued but not yet effective*

The following standards, amendments and interpretations are issued by the IASB and will have an impact on the financial statements. These were not applied in preparing these Financial Statements:

- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" to address concerns about how certain financial instruments with early repayment arrangements are classified under IFRS 9. The amendments are effective for annual periods beginning on or after 1 January 2019.
- IFRS 16 "Leases" will have an impact on the recognition, measurement, presentation and disclosure of existing contracts as lessees. The Bank intends to apply the simplified transition approach (modified retrospective approach) and will not restate comparative amounts for the year prior to first adoption. From 2019 on, existing leases will be reported as "right-of-use" assets under "Property, Plant and Equipment and Investment Property". The standard will affect primarily the accounting for the Bank's operating leases. Finance lease activities are not material and hence the Bank does not expect any significant impact on the financial statements. The standard is applicable for annual periods beginning on or after 1 January 2019.
- Annual Improvements to IFRS Standards (2015-2017) will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2019.
- Amendments to References to the Conceptual Framework in IFRS Standards will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.
- Amendments to IAS 1 and IAS 8: Definition of material will have a minor impact on the financial statements. The amendments are effective for annual periods beginning on or after 1 January 2020.

There was no early adoption of any standards, amendments and interpretations not yet effective.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

**B. Summary of Significant Accounting Policies**

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

**5) Measurement basis**

The financial statements have been prepared on the historical cost basis except for financial assets which are measured at fair value through other comprehensive income..

The measurement techniques to determine fair value applied to the balance sheet positions are specified in the accounting policies listed below. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a. in the *principal market* for the asset or liability; or
- b. in the absence of a principal market, in the *most advantageous market* for the asset or liability.

The IFRS define a so-called hierarchy of fair value determination which reflects the relative reliability of different methods of determining fair value:

**(a) Active market: Quoted price (Level 1)**

Observe quoted prices (unadjusted) for identical financial instruments in active markets, that the entity can access at the measurement date.

**(b) Valuation technique using observable inputs (Level 2)**

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Observe quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets or use valuation models where all significant inputs are observable.

**(c) Valuation technique with significant non-observable inputs (Level 3)**

Use valuation models where one or more significant inputs are not observable.

The Bank obtains fair values from quoted market prices; otherwise, the next best available measurement technique is applied.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***6) Financial assets**

The Bank classifies its financial assets both according to their underlying business model and also their contractual cashflows.

Differentiation is made between the following business models: "hold to collect", "hold to collect and sell" and "other". Financial assets are assigned to the "hold to collect" business model if their objective is to collect contractual cashflows through interest and principal payments (SPPI conform). This model is applied for "Loans and receivables from customers". "Investment securities" are allocated to the "hold to collect and sell" business model; these financial assets are generally held (SPPI conform) in order to collect contractual cashflows but can be sold as needed.

To determine whether a financial asset should be classified as measured at amortised cost or FVOCI, the Bank assesses whether the cash flows from the financial asset represent, on specified dates, solely payments of principal and interest on the principal amount outstanding - i.e. the SPPI criterion.

**a) Financial assets at amortised cost**

A financial asset is classified as "at amortised cost" if the financial asset is allocated to the "hold to collect" business model and the contractual cash flows meet the SPPI criterion. Financial assets at amortised costs are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets are recognised when the principal is advanced to the borrowers. These assets are initially recognised at fair value plus transaction costs; subsequently they are measured at amortised cost using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms under "net interest income". At each balance sheet date and whenever there is evidence of potential impairment, the Bank assesses the value of its financial assets. As a consequence, their carrying amount may be reduced through the use of an allowance account. If the amount of the impairment loss decreases, the impairment allowance is reduced accordingly, and the amount of the reduction is recognised in the Statement of Profit or Loss. The upper limit on the reduction of the impairment is equal to the amortised costs which would have been incurred as of the valuation date if there had not been any impairment. Loans and receivables are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. In addition, when loans and receivables are restructured with substantially different terms and conditions, the original financial asset is derecognised and replaced with the new financial asset.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***b) Financial assets at fair value with changes in fair value recognised in Other Comprehensive Income**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date.

A financial asset is classified and recognised as "at fair value with changes in fair value recognised in Other Comprehensive Income" ("FVOCI financial instrument"), if the financial asset is allocated to a "hold to collect or sell" business model.

"Investment securities" allocated to this business model are those financial assets that are generally held "SPPI conform" in order to collect contractual cashflows but can be sold as needed.

At initial recognition, the FVOCI financial instruments are recorded at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequently they are carried at fair value. Gains and losses arising from changes in fair value are recognised in the Statement of Other Comprehensive Income under "Revaluation reserve". If the financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in the "Revaluation reserve" is recognised in the Statement of Profit or Loss in the position "Net result from investment securities". Interest calculated using the effective interest rate method and foreign currency gains and losses on monetary assets classified as FVOCI financial instruments are recognised in the Statement of Profit or Loss.

Purchases and sales of FVOCI financial instruments are recorded as of the trade date. They are derecognised when the rights to receive cash flows from the financial assets have expired or when the group has transferred substantially all risks and rewards of ownership.

**7) Foreign currency translation****(a) Functional and presentation currency**

Items included in these financial statements are measured in Macedonian denars (MKD), which is the functional currency of the Bank.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Monetary items denominated in foreign currency are translated with the closing rate as of the reporting date. In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, while other changes in the carrying amount are recognised in equity.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

Non-monetary items measured at historical cost denominated in foreign currency are translated with the exchange rate as of the date of initial recognition.

The reporting exchange rates and average rates for the period used in the balance sheet and the income statement are listed in section (60) of these notes.

**8) Cash and cash equivalents**

For the purposes of the balance sheet, cash and cash equivalents comprise cash, balances with less than three months' maturity from the date of acquisition from NBRM and other money market instruments that are highly liquid and readily convertible to known amounts of cash with insignificant risk of changes in value and bills of exchange.

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' original maturity from the date of acquisition, including: cash and non-restricted balances with NBRM (minimum reserve balances are included under restricted balances), non-pledged treasury bills and other bills eligible for refinancing with NBRM and loans and advances to banks and amounts due from other banks.

**9) Loans and advances to banks**

The amounts reported under "Loans and advances to banks" consist mainly of loans and advances issued, allocated to the business model "hold to collect" (SPPI conform).

In addition to overnight and term deposits, the amounts reported under receivables from banks include current account balances.

All loans and advances to banks are carried at amortised cost, using the effective interest method. Amortised premiums and discounts are accounted for over the respective terms in the income statement under "Net interest income". Impairment of loans and receivables to Banks is recognised on separate allowance accounts.

For the purposes of the cash flow statement, claims to banks with original maturity of less than three months from the date of acquisition are recognised under "Cash and cash equivalents" (see note 32).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***10) Credit Loss Allowance for losses on loans and advances**Credit Loss allowances (CLA)

For the recognition of loss allowances, a three-stage model is used based on expected credit losses:

- \* Stage 1: All financial assets are generally classified as "Stage 1" at initial recognition. The Bank establishes loss allowances in an amount equivalent to the 12 month expected credit losses, insofar as there has not been a significant increase in credit risk since initial recognition.
- \* Stage 2: If the credit risk increases significantly, then "Stage 2" classification is assigned, and loss allowances are established in an amount equivalent to the lifetime expected credit losses.
- \* Stage 3: Defaulted financial assets are assigned to "Stage 3" and loss allowances are likewise established in an amount equivalent to the lifetime expected credit losses. For significant exposures, risk provisioning is determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition ("POCI"). These are measured initially at fair value and without loss allowances. Regardless of future changes in the credit risk, POCI assets remain in Stage 3 until their disposal. In the event of decrease of credit risk, the already recognised loss allowance is reduced accordingly.

Write-offs, recoveries and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Non-substantial modification

Non-substantial modification is a modification event that does not result in derecognition of the original asset. The effect is recognised through profit or loss as a modification gain or modification loss. The modification gain or loss is calculated as the difference between the original gross carrying amount and the present value of the modified contractual cash flows discounted at the original effective interest rate.

**11) Intangible assets****(a) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is amortised on a straight line basis over expected useful lives of five years. Main Banking software - Customware.net is depreciated over a period of 10 years.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***12) Property, plant and equipment**

Land and buildings comprise mainly head office, branches and offices. All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Component parts of an asset are recognised separately if they have different useful lives or provide benefits to the enterprise in a different pattern.

Subsequent costs are included in the asset's carrying amount or are recognised 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 to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings	40 years
– Leasehold improvements	5 years
– Computers	4 years
– Furniture	5 years
– Motor vehicles	5 years
– Other	7 years

The assets' residual carrying values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

The Bank does not hold investment property.

**13) Impairment of non-financial assets**

Assets that are subject to amortisation are reviewed for indications of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

**14) Leases***(a) ProCredit is the lessee*

The leases disclosed by the Bank are divided into finance lease and operating lease. Classification of the leases as finance or operating is performed according to the conditions in the lease agreement.

*Finance lease*

Agreements which transfer to the lessee substantially all the risks and rewards incidental to the ownership of assets, but not necessarily a legal title, are classified as finance leases.

The Bank has leased copy machines for the needs of branches and Head Office on finance lease.

*Operating lease*

Operating leases are all lease agreements which do not qualify as finance leases. The total payments made under operating leases are charged to the income statement under administrative expenses on a straight-line basis over the period of the lease.

The leases entered by the Bank as operating leases are recognized for the rent of the branches.

*(b) ProCredit is the lessor*

The Bank is not engaged in finance leases. In operating leases the Bank acts only as lessee.

**15) Income tax**

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

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

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

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



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***16) Financial liabilities**

Financial liabilities comprise of liabilities to banks, liabilities to customers, liabilities to international financial institutions, subordinated debt and debt with special capital treatment.

Financial liabilities are recognised initially at fair value net of transaction costs incurred. Subsequently are measured at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the liability using the effective interest rate method.

All financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

**17) Provisions**

Provisions are recognised if:

- there is a present legal or constructive obligation resulting from past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow of resources will be required in a settlement is determined by considering the class of obligations as a whole.

Provisions for which the timing of the outflow of resources is known are measured at the present value of the expenditures, if the outflow will not be earlier than in one year's time. The increase in the present value of the obligation due to the passage of time is recognised as an interest expense.

Contingent liabilities, which mainly consist of certain guarantees and letters of credit issued for customers, as well as unused amounts of approved limits for certain loan products are possible obligations that arise from past events. As their occurrence, or non-occurrence, depends on uncertain future events not wholly within the control of the Bank, they are not recognised in the financial statements but are disclosed on the off-balance sheet unless the probability of settlement is remote (see note (55)).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***18) Post-employment benefits and other employee benefits***(a) Employee benefits*

Employee benefits comprise all kinds of benefits provided for the Bank's employees. This item includes salaries and wages as well as social contribution and fringe benefits. The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages according to the legislation requirements. The Bank makes these contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments. The Bank pays contributions to public pension insurance fund on a mandatory basis. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in personnel expenses. The cost of these payments is charged to the income statement in the same period as the related salary cost. The Bank does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions to the employees. In addition, the Bank does not operate shared based compensation plan in exchange to the employee services provided.

*(b) Other post-employment obligations*

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement. There is no additional liability in respect of post retirement.

The long-term employee benefits are discounted to determine their present value.

**19) Subordinated debt**

Subordinated debt consists mainly of liabilities to shareholders which in the event of insolvency or liquidation are not repaid until all non-subordinated creditors have been satisfied. There is no obligation to repay early.

Following initial recognition at acquisition cost, the subordinated debt is recognised at amortised cost. Premiums and discounts are accounted for over the respective terms in the income statement under "Net interest income".

**20) Equity capital**

Equity capital comprises of ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds as (negative) capital reserve.

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the company's shareholders.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***21) Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overs and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

**22) Interest income and expense**

Interest income and expenses for all interest-bearing financial instruments are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest rate method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Payments received with respect to written-off loans are not recognised in net interest income.

**23) Fee and commission income and expenses**

Fee and commission income and expenses are recognised on an accrual basis when the service has been provided.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan.

**24) Dividend income**

Dividends are recognised in the income statement when the entity's right to receive payment is established.

Due to their insignificance, the amounts are recognised in "Net other operating income"

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***C. Notes to the Income Statement****25) Net interest income**

Included within "Net interest income" are interest income and expenses and, in addition, the unwinding of premiums and discounts on financial instruments at amortised cost.

**Net interest income**

in '000 MKD

<b>Interest and similar income</b>	<b>1.1.-31.12.2018</b>	<b>1.1.-31.12.2017</b>
Interest income from cash and cash equivalents	536	228
Loans and advances to Banks	2,075	636
Interest income from investment securities	30,539	33,902
Interest income from loans and advances to customers	869,819	950,907
Unwinding	5,764	12,528
Prepayment penalty	3,080	4,586
<b>Total interest income</b>	<b>911,813</b>	<b>1,002,787</b>
<b>Interest and similar expenses</b>		
Interest expenses on liabilities to banks	(21,389)	(34,538)
Interest expenses on liabilities to customers	(205,241)	(155,677)
Interest expenses on borrowings	(12,445)	(16,490)
Interest expenses on subordinated debt	(35,056)	(33,440)
Interest expenses on debt with special capital treatment	-	(6,089)
<b>Total interest expenses</b>	<b>(274,131)</b>	<b>(246,234)</b>
<b>Net interest income</b>	<b>637,682</b>	<b>756,553</b>

Interest income on impaired financial assets is MKD 5,764 thousand (2017: MKD 12,528 thousand).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***26) Allowance for impairment losses on loans and advances**

Risk provisioning on loans and advances to customers is reflected in the income statement as follows:

	1.1.-31.12.2018	1.1.-31.12.2017
Increase of loss allowances	243.208	372.264
Release of loss allowances	(194.344)	(316.296)
Recovery of written-off loans	(18.883)	(50.489)
Direct write-offs	5.296	8.729
Non-substantial modification	(1.217)	-
<b>Loss allowance</b>	<b>34.060</b>	<b>14.208</b>

For the recognition of loss allowances, a three-stage model is used based on expected credit losses.

Stage 3: Upon default of financial assets, loss allowances are likewise established in an amount equivalent to the expected credit losses over the entire remaining maturity. For significant exposures, loss allowances are determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 recognition also applies to financial assets which are already impaired at initial recognition in the balance sheet (POCI). At the time of acquisition, recognition is carried out at fair value and thus without loss allowances. Regardless of their default risk, POCI assets remain in Stage 3 until their disposal.

- Stage 1: All financial assets are generally classified as "Stage 1" at initial recognition. The ProCredit group establishes loss allowances in an amount equivalent to the 12 month expected credit losses, insofar as there has not been a significant increase in credit risk since initial recognition.
- Stage 2: If the credit risk increases significantly, then "Stage 2" classification is assigned, and loss allowances are established in an amount equivalent to the lifetime expected credit losses.
- Stage 3: Defaulted financial assets are assigned to "Stage 3" and loss allowances are likewise established in an amount equivalent to the lifetime expected credit losses. For significant exposures, risk provisioning is determined on the basis of recoverable cash flows. For insignificant exposures, loss allowances are determined on the basis of portfolio-based parameters. Interest income is recognised at net book value (less loss allowances). Stage 3 also includes financial assets which are already impaired at initial recognition ("POCI"). These are measured initially at fair value and without loss allowances. Regardless of future changes in the credit risk, POCI assets remain in Stage 3 until their disposal.

In the event of decrease of credit risk, the already recognised loss allowance is reduced accordingly.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*Write-offs, recoveries and direct write-offs

When a loan is uncollectible, it is written off against the related loss allowance set aside. Such write-offs occur after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the Consolidated Statement of Profit or Loss under "Loss allowances". Uncollectible loans for which no loss allowances have been set aside in full are recognised as direct write-offs.

Non-substantial modification

Non-substantial modification is a modification event that does not result in derecognition of the original asset. The effect is recognised through profit or loss as a modification gain or modification loss. The modification gain or loss is calculated as the difference between the original gross carrying amount and the present value of the modified contractual cash flows discounted at the original effective interest rate.

**27) Net fee and commission income**

in '000 MKD

<b>Fee and commission income</b>	<b>1.1.-31.12.2018</b>	<b>1.1.-31.12.2017</b>
Payment transfers and transactions	74,898	73,010
Account maintenance fee	138,576	104,203
Letters of credit and guarantees	24,185	25,638
Debit/ credit cards	41,921	40,752
Other fee and commission income	7,825	7,429
<b>Total fee and commission income</b>	<b>287,405</b>	<b>251,032</b>
<b>Fee and commission expenses</b>		
Payment transfers and transactions	(53,551)	(48,119)
Credit cards	(13,619)	(17,251)
Letters of credit and guarantees	(8,306)	(1,968)
Other fee and commission expenses	(17,645)	(15,114)
<b>Total fee and commission expenses</b>	<b>(93,121)</b>	<b>(82,452)</b>
<b>Net fee and commission income</b>	<b>194,284</b>	<b>168,580</b>

The item "other fee and commission income" consists of transactions carried out on behalf of third parties.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***28) Result from foreign exchange transactions**

"Result from foreign exchange transactions" refers to the results of foreign exchange dealings with and for customers. The Bank is not engaged in any foreign currency trading on its own account. In addition, this position includes unrealised foreign currency revaluation effects. The Bank does not apply hedge accounting as defined by IFRS 9.

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Currency exchange	60,913	44,811
Net gains and losses from FX revaluation	809	(685)
<b>Total</b>	<b>61,722</b>	<b>44,126</b>

**29) Net other operating income/ (expense)**

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Collected written off loans	18,883	50,489
Capital gain from sold repossessed properties	16,296	4,412
Capital gain from sold property and equipment	1,613	5,661
Other	14,262	11,999
<b>Other operating income</b>	<b>51,054</b>	<b>72,561</b>
Impairment of repossessed property	(33,212)	(52,581)
Insurance deposit expenses	(20,323)	(39,988)
Impairment loss for off balance exposure	(2)	-
Other	(13,025)	(26,855)
<b>Other operating expenses</b>	<b>(66,562)</b>	<b>(119,424)</b>
<b>Total</b>	<b>(15,508)</b>	<b>(46,863)</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***30) Personnel and other administrative expenses**

Personnel expenses can be broken down as follows:

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Salary expenses	(112,731)	(119,935)
Social security expenses	(54,715)	(59,985)
Other personnel expenses	(22,809)	(37,958)
<b>Total</b>	<b>(190,255)</b>	<b>(217,878)</b>

"Administrative expenses" include the following items:

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Depreciation of property, plant and equipment	(57,997)	(61,298)
Amortization of intangible assets	(2,212)	(1,816)
Repairs and maintenance	(13,498)	(15,506)
Office rent	(15,253)	(23,538)
Security service	(36,154)	(36,816)
Communication and IT expenses	(90,256)	(85,195)
Other taxes	(24,262)	(20,920)
Utilities and electricity	(9,114)	(11,433)
Consulting services	(21,563)	(16,307)
Transport	(12,367)	(14,563)
Office supplies	(6,173)	(8,690)
Marketing, advertising and entertainment	(12,859)	(6,974)
Recruitment expenses	(39,187)	(32,721)
Other administrative expenses	(10,720)	(16,956)
<b>Total</b>	<b>(351,615)</b>	<b>(352,733)</b>

**31) Income tax expenses**

This item includes taxes on income. Income tax expenses were as follows:

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Current tax expense	(20,799)	(32,830)
Deferred tax expense/(income)		
Origination and reversal of temporary differences	(9,907)	(1,187)
<b>Total income tax expense</b>	<b>(30,706)</b>	<b>(34,017)</b>

In calculating both current income tax and the deferred income tax the currently valid local tax rate is applied. For further details see note (39).



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***D. Notes to the Balance Sheet****32) Cash and balances with the Central Bank**

Cash and balances with the Central Bank comprise the following items:

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Cash in hand	379,267	429,613	429,613
Balances at central Banks excluding mandatory reserves	2,077,217	523,704	523,704
Treasury bills with original maturity of less than three months	1,176,776	1,048,150	1,048,150
Mandatory reserve deposits	1,725,413	1,009,435	1,009,435
Loss allowance for central banks	(2,950)	(1,353)	-
<b>Total cash and cash equivalents</b>	<b>5,355,723</b>	<b>3,009,549</b>	<b>3,010,902</b>
Plus loans and advances to Banks with original maturity up to three months, which qualify as cash for the cash flow	1,632,910	1,071,230	1,071,230
Less minimum reserve with NBRM, which does not qualify as cash for the cash flow	(1,725,413)	(1,009,435)	(1,009,435)
<b>Total cash and cash equivalents for cash flow statement</b>	<b>5,263,220</b>	<b>3,071,344</b>	<b>3,072,697</b>

Treasury bills are shown in the cash and cash balances for 2018 and 2017.

**33) Loans and advances to Banks**

Loans and advances to Banks are as follows:

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Loans and advances to Banks in OECD countries	1,586,022	1,064,546	1,065,144
Loans and advances to Banks in non-OECD countries	46,888	6,086	6,086
<b>Total</b>	<b>1,632,910</b>	<b>1,070,632</b>	<b>1,071,230</b>
<b>Current</b>	<b>1,632,910</b>	<b>1,070,632</b>	<b>1,071,230</b>
<b>Non-current</b>	<b>-</b>	<b>-</b>	<b>-</b>
in '000 MKD	31.12.2018	1.1.2018	31.12.2017
up to three month	1,632,910	1,070,632	1,071,230
up to one year	-	-	-
more than one year	-	-	-
<b>Loans and advances to banks</b>	<b>1,632,910</b>	<b>1,070,632</b>	<b>1,071,230</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***34) Investment securities**

This balance sheet item primarily includes securities with fixed interest rates.

The Bank is making regular revaluation of the Fair Value of these investments according to the values calculated with a valuation technique based on currently observable market data.

in '000 MKD				
Investment securities	31.12.2018	1.1.2018	31.12.2017	
Fixed interest rate securities (government bills)	100,371	-	-	
<b>Total Investment securities FVOCI</b>	<b>100,371</b>	-	-	
Current	100,371	-	-	
Non-current	-	-	-	

The revaluation reserve for investment securities in equity in other comprehensive income shows the following changes:

in '000 MKD			
Movements in revaluation reserves (investment securities)	1.1.-31.12.2018	1.1.-31.12.2017	
As at January 1	-	-	
Realisation	-	-	
<b>As at December 31</b>	<b>-</b>	<b>-</b>	

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

## 35) Loans and advances to customers

As at December 31, 2018	Gross amount	Credit Loss Allowance	Net amount	Share of total portfolio
<b>Business loans</b>	<b>19,080,170</b>	<b>(398,975)</b>	<b>18,681,195</b>	<b>93.06%</b>
Wholesale and retail trade	6,667,819	(127,933)	6,539,886	32.52%
loan size up to 50.000 EUR/USD	568,411	(23,139)	545,271	2.77%
loan size 50.000 to 250.000 EUR/USD	2,365,078	(34,230)	2,330,849	11.53%
loan size more than 250.000 EUR/USD	3,734,130	(70,564)	3,663,566	18.21%
Agriculture, forestry and fishing	1,311,476	(60,430)	1,251,047	6.40%
loan size up to 50.000 EUR/USD	433,266	(43,198)	390,070	2.11%
loan size 50.000 to 250.000 EUR/USD	312,822	(12,305)	300,517	1.53%
loan size more than 250.000 EUR/USD	565,388	(4,927)	560,460	2.73%
Production	4,470,807	(71,655)	4,399,151	21.81%
loan size up to 50.000 EUR/USD	272,890	(11,634)	261,055	1.33%
loan size 50.000 to 250.000 EUR/USD	1,288,897	(35,368)	1,253,529	6.29%
loan size more than 250.000 EUR/USD	2,909,220	(24,653)	2,884,567	14.19%
Transportation and storage	1,812,620	(28,892)	1,783,728	8.84%
loan size up to 50.000 EUR/USD	323,423	(12,520)	310,903	1.58%
loan size 50.000 to 250.000 EUR/USD	917,890	(11,669)	906,221	4.48%
loan size more than 250.000 EUR/USD	571,307	(4,703)	566,604	2.79%
Other economic activities	4,817,648	(110,065)	4,707,583	23.50%
loan size up to 50.000 EUR/USD	429,588	(18,976)	410,612	2.10%
loan size 50.000 to 250.000 EUR/USD	1,685,014	(27,482)	1,657,532	8.22%
loan size more than 250.000 EUR/USD	2,703,046	(63,607)	2,639,439	13.18%
Private loans	1,423,416	(55,542)	1,367,874	6.94%
Housing	1,176,137	(44,397)	1,131,740	5.74%
loan size up to 50.000 EUR/USD	785,871	(36,839)	729,032	3.74%
loan size 50.000 to 250.000 EUR/USD	400,760	(7,472)	393,288	1.95%
loan size more than 250.000 EUR/USD	9,506	(86)	9,420	0.05%
Investment loans and OVDs	215,370	(7,911)	207,459	1.05%
loan size up to 50.000 EUR/USD	211,461	(7,346)	204,115	1.03%
loan size 50.000 to 250.000 EUR/USD	3,909	(565)	3,344	0.02%
Others	31,908	(3,234)	28,674	0.16%
loan size up to 50.000 EUR/USD	31,908	(3,234)	28,674	0.16%
<b>Total</b>	<b>20,503,585</b>	<b>(454,517)</b>	<b>20,049,068</b>	<b>100.00%</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

As at December 31, 2017	Gross amount	Allowance for impairment	Net amount	Share of total portfolio
<b>Business loans</b>	<b>16,611,443</b>	<b>(327,452)</b>	<b>16,283,991</b>	<b>92.36%</b>
Wholesale and retail trade	5,867,874	(107,761)	5,760,113	32.67%
loan size up to 50.000 EUR/USD	712,956	(27,413)	685,543	3.89%
loan size 50.000 to 250.000 EUR/USD	2,400,189	(30,863)	2,369,326	13.44%
loan size more than 250.000 EUR/USD	2,754,729	(49,485)	2,705,244	15.34%
Agriculture, forestry and fishing	1,478,446	(39,992)	1,438,454	8.16%
loan size up to 50.000 EUR/USD	648,155	(33,371)	615,784	3.49%
loan size 50.000 to 250.000 EUR/USD	218,789	(3,617)	215,172	1.22%
loan size more than 250.000 EUR/USD	610,502	(3,004)	607,498	3.45%
Production	3,273,347	(47,323)	3,226,024	18.30%
loan size up to 50.000 EUR/USD	289,658	(16,510)	273,148	1.55%
loan size 50.000 to 250.000 EUR/USD	1,163,813	(14,921)	1,148,892	6.52%
loan size more than 250.000 EUR/USD	1,819,876	(15,892)	1,803,984	10.23%
Transportation and storage	1,846,414	(17,831)	1,828,583	10.37%
loan size up to 50.000 EUR/USD	359,563	(6,279)	353,284	2.00%
loan size 50.000 to 250.000 EUR/USD	982,332	(8,984)	973,348	5.52%
loan size more than 250.000 EUR/USD	504,519	(2,568)	501,951	2.85%
Other economic activities	4,145,362	(114,545)	4,030,817	22.86%
loan size up to 50.000 EUR/USD	537,897	(27,377)	510,520	2.90%
loan size 50.000 to 250.000 EUR/USD	1,625,697	(27,089)	1,598,608	9.07%
loan size more than 250.000 EUR/USD	1,981,768	(60,079)	1,921,689	10.90%
<b>Private loans</b>	<b>1,395,485</b>	<b>(31,912)</b>	<b>1,353,573</b>	<b>7.64%</b>
Housing	731,406	(7,584)	723,822	4.11%
loan size up to 50.000 EUR/USD	471,001	(5,867)	465,134	2.64%
loan size 50.000 to 250.000 EUR/USD	247,699	(1,647)	246,052	1.40%
loan size more than 250.000 EUR/USD	12,706	(70)	12,636	0.07%
Investment loans and OVDs	437,862	(15,290)	422,572	2.40%
loan size up to 50.000 EUR/USD	365,526	(13,687)	351,839	2.00%
loan size 50.000 to 250.000 EUR/USD	72,336	(1,603)	70,733	0.40%
Others	216,217	(9,038)	207,179	1.14%
loan size up to 50.000 EUR/USD	212,122	(8,180)	203,942	1.16%
loan size 50.000 to 250.000 EUR/USD	4,095	(858)	3,237	0.02%
<b>Total</b>	<b>17,996,928</b>	<b>(359,364)</b>	<b>17,637,564</b>	<b>100.00%</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

The size categories refer to the initial loan amount.

Loans and advances to customers	Stage 1	Stage 2	Stage 3	(POCI)	Total
Gross outstanding amount as at 1 January	16,838,949	766,448	385,733	1,172	17,992,302
New financial assets originated	8,782,333	1,709	3,113	951	8,788,106
Modification of contractual cash flows of financial assets that did not result in derecognition	-	48,038	51,618	-	99,6576
Derecognitions (including write-offs)	(3,650,865)	(310,872)	(130,643)	-	(4,092,380)
Changes in interest accrual	(7,835)	93	2,390	66	(5,286)
Changes in the principal and disbursement fee amount	(2,093,297)	(132,728)	(52,618)	(137)	(2,278,780)
Transfer from stage 1 to Stage 2	(212,095)	212,095	-	-	-
Transfer from stage 1 to Stage 3	(34,069)	-	34,069	-	-
Transfer from stage 2 to Stage 1	70,328	(70,328)	-	-	-
Transfer from stage 2 to Stage 3	-	(60,298)	60,298	-	-
Transfer from stage 3 to Stage 2	-	35,023	(35,023)	-	-
Transfer from stage 3 to Stage 1	2	-	(2)	-	-
Foreign exchange and other movements	9,537	(707)	(8,337)	(526)	(33)
Gross outstanding amount as at End of period	19,702,988	488,473	310,598	1,526	20,503,585

Loss allowance customers	Stage 1	Stage 2	Stage 3	(POCI)	Total
Balance at 1 January	(155,098)	(130,637)	(192,568)	-	(478,303)
New financial assets originated	(77,809)	(155)	(645)	-	(78,409)
Release due to derecognition	33,780	47,344	40,344	-	121,468
Transfer from stage 1 to Stage 2	2,917	(2,917)	-	-	-
Transfer from stage 1 to Stage 3	627	-	(627)	-	-
Transfer from stage 2 to Stage 1	(13,651)	13,651	-	-	-
Transfer from stage 2 to Stage 3	-	9,624	(9,624)	-	-
Transfer from stage 3 to Stage 2	-	(10,722)	10,722	-	-
Transfer from stage 3 to Stage 1	(2)	-	2	-	-
Increase in PDs/LGDs/EaDs	(21,651)	(19,502)	(57,007)	(559)	(98,719)
Decrease in PDs/LGDs/EaDs	37,871	22,066	16,129	-	76,066
Usage of allowance	-	-	44,050	-	44,050
Increase due to modification without derecognition	-	(4,776)	(48,812)	-	(53,588)
Decrease due to modification without derecognition	-	121	5,547	-	5,668
Unwinding effects	-	-	5,764	-	5,764
Foreign exchange and other movements	(8)	1,503	(9)	-	1,486
As at end of period	(192,824)	(74,400)	(186,734)	(559)	(454,517)

in '000 MKD

Loans and advances to customers	31.12.2018	1.1.2018	31.12.2017
Gross amount (government bills)	20,503,585	17,992,302	17,996,927
CLA/Allowance for impairment	454,517	478,303	359,363
Total net amount	20,049,068	17,513,999	17,637,564

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***36) Intangible assets**

The development of the intangible assets is shown in the following tables:

in '000 MKD		
Software	1.1.-31.12.2018	1.1.-31.12.2017
Net book value at January 1	5,796	6,999
Total acquisition costs at January 1	118,322	117,709
Additions	2,864	613
<b>Total acquisition costs at December 31</b>	<b>121,186</b>	<b>118,322</b>
Accumulated depreciation January 1	(112,526)	(110,710)
Amortisation	(2,212)	(1,816)
<b>Accumulated depreciation at December 31</b>	<b>(114,738)</b>	<b>(112,526)</b>
<b>Net book value at December 31</b>	<b>6,448</b>	<b>5,796</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***37) Property, plant and equipment**

The development of property, plant and equipment was as follows:

in '000 MKD	Land and buildings	Leasehold improvements	Assets under construction	Furniture and fixtures	IT and other equipment	Total
<b>Total acquisition costs at January 1, 2018</b>	<b>780,038</b>	<b>34,565</b>	<b>63</b>	<b>45,987</b>	<b>469,936</b>	<b>1,330,589</b>
Additions	667	-	-	695	10,155	11,517
Transfers	-	-	-	-	-	-
Disposals/Write offs	-	(5,541)	-	(2,732)	(11,893)	(20,166)
<b>Total acquisition costs at December 31, 2018</b>	<b>780,705</b>	<b>29,024</b>	<b>63</b>	<b>43,950</b>	<b>468,198</b>	<b>1,321,940</b>
<b>Accumulated depreciation at January 1, 2018</b>	<b>75,330</b>	<b>31,409</b>	<b>-</b>	<b>35,091</b>	<b>349,123</b>	<b>490,953</b>
Depreciation	16,569	1,337	-	3,768	36,323	57,997
Disposals/Write offs	-	(5,541)	-	(2,702)	(11,893)	(20,136)
<b>Accumulated depreciation at December 31, 2018</b>	<b>91,899</b>	<b>27,205</b>	<b>-</b>	<b>36,157</b>	<b>373,553</b>	<b>528,814</b>
<b>Net book value at December 31, 2018</b>	<b>688,806</b>	<b>1,819</b>	<b>63</b>	<b>7,793</b>	<b>94,645</b>	<b>793,126</b>
<b>Total acquisition costs at January 1, 2017</b>	<b>778,593</b>	<b>35,372</b>	<b>1,149</b>	<b>47,256</b>	<b>467,073</b>	<b>1,329,443</b>
Additions	1,445	1,491	97	272	14,216	17,521
Transfer	-	1,183	(1,183)	-	-	-
Disposals/Write offs	-	(3,481)	-	(1,541)	(11,353)	(16,375)
<b>Total acquisition costs at December 31, 2017</b>	<b>780,038</b>	<b>34,565</b>	<b>63</b>	<b>45,987</b>	<b>469,936</b>	<b>1,330,589</b>
<b>Accumulated depreciation at January 1, 2017</b>	<b>58,777</b>	<b>29,546</b>	<b>-</b>	<b>30,676</b>	<b>310,656</b>	<b>429,655</b>
Depreciation	16,553	1,863	-	4,415	38,467	61,298
Disposals/Write offs	-	-	-	-	-	-
<b>Accumulated depreciation at December 31, 2017</b>	<b>75,330</b>	<b>31,409</b>	<b>-</b>	<b>35,091</b>	<b>349,123</b>	<b>490,953</b>
<b>Net book value at December 31, 2017</b>	<b>704,708</b>	<b>3,156</b>	<b>63</b>	<b>10,896</b>	<b>120,813</b>	<b>839,636</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***38) Leasing**Operating lease commitments

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
<b>Operating lease commitments</b>		
- no later than one year	3,209	7,465
- later than one year and no later than five years	-	-
- later than five years	-	-
<b>Total</b>	<b>3,209</b>	<b>7,465</b>

Operating lease commitments result from non-cancellable rental agreements for properties; the amounts in the above table are calculated based on current rental agreements.

**39) Current and deferred tax assets/liabilities**

Deferred tax assets and deferred tax liabilities result from taxable/deductible temporary differences which arise between the carrying amount of an asset/liability in the balance sheet and its tax base (the amount that is attributed to that asset/liability for tax purposes). The table below shows the changes in deferred income taxes and the underlying business transactions:

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
<b>Movement in deferred tax balances</b>		
Net balance at January 1	(700)	486
Allowance for impairment for loans and advances:		
- Recognised in OCI – IFRS 9 implementation	13,347	-
- Recognised in profit or loss	(9,907)	(1,186)
<b>Deferred tax assets/(liabilities)</b>	<b>2,740</b>	<b>(700)</b>

**Reconciliation of effective tax rate**

in '000 MKD	2018	2018	2017	2017
	%		%	
Profit/(loss) before tax		302,250		337,576
Tax using the domestic tax rate	10.0%	30,224	10.0%	33,758
Non-tax deductible expenses	0.45%	1,352	0.15%	2,187
Tax incentive	(2.88%)	(871)	(0.58%)	(1,928)
<b>Total income tax expense in Income Statement</b>	<b>10.16%</b>	<b>30,705</b>	<b>10.08%</b>	<b>34,017</b>



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
<b>Tax assets</b>			
Current tax assets	11,211	-	-
Deferred tax assets	2,740	12,645	-
<b>Total</b>	<b>13,951</b>	<b>12,645</b>	<b>-</b>

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
<b>Tax liabilities</b>			
Current tax liabilities	-	16,127	16,127
Deferred tax liabilities	-	-	700
<b>Total</b>	<b>-</b>	<b>16,127</b>	<b>16,827</b>

**40) Other assets**

<b>Other financial assets</b>			
in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Accounts receivable	95,256	52,645	52,645
Claims on insurances policies	27	240	240
Claims from customs and taxes	168	19,437	19,437
Claims from customs	2,970	3,075	3,075
Other	27,934	17,110	11,705
<b>Total</b>	<b>126,355</b>	<b>92,507</b>	<b>87,102</b>

<b>Other non-financial assets</b>			
in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Pre-payments	18,007	26,612	26,612
Repossessed properties	126,536	161,705	161,705
Others	2,140	2,638	2,847
<b>Total</b>	<b>146,683</b>	<b>190,955</b>	<b>191,164</b>

Repossessed properties have been decreased by 35,169 MKD thousand (2017: increased by MKD 89,185 thousand).

<b>Repossessed properties</b>			
in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Real estate	99,097	122,966	122,966
Equipment	16,379	27,374	27,374
Land	6,709	9,816	9,816
Other	4,351	1,549	1,549
<b>Total</b>	<b>126,536</b>	<b>161,705</b>	<b>161,705</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***41) Liabilities to Banks**

The liabilities to Banks consist primarily of short-term loans obtained on the interBank market.

In '000 MKD	31.12.2018	1.1.2018	31.12.2017
Liabilities to Banks in non-OECD countries	10,515	60,233	60,233
Liabilities to Banks in OECD countries	1,791,647	925,500	925,500
<b>Total</b>	<b>1,802,162</b>	<b>985,733</b>	<b>985,733</b>
Current	1,371,697	493,807	493,807
Non-current	430,465	491,926	491,926
<b>in '000 MKD</b>	<b>31.12.2018</b>	<b>1.1.2018</b>	<b>31.12.2017</b>
up to three months	572,262	62,400	62,400
up to one year	799,435	431,408	431,408
more than one year	430,465	491,925	491,925
<b>Total</b>	<b>1,802,162</b>	<b>985,733</b>	<b>985,733</b>

**42) Liabilities to customers**

Liabilities to customers consist of deposits due on demand, savings deposits and term deposits. The following table shows a breakdown by customer groups:

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
<b>Current accounts</b>	<b>7,825,598</b>	<b>6,479,705</b>	<b>6,479,705</b>
-private individuals	1,618,732	1,367,797	1,367,797
-legal entities	6,206,866	5,111,908	5,111,908
<b>Savings accounts</b>	<b>2,510,266</b>	<b>2,723,982</b>	<b>2,723,982</b>
-private individuals	2,510,266	2,723,982	2,723,982
<b>Term deposit accounts</b>	<b>8,590,772</b>	<b>6,168,882</b>	<b>6,168,882</b>
-private individuals	4,677,847	4,182,766	4,182,766
-legal entities	3,912,925	1,986,116	1,986,116
<b>Other liabilities to customers</b>	<b>1,118,381</b>	<b>141,426</b>	<b>141,426</b>
<b>Total</b>	<b>20,045,017</b>	<b>15,513,995</b>	<b>15,513,995</b>
Current	15,856,805	13,404,205	13,404,205
Non-current	4,188,212	2,109,790	2,109,790

The category "legal entities" includes liabilities to comercila companies, non-governmental organisations (NGOs) and public-sector institutions.

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

## 43) Borrowings

Borrowings are an important source of financing of the Bank. Medium- to long-term loans from international financial institutions are reported under this item. The following table gives a detailed breakdown for this item, classified according to cash flow principle and remaining contractual maturity.

in '000 MKD	Due	31.12.2018	1.1.2018	31.12.2017
<b>Borrowings with fixed interest rates</b>				
	up to 1 year	488,145	659,203	659,203
	up to 2 years	368,563	431,928	431,928
	up to 3 years	272,102	325,028	325,028
	up to 4 years	137,745	221,111	221,111
	more than 4 years	259,718	383,941	383,941
	<b>Total liabilities with fixed interest rates</b>	<b>1,526,273</b>	<b>2,021,211</b>	<b>2,021,211</b>
<b>Borrowings with variable interest rates</b>				
	up to 1 year	369,106	225,857	225,857
	up to 2 years	287,797	239,814	239,814
	up to 3 years	269,348	159,876	159,876
	up to 4 years	244,750	141,429	141,429
	later than 4 years	459,983	470,404	470,404
	<b>Total liabilities with variable interest rates</b>	<b>1,630,984</b>	<b>1,237,380</b>	<b>1,237,380</b>
<b>Total</b>		<b>3,157,257</b>	<b>3,258,591</b>	<b>3,258,591</b>
Current		857,251	885,060	885,060
Non-current		2,300,006	2,373,531	2,373,531

During 2018 the Bank has received a EUR loan in amount of 3,400,000 EUR equivalent of MKD 209,083 thousand from Council of Europe Development Bank with variable interest rate (6m EURIBOR +0.22% margin) and EUR loan in amount of 7,000,000 EUR equivalent of MKD 430,465 thousand from European Investment Bank. Another source for financing during 2018 were credit lines from Macedonian Bank for Development Promotion. Amount of 2,981,301 EUR was withdrawn during 2018 with different maturity from 28 up to 60 months (depending from the maturity of the sub-projects financed with this fund).

Part of borrowings in the amount of MKD 1,296,649 thousand (2017: MKD 1,918,660 thousand) are secured over loans and advances to customers with a carrying amount of MKD 960,569 thousand (2017: MKD 1,622,078 thousand).

## Notes to the financial statements for the year ended 31 December 2018

*(All amounts in MKD thousand unless otherwise stated)*

## 44) Other liabilities

## Other financial liabilities

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Liabilities for goods and services	2,936	4,797	4,797
Donations, grants for investments	4,068	4,067	4,067
Other	18,258	10,594	10,594
<b>Total</b>	<b>25,262</b>	<b>19,458</b>	<b>19,458</b>

## Other non-financial liabilities

in '000 MKD	31.12.2018	1.1.2018	31.12.2017
Deferred income	1,519	1,463	1,463
Other tax liabilities	7,759	23,131	23,131
<b>Total</b>	<b>9,278</b>	<b>24,594</b>	<b>24,594</b>

"Other" includes, among other things, deliveries and services not yet invoiced.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***45) Provisions**

Aside from provisions for post-employment (see explanation below) the breakdown of the provisions is as follows:

	As at January 1, 2018	IFRS 9 adjustment	Addition	Release	As of December 31, 2018
Provisions for					
Post employment benefits	1,022	-	-	-	1,022
Off-balance sheet items	8,937	12,214	8,485	(12,241)	17,395
Pending transactions	1,342	-	-	-	1,342
Untaken vacation	7,434	-	7,208	(7,434)	7,208
Unbilled services	1,455	-	14,357	(13,745)	2,067
Other provisions	3,634	-	3,980	(3,808)	3,806

	As at January 1, 2017	Addition	release	As of December 31, 2017
Provisions for				
Post employment benefits	1,022	-	-	1,022
Off-balance sheet items	9,645	-	(708)	8,937
Pending transactions	2,643	-	(1,300)	1,343
Untaken vacation	7,658	-	(224)	7,434
Unbilled services	3,722	-	(2,267)	1,455
Other provisions	2,467	1,167	-	3,634

According to Macedonian Labor Law the Bank has obligation to make payments to the employees two average salaries in the Republic of Macedonia at the moment of retirement.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***46) Subordinated debt**

The subordinated debt can be broken down as follows:

in '000 MKD				
Received from	Maturity	31.12.2018	1.1.2018	31.12.2017
ProCredit Holding	25.02.2025	504,041	504,006	504,006
<b>Total</b>		<b>504,041</b>	<b>504,006</b>	<b>504,006</b>
Current		12,081	12,080	12,080
Non-current		491,960	491,926	491,926

The Bank uses Subordinated loan from ProCredit Holding in amount of 8.000.000 EUR. Interest rate for this loan is 6.69% and contractual maturity of ten years.

Bank includes subordinated debt as part of Total Capital in capital adequacy calculation in Tier II.

**47) Financial liabilities reconciliation**

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

In 000 MKD	Liabilities from financing activities			Total
	Borrowings	Debt with special capital treatment	Subordinated debt	
Net debt at 31 December 2017	3,259,365	-	504,006	3,763,371
Cash flows	(99,813)	-	-	(99,813)
Foreign exchange adjustments	(2,295)	-	35	(2,260)
Other non-cash movements	-	-	-	-
<b>Net debt at 31 December 2018</b>	<b>3,157,257</b>	<b>-</b>	<b>504,041</b>	<b>3,661,298</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***48) Equity capital**

As at December 31, 2018 (compared to 2017), the shareholder structure was as follows:

Shareholder	31.12.2018			1.1.2018			31.12.2017		
	Size of stake in %	Number of shares	Amount in MKD thousand	Size of stake in %	Number of shares	Amount in MKD thousand	Size of stake in %	Number of shares	Amount
Procredit Holding AG Frankfurt am Main, Germany	100.00 %	2,957,351	908,713	100.00%	2,957,351	908,713	100.00 %	2,957,351	908,713
<b>Total Voting Capital</b>	<b>100.00 %</b>	<b>2,957,351</b>	<b>908,713</b>	<b>100.00%</b>	<b>2,957,351</b>	<b>908,713</b>	<b>100.00 %</b>	<b>2,957,351</b>	<b>908,713</b>

The Bank's share capital consists of 2,957,351 ordinary shares. All shares have a par value of 5 EUR (2017: 5 EUR). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

*Legal reserve*

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

*Dividends*

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

in '000 MKD

	<u>31.12.2018</u>	<u>31.12.2017</u>
Dividends paid	-	-

No dividend liabilities have been provided for at the end of the year in statement of financial position.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***E. Risk Management**

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

**49) Management of the overall Bank risk profile – capital management****1. Capital management – objectives**

Overall, ProCredit Bank Macedonia, is not allowed to take on more risk than it is capable of bearing. This rule is put into operation, using different indicators for which target and limit ratios have been established.

The capital management of the Bank has the following objectives:

- Ensuring that the Bank is equipped with a sufficient volume and quality of capital at all times to cope with (potential) losses arising from different risks even under extreme circumstances.
- Full compliance with external capital requirements set by the regulator.
- Meeting the internally defined minimum capital adequacy requirements.
- Enabling the Bank to implement its plans for continued growth while following its business strategy.

**2. Capital management – processes and procedures**

The capital management of ProCredit Bank Macedonia is governed by the Group Policy on Capital Management and the Group Policy on Internal Capital Adequacy Assessment Process (ICAAP). CRR (Capital Requirements Regulation) capital ratios, Tier 1 leverage ratio and ICAAP are monitored on a monthly basis by the Bank's Risk Management Committee (Sub-Committee ALCO) and the ProCredit Group Risk Management Committee. Regulatory capital ratios are monitored on a quarterly basis.

**3. Capital management – compliance with external and internal capital requirements**

External minimum capital requirements are imposed and monitored by the local banking supervision authority. According to the Decision on the methodology for determining the capital adequacy issued by NBRNM, the Bank shall permanently maintain the following capital adequacy ratios:

Common equity Tier 1 ratio of at least 4.5%

Tier 1 ratio of at least 6%

Total capital adequacy ratio of at least 8%.

Capital adequacy is calculated and reported on bank level to the Risk Management Committee on a quarterly basis. These reports include rolling forecasts to ensure not only current but also future compliance.



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

In addition, according to the Banking law and the correspondent decisions issued by NBRNM in 2017, the bank shall maintain an adequate amount of capital in order to cover the capital buffers. Four types of capital conservation buffers are prescribed by NBRM:

- Capital conservation buffer (2.5% of bank's risk weighted assets)
- Anty-cyclical capital conservation buffer (up to 2.5% of bank's risk weighted assets)
- Capital conservation buffer for systematically important banks (from 1% to 3.5% of bank's risk weighted assets)
- Systematic capital conservation buffer (from 1% to 3% of bank's risk weighted assets).

Pursuant to the Banking Law and the Decision on the Methodology for identifying systemically important banks, the Bank allocates an appropriate percentage of common Tier 1 capital to cover the prescribed capital conservation buffers. During the reporting period, all regulatory capital requirements were met at all times. Capital adequacy is monitored additionally using a uniform capital adequacy calculation method across the group in accordance with the guidelines of the CRR (Capital Requirements Regulation). The following table shows the capital adequacy ratios of the Bank in accordance with the guidelines of the CRR:

Calculation based on CRR	31.12.2018
Common Equity Tier 1 capital/ Risk Weighted Assets ("RWA")	11.62%
Tier1 Capital/ Risk Weighted Assets	11.62%
Total Capital / Risk Weighted Assets	13.94%
in '000 MKD	31.12.2018
Ordinary share capital	908,713
Capital + legal reserves	165,504
Retained earnings	1,301,485
Profit from last interim period	208,079
Adjustments to CET1 due to prudential filters	(1,277)
Less other intangibles	(6,448)
Planned / paid out dividends to shareholders in current year	-
Planned dividends to shareholders in next year	(116,840)
<b>Common Equity Tier 1 capital</b>	<b>2,459,216</b>
Debt used for capital adequacy	-
<b>Additional Tier 1 capital</b>	<b>-</b>
<b>Total Tier 1 capital</b>	<b>2,459,216</b>
Subordinated loans	491,960
<b>Total tier 2 capital</b>	<b>491,960</b>
<b>Total capital</b>	<b>2,951,176</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

in '000 MKD	<b>31.12.2018</b>
Credit Risk	19,443,624
FX Risk	31,531
Operational Risk	1,695,606
<b>Total RWA</b>	<b>21,170,761</b>
Calculation based on CRR	<b>31.12.2017</b>
Common Equity Tier 1 capital/ Risk Weighted Assets ("RWA")	14.09%
Tier1 Capital/ Risk Weighted Assets	14.09%
Total Capital / Risk Weighted Assets	16.95%
in '000 MKD	<b>31.12.2017</b>
Ordinary share capital	908,713
Capital + legal reserves	159,138
Retained earnings	1,124,404
Profit from last interim period	240,259
Adjustments to CET1 due to prudential filters	(1,048)
Less other intangibles	(5,796)
Planned / paid out dividends to shareholders in current year	-
<b>Common Equity Tier 1 capital</b>	<b>2,425,670</b>
<b>Additional Tier 1 capital</b>	<b>-</b>
<b>Total Tier 1 capital</b>	<b>2,425,670</b>
Subordinated loans	491,926
<b>Total tier 2 capital</b>	<b>491,926</b>
<b>Total capital</b>	<b>2,917,596</b>
in '000 MKD	<b>31.12.2017</b>
Credit Risk	15,382,365
FX Risk	65,306
Operational Risk	1,763,175
<b>Total RWA</b>	<b>17,210,846</b>

The Bank uses a combination of straight equity and subordinated debt, issued by ProCredit Holding AG for capital management.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

With respect to the leverage of the Bank, a lower limit for the Tier 1 capital ratio and adjusted off-balance sheet exposures is being applied, according to which the Tier 1 leverage ratio of the Bank should not fall below 5%. At the end of 2018 the bank's Tier 1 leverage ratio was on the level of 8.2%.

Internal capital adequacy assessment process (ICAAP).

In addition to regulatory capital ratios, the Bank assesses its capital adequacy by using the concept of ICAAP to reflect the specific risk profile of the Bank, i.e. comparing the potential losses arising from its operation with the Bank's capacity to bear such losses.

The risk taking potential of the Bank is defined as the Bank's equity (net of intangibles and deferred tax assets) plus subordinated debt, which amounted to EUR 49 million or equivalent of MKD 3,014,168 thousand as of the end of December 2018 (2017: EUR 47.5 million or equivalent of MKD 2,917,596 thousand). The Resources Available to Cover Risk were set at 60% of the risk-taking potential. For calculating potential losses in the different risk categories the following concepts were used:

- Credit risk (clients): Based on a regularly updated migration analysis on the loan portfolio, the historical loss rates and their statistical distribution is calculated. The historical loss rates in different arrears categories (at a 99% confidence level) are applied to current loan portfolio to calculate potential loan losses.
- Counterparty risk: The calculation of potential losses due to counterparty risk is based on the standard measure Value at Risk (VaR), that express the degree of credit risk inherent to this type of risk.
- Market risks: Whereas historical currency fluctuations are statistically analysed and highest variances (99% confidence level) are applied to current currency positions, interest rate risk is calculated by determining the 12- months interest earning impact of a standard interest rate shocks for EUR/USD (2 percentage points, Basel interest rate shock) and historical shock levels for local currency.
- Operational risk: The Basel II Standard approach is used to calculate the respective value.

Other risks have been assessed as not sufficiently relevant for the Bank or as relevant, but not quantifiable, e.g. liquidity risk. The table below shows the distribution of the Resources Available to Cover Risk (RAICR) among the different risk categories as determined by the Risk Management Committee and the level of utilisation as of the end of December 2018.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

2018		Limit	Limit	Actual	Limit Used
Risk Factor	Risk Detail	(in %)	(in '000 MKD)	(in '000 MKD)	(in % of limit)
Consumer Credit & Counterparty Risk	Consumer Credit			776,256	
	Commercial Banks	38%	1,145,384	2,063	70.34%
Market Risk	Central Banks			27,400	
	Interest Rate Risk	10%	301,417	50,711	16.82%
Operational Risk	Currency Risk	2%	60,283	1,584	2.63%
		10%	301,417	135,649	45.00%
<b>Resources Available to Cover Risk</b>		<b>60%</b>	<b>1,808,501</b>	<b>993,663</b>	<b>54.94%</b>

2017		Limit	Limit	Actual	Limit Used
Risk Factor	Risk Detail	(in %)	(in '000 MKD)	(in '000 MKD)	(in % of limit)
Credit Risk (Clients) Counterparty Risk		33%	984,388	398,820	40.51%
	Commercial Banks	1%	29,830	72	0.24%
	Central Banks	4%	119,320	50,457	42.29%
Market Risk	Interest Rate Risk	10%	298,300	57,877	19.40%
	Currency Risk	2%	59,660	766	1.28%
Operational Risk		10%	298,300	141,054	47.29%
<b>Resources Available to Cover Risk</b>		<b>60%</b>	<b>1,789,798</b>	<b>649,046</b>	<b>36.26%</b>

As the above table indicates, the Bank showed a modest level of utilisation of its RATCR as of December 31, 2018. Consumer credit and Counterparty risk have the highest limit utilization. Market currency risk limit utilisation continues to be low, reflecting the conservative risk management approach which guides the Bank's treasury operations. The economic capital required to cover operational risk is calculated according to the Basel II standard approach, and thus does not reflect the individual risk profile of the Bank in this area. Data collected during 2018 in the Risk Event Database (RED), which captures risk event data on a Bank and group-wide scale, indicates a significantly lower level of operational risk. All risks combined, as quantified by the methods established in the group's policies, are below 60% of the Bank's total ICAAP as defined.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

**50) Management of individual risks**

In 2018 the processes and reporting of financial and operational risks were subject to regular yearly review.

The Bank places special emphasis on a general understanding of the factors driving risk and an on-going analysis and company-wide discussion of possible developments/scenarios and their potential adverse impacts. The objectives of risk management include ensuring that all material risks are recognised in a timely manner, understood completely, and described appropriately. This includes, for example, ensuring that no products or services are offered unless they are thoroughly understood by all parties and can be handled.

The ProCredit group uses uniform limits for individual risks within which the individual banks position their own risk strategies. Limit deviations are only allowed for stricter limits (e.g. in cases where such limits are stipulated by local law) or if approved by the Group Risk Management Committee.

**51) Credit risk**

Credit risk is defined as the danger that the other party to a credit transaction will not be able, or will only partially be able to meet its contractually agreed obligations towards the Bank. Credit risk arises from customer credit exposures (classic credit risk), credit exposure from interbank placements and issuer risk. It is further divided into credit default risk and credit portfolio risk in order to facilitate focused risk management. Credit risk is the single largest risk faced by the Bank.

Maximum exposure of all financial assets to credit risk is analysed by their net carrying amount as presented in the statement of financial position.

*Credit risk measurement***(a) Loans and advances**

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposure to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

The operational measurements can be contrasted with impairment allowances required under IFRS 9, which are based on expected credit loss model for the recognition and measurement of impairment.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***(b) Debt securities and other bills**

For debt securities and other bills, risk management department uses ratings depending on of the issuer for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and is limited and monitored from the Assets and Liabilities Management Committee.

*Risk limit control and mitigation policies*

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. The Banks' concentration of credit risk to industries, loan segments and countries is regularly reviewed as well. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers. Such risks are monitored on monthly basis. Limits on the level of credit risk are approved by the Managing Board or Supervisory Board depending on the size of the exposure. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

**(a) Collateral**

The Bank has a range of policies and practices to mitigate credit risk. The collateralisation of credit exposures serves as an important risk mitigation factor and enhances the incentives for borrowers to repay their financial obligations. Collateral is defined as assets which are pledged by a borrower to secure a credit exposure. The Bank has implemented Collateral Valuation Policy, where guidelines on the acceptability of specific types of collateral are defined.

Credit exposures granted to enterprises and private individuals are generally covered with collateral (real estate, movable items or cash deposit). Requirement for collateral coverage depends from the maturity of the credit exposure, as well as the quality of documentation. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Debt securities, treasury and other eligible bills are generally unsecured.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***(b) Credit-related contingencies**

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans and are secured with same collateral as loans. The following table shows the maximum exposure to credit risk:

	31.12.2018	31.12.2017
Cash and cash equivalents	4,178,947	3,010,902
Loans and advances to Banks	1,632,910	1,071,230
<b>Loans and advances to customers – net</b>	<b>20,049,068</b>	<b>17,637,564</b>
Loans and advances to customers	20,503,585	17,996,927
Credit Loss Allowance/Allowance for impairment	(454,517)	(359,363)
Other financial assets	126,355	87,102
Guarantees	2,059,256	1,933,257
Letters of credit	33,713	28,024
Commitments to extend credit (loan commitment)	1,722,117	1,977,770
<b>Total exposure (on and off balance)</b>	<b>29,802,366</b>	<b>25,745,849</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***1. Credit default risk from customer credit exposures**

Credit default risk from customer credit exposures is defined as the risk of losses due to a potential non-fulfilment of the contractual payment obligations associated with a customer credit exposure. The management of credit default risk from customer credit exposures is based on a thorough implementation of the Bank's lending principles:

- intensive analysis of the debt capacity of the Banks' clients
- careful documentation of the credit risk assessments, assuring that the analysis performed can be understood by knowledgeable third parties
- rigorous avoidance of over indebteding the Bank's clients
- building a personal and long-term relationship with the client and maintaining regular contact
- strict monitoring of loan repayment
- practising tight arrears management
- exercising strict collateral collection in the event of default
- investing in well-trained and highly motivated staff
- implementing carefully designed and well-documented processes
- rigorous application of the "four-eyes principle".

The differentiation between individually significant and insignificant credit exposures leads to distinct processes in lending for the different types of credit exposures – processes that have been demonstrated in the past to ensure an effective management of credit default risk.

The processes are distinguished mainly in terms of segregation of duties, which is fully implemented for medium credit exposures; the informational basis for the credit analysis, ranging from audited financial statements to self-declarations; the key criteria for credit exposure decisions based on the financial situation of the client; in particular for individually insignificant credit exposures, the liquid funds and creditworthiness of the client; and the collateral requirements. As a general rule, the lower the amount of the credit exposure, the stronger the documentation provided by the client, the shorter the term of the credit exposure, the longer the client's history with the Bank and the higher the turnover of the client with the Bank, the lower the collateral requirements will be. The decision-making process ensures that all credit decisions on each credit is taken by a credit committee. As a general principle, the Bank considers it very important to ensure that its lending business is conducted on the basis of organisational guidelines that provide for appropriate rules governing organisational structures and operating procedures; job descriptions that define the respective tasks; a clear allocation of decision-making authority; and a clear definition of responsibilities.

Credit exposures in arrears are defined as credit exposures for which contractual interest and/or principal payments are overdue. The comparatively high quality of the loan portfolio reflects the application of the lending principles above and the results of the application of early warning indicators and appropriate monitoring, in particular of the individually significant credit exposures. This is a crucial element of the Bank's strategy for managing arrears. Once arrears occur, the



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

Bank rigorously follows up on the non-repayment of the credit exposures, and by doing so typically identifies any potential for default on a credit exposure. Strict rules are applied regarding credit exposures for which, in the Bank's view, there is no realistic prospect that the credit exposure will be repaid and where typically the realisation of collateral has either been completed or the outcome of the realisation process is uncertain. The Bank's recovery and collection efforts are mainly performed by specialised employees, typically with either a lending or legal background. Additionally, external lawyers are engaged in the recovery and collection process. The effectiveness of this tight credit risk management is reflected in the comparably low arrears rate exhibited by the loan portfolio.

The quality of the loan portfolio is monitored on an on-going basis. The measure for loan portfolio quality is the portfolio at risk (PAR), which the Bank defines as all credit exposures outstanding with one or more payment of interest and/or principal in delay by more than 30 days. This measure was chosen because the vast majority of all credit exposures have fixed instalments with monthly payment of principal and interest. Exceptions are seasonal agricultural loans and investment loans, which typically have irregular repayment schedules. No collateral is deducted and no other exposure-reducing measures are applied when determining PAR.

in '000 MKD As at December 31, 2018	Loan portfolio (gross)	Credit Loss Allowance	PAR (> 30 days)	PAR as % of loan portfolio
Total	20,503,585	(454,517)	187,024	0.91%

in '000 MKD As at December 31, 2017	Loan portfolio (gross)	Allowance for impairment	PAR (> 30 days)	PAR as % of loan portfolio
Total	17,996,927	(389,363)	144,718	0.80%

The Banks views a credit exposure as being impaired in case it obtains objective evidence for impairment. The regular assessment for objective evidence of impairment is applicable for all on-balance and off-balance sheet credit exposures, regardless of their size. Accordingly, the following indicators are signs of impairment:

- An impaired restructuring event
- The bank has initiated court procedures
- Bankruptcy proceedings have been initiated
- Past due days in arrears of 90 days
- A credit fraud event;
- A downgrade of risk classification to 8 for all clients with small and medium credit exposures
- Originated Credit Impairment exposures (POCI) at initial recognition
- Other signs of impairment.

The Bank determines loan loss provisions according to allocation of credit exposures into three stages, based on changes in the exposure's credit risk since the date of initial recognition:

Stage I includes exposures that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date;

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

Stage II includes exposures that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) and there is no objective evidence of impairment;

Stage III includes exposures that have objective evidence of impairment at the reporting date.

For individually insignificant credit exposures showing signs of impairment, an individualised impairment test is typically not performed, as the operational costs do not justify an extensive impairment test for each of these clients. Instead, the assessment of expected losses is based on portfolio-based parameters.

The objective of the impairment model approach is to recognise lifetime expected credit losses for all exposures for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including those which are forward-looking.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

Loans and advances are summarized as follows:

At December 31, 2018

In '000 MKD	0 to 30 days	31 to 90 days	over 90 days	Total
<b>Loans and advances to customers</b>				
<b>Non-impaired</b>				
<i>Business loans</i>	<b>18,360,621</b>	-	-	<b>18,360,621</b>
Wholesale and retail trade	6,409,075	-	-	6,409,075
Agriculture, forestry and fishing	1,195,296	-	-	1,195,296
Production	4,355,647	-	-	4,355,647
Transportation and storage	1,758,293	-	-	1,758,293
Other economic activities	4,642,310	-	-	4,642,310
<i>Private loans</i>	<b>1,342,368</b>	-	-	<b>1,342,368</b>
Housing	1,109,080	-	-	1,109,080
Investment loans and OVDs	205,331	-	-	205,331
Others	27,957	-	-	27,957
<b>Impaired</b>				
<i>Business loans</i>	<b>550,260</b>	<b>26,380</b>	<b>142,911</b>	<b>719,551</b>
Wholesale and retail trade	239,651	6,035	13,858	258,544
Agriculture, forestry and fishing	68,793	8,269	39,119	116,181
Production	90,735	667	23,858	115,160
Transportation and storage	35,661	9,152	9,514.00	54,327
Other economic activities	115,420	3,367	56,562	175,339
<i>Private loans</i>	<b>59,213</b>	<b>6,439</b>	<b>15,393</b>	<b>81,045</b>
Housing	53,696	3,499	9,862	67,057
Investment loans and OVDs	5,100	2,090	2,848	10,038
Others	417	850.00	2,883.00	3,950
<b>Total</b>	<b>20,312,462</b>	<b>32,819</b>	<b>168,304</b>	<b>20,503,585</b>

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

At December 31, 2017

in '000 MKD	0 to 30 days	31 to 90 days	over 90 days	Total
<b>Loans and advances to customers</b>				
<b>Non-impaird</b>				
<i>Business loans</i>	<b>16,210,910</b>	-	-	<b>16,210,910</b>
Wholesale and retail trade	5,757,239	-	-	5,757,239
Agriculture, forestry and fishing	1,426,491	-	-	1,426,491
Production	3,222,948	-	-	3,222,948
Transportation and storage	1,829,007	-	-	1,829,007
Other economic activities	3,975,225	-	-	3,975,225
<i>Private loans</i>	<b>1,340,744</b>	-	-	<b>1,340,743</b>
Housing	723,372	-	-	723,372
Investment loans and OVDs	412,157	-	-	412,157
Others	205,215	-	-	205,215
<b>Impaired</b>				
<i>Business loans</i>	<b>278,114</b>	<b>28,689</b>	<b>92,730</b>	<b>400,533</b>
Wholesale and retail trade	79,433	9,085	22,118	110,636
Agriculture, forestry and fishing	27,901	6,767	17,285	51,953
Production	38,188	1,393	10,817	50,398
Transportation and storage	12,885	900	3,622	17,407
Other economic activities	120,707	10,544	38,888	170,139
<i>Private loans</i>	<b>21,442</b>	<b>8,112</b>	<b>15,187</b>	<b>44,741</b>
Housing	7,202	181	649	8,032
Investment loans and OVDs	12,027	3,901	9,779	25,707
Others	2,213	4,030	4,759	11,002
<b>Total</b>	<b>17,852,210</b>	<b>36,801</b>	<b>107,917</b>	<b>17,996,928</b>

The total impairment provision for loans and advances is MKD 454,517 thousand (2017: MKD 359,363 thousand).

During the year ended 31 December 2018, the Bank's total loans and advances to customers and banks increased by 13.93% (2017: increase by 7.06%).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***Restructured loans**

Restructuring of a credit exposure is generally necessitated by economic problems encountered by the client that adversely affect the payment capacity, mostly caused by the significantly changed macro-economic environment in which the Bank's clients currently operate. Restructurings follow a thorough, careful and individual analysis of the client's changed payment capacity. The decision to restructure a credit exposure is always taken by a credit committee or arrears committee and aims at full recovery of the credit exposure. If a credit exposure is restructured, amendments are made to the parameters of the loan. Otherwise, these credit exposures for which the terms have been renegotiated would be past due or impaired. The amount of restructured loans of Bank amounted to: gross MKD 458,877 thousand, net MKD 295,807 thousand (2017: gross MKD 748,824 thousand, net MKD 557,419 thousand).

Restructured loans	31.12.2018	31.12.2018	31.12.2017	31.12.2017
	Gross	CLA	Gross	Allowance
Standard restructured	41,721	(4,919)	134,802	(18,355)
Watch restructured	350,835	(125,926)	515,656	(127,506)
Impaired restructured	66,321	(32,225)	98,366	(45,544)
<b>Total</b>	<b>458,877</b>	<b>(163,070)</b>	<b>748,824</b>	<b>(191,405)</b>

According to group policy, only very small credit exposures up to EUR 10,000 and/or short-term credit exposures may be issued without being collateralised. Credit exposures with a higher risk profile are always covered with solid collateral, typically through mortgages. As the majority of credit exposures are fixed instalment loans of rather short maturity, the fair value of collateral usually decreases substantially more slowly than the outstanding loan amount. The collateral can be classified into the following categories:

	31.12.2018	31.12.2017
Mortgage	72.35%	74.91%
Other	27.65%	25.09%
<b>Type of collateral</b>	<b>Fair value of collateral</b>	
	<b>31.12.2018</b>	<b>31.12.2017</b>
Cash collateral	549,204	340,929
Financial guarantees	2,265,391	1,973,007
Real estate mortgage	11,147,689	10,357,804
Movable collateral	1,386,165	1,085,722
Other Types of collateral	59,527	69,542
<b>Total</b>	<b>15,407,976</b>	<b>13,827,004</b>

The Bank makes valuations of the market value of residential property or commercial real estate at least once a year.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

Group policy on the treatment of repossessed property requires that all goods obtained due to customers' defaults be sold to third parties in order to avoid any conflict of interest arising from the below-market valuation of collateral. Also, repossessed property is sold at the highest possible price, typically via public auction, and any remaining balance after the payment of principal, interest and penalty is credited to the customer's account. Major part of the repossessed property consists of land and buildings. A smaller part is composed of equipment and vehicles. The following table presents the value of repossessed property (Note 40):

In '000 MKD	31.12.2018	31.12.2017
Real estate	99,097	122,966
Equipment	16,379	27,374
Land	6,709	9,816
Other	4,351	1,549
<b>Total</b>	<b>126,536</b>	<b>161,705</b>

**2. Credit portfolio risk from customer lending**

The granularity of the credit exposure portfolio is a highly effective credit risk mitigating factor. The core business of the Bank, lending to small and medium enterprises, necessitated a high degree of standardisation in lending processes and ultimately led to a high degree of diversification of these exposures in terms of geographic distribution and economic sectors. Lending to medium-sized enterprises, i.e. larger credit exposures exceeding the threshold of EUR 250,000 constitutes an important area of the Bank's business in terms of its overall strategic focus. Most of these clients are dynamically growing enterprises that have been working with the Bank for many years. Nonetheless, the higher complexity of these businesses requires an appropriate analysis of the business, the project that is to be financed and any related parties. A strict division of front and back office functions is applied and requirements for both documentation and collateral are typically more stringent. Overall, the loan portfolio of the Bank includes 381 (2017: 262) clients with outstanding credit exposures of more than EUR 250,000.

in '000 MKD

As at December 31, 2018	Business	Agricultural	Housing	Consumer	Other
<50,000 EUR/USD	1,594,112	433,268	765,871	211,461	31,909
50,000 to 250,000 EUR/USD	6,256,879	312,822	400,760	3,909	-
>250,000 EUR/USD	9,917,702	565,386	9,506	-	-
<b>Total</b>	<b>17,768,693</b>	<b>1,311,476</b>	<b>1,176,137</b>	<b>215,370</b>	<b>31,909</b>

in '000 MKD

As at December 31, 2017	Business	Agriculture	Housing	Consumer	Other
<50,000 EUR/USD	1,900,075	649,155	471,001	365,526	212,121
50,000 to 250,000 EUR/USD	6,172,030	218,789	247,698	72,336	4,095
>250,000 EUR/USD	7,060,892	610,502	12,707	-	-
<b>Total</b>	<b>15,132,997</b>	<b>1,478,446</b>	<b>731,406</b>	<b>437,862</b>	<b>216,216</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

The structure of the loan portfolio is regularly reviewed by Credit Risk Management Committee in order to identify potential events which could have an impact on large areas of the loan portfolio (common risk factors) and, if necessary, limit the exposure towards certain sectors of the economy.

The Bank follows a guideline that limits concentration risk in its loan portfolio by ensuring that large credit exposures (those exceeding 10% of regulatory capital) require the approval by the Bank's Supervisory Board and the Group Risk Management Committee. No single large credit exposure may exceed 25% of the Bank's regulatory capital.

Larger credit exposures are particularly well analysed and monitored, both by the responsible employees through regular monitoring activities enabling early detection of risks, and through the regular reviews carried out by the Credit Risk Management Committee of the Bank. Full information about any related parties is typically collected prior to lending. All in all, this results in a high portfolio quality and comparatively little need for allowance for individual impairment.

- Individually significant credit exposures are closely monitored by the Credit Risk Management Committee. For such credit exposures, the committee assesses whether objective evidence of impairment exists.

The occurrence of signs of impairment typically leads in a second step to an impairment test (for all individually significant credit exposures and possibly some selected individually insignificant credit exposures) and for all other individually insignificant credit exposures it leads to an automatic calculation of the impairment loss.

Additionally, the realisable net value of collateral held is taken into account when deciding on the allowance for impairment.

Credit risk arising from loans and advances to customers and investment securities is concentrated in R.Macedonia. Standard & Poor's Ratings Services assigned its sovereign foreign and local currency rating of "BB-" to the Republic of Macedonia.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

The position loans and advances to banks is primarily related to current account balances and deposits in low risk OECD countries. As of 2018, the largest share of the balances on this position are placed in DZ Bank, UniCredit Bank Austria AG, ProCredit Bank AG Germany and Landesbank Baden Württemberg (LBBW). Fitch Ratings assigned these banks with the following long term issuer default rating: DZ Bank long term issuer default rating of AA- (2017: AA-), ProCredit Bank Germany long term issuer default rating of BBB (2017: BBB), Landesbank Baden Württemberg (LBBW) A- (2017: A-). As of 2018 UniCredit Bank Austria AG was not assigned long term issuer default rating by Fitch. UniCredit Bank's rating according to Standard and Poor's rating agency was BBB+ as end of 2018 (2017: BBB). Smaller amount of the position loans and advances to banks is placed in domestic banks which are not assigned any rating. Loans and advances to banks and cash and cash equivalents are neither past due nor impaired.

**52) Financial risks****I. Counterparty and issuer risk***Conceptual risk management framework*

The objective of counterparty and issuer risk management is to prevent the Bank from incurring losses caused by the unwillingness or inability of a financial counterparty (e.g. a commercial Bank) or issuer to fulfil its obligations towards the Bank. This type of risk is further divided into:

- principal risk: the risk of losing the amount invested due to the counterparty's failure to repay the principal in full on time
- replacement risk: the risk of loss of an amount equal to the incurred cost of replacing an outstanding deal with an equivalent one on the market
- settlement risk: the risk of loss due to the failure of a counterparty to honour its obligation to deliver assets as contractually agreed
- issuer risk: the probability of loss resulting from the default and insolvency of the issuer of a security

Counterparty and issuer risks evolve especially from the Bank's need to invest liquidity reserve, to conclude foreign exchange transactions. The liquidity is placed in the interbank market with short maturities, typically up to three months. Foreign exchange transactions are also concluded with short maturities, typically up to two days. Furthermore, as a result of the Bank's strong efforts to finance its lending activities with retail and wholesale deposits, there is also a significant exposure towards the Central Bank. This is because the Central Bank requires Banks operating in its territory to hold a mandatory reserve on a Central Bank account, the size of which depends on the amount of deposits taken from customers or other funds used to fund the Bank's operations. The counterparty and issuer risks are managed according to the ProCredit group's Counterparty Risk Management Policy (incl. Issuer Risk), which describes the counterparty/issuer selection and the limit setting process, as well as by the Group Treasury Policy, which specifies the set of permissible transactions and rules for their processing. As a matter of principle, only large international Banks of systemic importance and, for local currency business, local Banks with a good reputation and financial standing are eligible counterparties. As a general rule, the Bank applies limits of up to 10% of its regulatory capital on exposures to Banking groups in non-OECD countries and up to 25% on those in OECD countries. Higher limits are subject to approval by the Group ALCO/GRMC.



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

The Bank ensures through its ALCO that every counterparty is approved, including a limit for the maximum exposure, based on a thorough analysis, typically performed by the risk management unit in collaboration with the treasury unit.

Group policy forbids the Bank to conduct any speculative trading activities. However, for the purpose of investing its liquidity reserve, the Bank is allowed to buy and hold securities (T-bills and State bonds). The inherent issuer risk is managed by the provisions of the Bank's conservative Treasury Policy, which is compliant to the ProCredit Group Treasury Policy. Among other requirements, the policy stipulates that the securities should preferably be issued by the government or Central Bank of the country of operation, or by sovereigns or multilateral issuers with very high credit ratings (International rating of AA- or better).

*Facts and figures concerning counterparty and issuer risk*

The Bank incurs counterparty and issuer risk for the following reasons:

The main reason for incurring counterparty and issuer risk is to keep liquid assets for liquidity risk management purposes, i.e. as a reserve for times of potential stress. These funds are held as cash in commercial Banks or Central Bank accounts, as interbank placements, and as securities.

As mentioned above, a substantial part of the Bank's exposure consists of the mandatory reserve required by the Central Bank and held in a specific Central Bank account.

Finally, financial markets provide instruments to manage different types of risks such as currency, interest rate and liquidity risk. The Bank is solely allowed to use these instruments for risk management purposes. A precondition for interest rate swaps is furthermore approval and close monitoring by the risk management bodies of the ProCredit group. As a general principle, ProCredit Banks are not allowed to use these instruments for speculative purposes. The following table provides an overview of the types of counterparties and Issuers with whom the Bank concludes transactions.

in '000 MKD	31.12.2018	in %	31.12.2017	in %
Banking groups	1,632,910	24.33%	1,071,230	29.33%
OECD Banks	1,586,022	23.63%	1,067,760	29.23%
Non-OECD Banks	46,888	0.70%	3,470	0.10%
Central Banks	5,079,778	75.67%	2,581,289	70.68%
Current account and deposits	2,077,217	30.94%	523,704	14.34%
Mandatory reserve	1,725,413	25.70%	1,009,435	27.64%
Treasury bills	1,176,776	17.53%	1,048,150	28.70%
Government bills	100,372	1.50%	-	0.00%
<b>Total</b>	<b>6,712,688</b>	<b>100.00%</b>	<b>3,652,519</b>	<b>100.00%</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

InterBank placements, interBank loans, FX transactions are transactions with Banks which are subdivided into those based in OECD countries and those in non-OECD countries. The total exposure to Banks increased in 2018 by EUR 9.1 m (2017: decreased by EUR 3.6m) and amounted to 24.33% (2017: 29.33%) of the total counterparty and issuer risk exposure.

The exposure to NBRM is primarily related to the mandatory reserve requirement and makes up the largest share of the Bank's counterparty and issuer exposure. The other exposure to NBRM relates to T-bills/deposits issued by NBRM.

As at 31 December 2018, 17.53% (2017: 28.70%) of the Bank's counterparty and issuer exposure is related to investments in T-bills issued by the Central Bank. As governments may also have political influence on their central Banks, which are responsible for providing local currency, the risk that a government will default on local currency debt is perceived to be lower than the risk of default on foreign currency debt. The distribution of the Central Bank and government exposures across currencies can be seen from following table:

in '000 MKD	MKD	31.12.2018			Total
		EUR	USD	Other	
NBRM and Government	4,247,730	832,048	-	-	5,079,778
<i>Current account and deposits and mandatory reserve</i>	2,970,582	832,048	-	-	3,802,630
<i>Other exposures – treasury bills</i>	1,176,776	-	-	-	1,176,776
<i>Other exposures - Government bills</i>	100,372	-	-	-	100,372

in '000 MKD	MKD	31.12.2017			Total
		EUR	USD	Other	
NBRM	1,885,798	695,491	-	-	2,581,289
<i>Current account and deposits and mandatory reserve</i>	837,648	695,491	-	-	1,533,139
<i>Other exposures – treasury bills</i>	1,048,150	-	-	-	1,048,150

The table below shows the average weighted maturity of the Bank's counterparty and issuer risk exposures, excluding cash, mandatory reserve and similar items which cannot be categorised in this way. The maturity of the counterparty and issuer risk exposure is up to three months for most product types.

in '000 MKD	31.12.2018	Average* Maturity (in months)	31.12.2017	Average* Maturity (in months)
Securities (treasury and government bills)	1,277,148	2.03	1,048,150	0.93

\* weighted by exposure

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)****II Foreign currency risk******Conceptual risk management framework***

The assets and liabilities of the Bank are denominated in more than one currency. If the assets and liabilities in one currency do not match, the Bank has an open currency position (OCP) and is exposed to potentially unfavourable changes in exchange rates.

Due to the still developing financial market, a considerable part of private savings in Macedonia is held in foreign currency (mainly EUR). Also, loans in foreign currency available at (nominally) lower interest rates and with longer maturities still play an important role in the financing of many of the country's businesses. As a result, foreign currencies play a major role for the Bank.

Currency risk management is guided by the Group Foreign Currency Risk Management Policy. This policy was first implemented at the Bank in 2009 and is reviewed every year. Its adherence to this policy is constantly monitored by a financial risk unit at group level, and amendments as well as exceptions to this policy are decided by the Group ALCO or Risk Management Committee.

The Bank's treasury department is responsible for continuously monitoring the developments of exchange rates and foreign currency markets. The treasury unit also manages the currency positions of the Bank on a daily basis. As a general principle, all currency positions should be closed at end-of-day; long or short positions for speculative purposes are not permitted. The Bank's foreign currency exposure is monitored and controlled on a daily basis by the treasury back office.

Developments in the foreign exchange markets and the currency positions are regularly reported to the Bank's ALCO, which is authorised to take strategic decisions with regard to treasury activities. In cases where exceptions to group policy may be needed or violations to group limits may have occurred, the Bank's risk management department reports to the Group ALCO or Risk Management Committee and proposes appropriate measures.

The Bank aims to close currency positions and ensures that an open currency position remains within the limits at all times. For the purpose of currency risk management the Bank has established two levels of control: early warning indicators and limits. In cases where the positions cannot be brought back below 5% of the regulatory capital for a single currency, or 7.5% for the aggregate of all currencies, the Bank's ALCO has to be informed and appropriate measures taken. This mechanism helps to ensure that the Bank's total OCP does not exceed 10% of regulatory capital. Exceptions from the limit or strategic positions are subject to approval by the Group ALCO or Risk Management Committee.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)**Facts and figures concerning foreign currency risk*

The following table shows the distribution of the Bank's balance sheet items across its material operating currencies, which are USD and EUR. Indexed loans and deposits are treated as foreign currency items for this purpose.

in '000 MKD	EUR	USD	MKD	Other currencies	Total
<b>As at December 31, 2018</b>					
<b>Assets</b>					
Cash and cash equivalents	1,012,177	1	4,343,544	1	5,355,723
Loans and advances to banks	1,371,797	184,285	59	76,769	1,632,910
Investment securities:	-	-	100,371	-	100,371
Loans and advances to customers	11,483,304	10,473	8,555,291	-	20,049,068
Other financial assets	19,952	-	106,403	-	126,355
<b>Total assets</b>	<b>13,887,230</b>	<b>194,759</b>	<b>13,105,668</b>	<b>76,770</b>	<b>27,264,427</b>
<b>Open forward position (assets)</b>					
<b>Liabilities</b>					
Liabilities to banks	1,794,407	16	2,962	4,777	1,802,162
Liabilities to customers	8,466,329	198,318	11,313,131	67,239	20,045,017
Borrowings	3,157,097	-	160	-	3,157,257
Other financial liabilities	-	-	25,262	-	25,262
Subordinated debt	504,041	-	-	-	504,041
<b>Total liabilities</b>	<b>13,921,874</b>	<b>198,334</b>	<b>11,341,515</b>	<b>72,016</b>	<b>25,533,739</b>
<b>Open forward position (liabilities)</b>					
<b>Net position</b>	<b>(34,644)</b>	<b>(3,575)</b>	<b>1,764,153</b>	<b>4,754</b>	<b>1,730,688</b>
<b>Credit commitments</b>	<b>957,727</b>	<b>90,814</b>	<b>2,766,549</b>	<b>-</b>	<b>3,815,086</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

in '000 MKD As at December 31, 2017	EUR	USD	MKD	Other currencies	Total
<b>Assets</b>					
Cash and cash equivalents	853,096	1,738	2,156,033	35	3,010,902
Loans and advances to Banks	869,245	115,142	1,677	85,166	1,071,230
Loans and advances to customers	9,370,556	66,481	8,200,527	-	17,637,564
Other financial assets	6,696	-	80,406	-	87,102
<b>Total assets</b>	<b>11,099,593</b>	<b>183,361</b>	<b>10,436,643</b>	<b>85,201</b>	<b>21,806,798</b>
<b>Liabilities</b>					
Liabilities to Banks	967,419	669	14,875	2,769	985,732
Liabilities to customers	6,432,867	181,399	8,824,150	75,579	15,513,995
Borrowings	2,997,437	-	261,155	-	3,258,592
Other financial liabilities	7,278	-	12,174	6	19,458
Subordinated debt	504,006	-	-	-	504,006
<b>Total liabilities</b>	<b>10,909,007</b>	<b>182,068</b>	<b>9,112,354</b>	<b>78,354</b>	<b>20,281,783</b>
<b>Net position</b>	<b>190,586</b>	<b>1,293</b>	<b>1,326,289</b>	<b>6,847</b>	<b>1,525,015</b>
<b>Credit commitments</b>	<b>1,176,093</b>	<b>66,042</b>	<b>2,696,916</b>	<b>-</b>	<b>3,939,051</b>

To assess the Bank's currency risk for ICAAP, a Value at Risk (VaR) analysis is performed on a monthly basis. The holding period is determined to be one year and the look-back period is seven years. Correlation effects are included in the analysis by taking into account the historical parallel movements of each currency in which the Bank has significant currency positions. The results are shown in the following table:

in '000 MKD As of December 31, 2018	99% confidence
Maximum loss (VaR)	(1,584)
Average loss in case confidence interval is exceeded	(107)

Overall, in 2018 and 2017 currency risk was low as the Bank managed its currency positions very closely and kept them as closed as possible.

in '000 MKD As of December 31, 2017	99% confidence
Maximum loss (VaR)	(754)
Average loss in case confidence interval is exceeded	(1,235)

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***III Interest rate risk***Conceptual risk management framework*

Interest rate risk arises from structural differences between the maturities of assets and those of liabilities, e.g. if a four-year fixed interest rate loan is funded with a six-month term deposit. This would expose the Bank to the risk that the funding costs will increase before the maturity date of the loan, thus reducing the Bank's margin on the loan.

The average maturity of loans typically exceeds that of customer deposits, thus exposing the Bank to interest rate risk as described above.

The Bank's approach to measuring and managing interest rate risk is guided by the Group Interest Rate Risk Management Policy.

The Economic Value Impact indicators - analyses for managing interest rate risk measure the potential impact on the economic value of all assets and liabilities and the potential impact on the interest earnings in the next 12 months. The indicator analyses the potential loss that the Bank would incur in the event of very unfavourable movements (shocks) of the interest rates on assets and liabilities.

For EUR or USD, a parallel shift of the interest rate curve by +/- 200 bps is assumed. For the local currency, the definition of a shock is derived from historic interest rate volatilities over the last seven years which can be adjusted if the Bank is sensitive to interest rate decreases. The potential economic impact on the Bank's balance sheet must not exceed 15% of its regulatory capital for all currencies. A reporting trigger is set at 10%, providing an early warning signal.

The impact on the interest earnings in the next twelve months was also measured and a reporting trigger of 5% of the regulatory capital was set. The potential impact on Bank's interest earnings must not exceed 10% of its regulatory capital. This measure indicates how the income statement may be influenced by interest rate risk under a short-term perspective. With the above mentioned shocks as of 31 December 2018 the potential impact was 1.7% (2016: 2.0%) meaning if the interest rates fall with the mentioned percentages the decline of the interest earnings would amount MKD 50,733 thousand (2017: 57,863).

Deviations from the Group Interest Rate Risk Policy and violations of interest rate limits are subject to approval by the Group Risk Management Committee. Interest rate risk is regularly discussed by the Bank's Risk Management Committee (ALCO). The indicators are also reported to the Group Risk Management Committee.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)**Facts and figures concerning interest rate risk*

The ProCredit group's main interest rate risk indicators are the economic value impact indicator and 12-months interest earnings impact indicator. The first one, Economic Value Impact Indicator measures the impact of interest rate changes on all interest rate-sensitive on- and off-balance sheet items and quantifies the loss in value of the Bank given certain changes of interest rates. The second one, 12-months Interest Earnings Impact indicator, measures the potential impact of interest rate changes on the Bank's interest earning over the period of 12 months.

As described above, the calculation of the economic value impact indicator and 12 months Interest Earnings impact indicator are based on different parallel shifts of the interest rate curves. For EUR and USD a shift of +/- 200 bps is applied; for the local currency the shift is defined in terms of a historical worst case which can be adjusted if the Bank is sensitive to interest rate decreases.

Overall, in the Bank's management assessment the interest rate risk is assessed as low. The table presents interest sensitive balances distributed into time buckets according to their repricing maturity. The repricing maturity is the time until the next interest rate change on an asset or a liability occurs. It is the repayment maturity of the loan/liability or the time until the next interest rate adjustment, whichever is the shortest:

- In the case of variable-rate assets and liabilities, the repricing maturity is the time until the next interest rate change.
- In the case of fixed-rate assets and liabilities, the repricing maturity equals the repayment maturity.

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

The non interest sensitive parts (e.g. cash in hand, nostro and loro accounts, part of customers current accounts and other non interest bearing accounts) do not influence the interest rate risk.

in '000 MKD As at December 31, 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non interest sensitive	Total
<b>Assets</b>								
Cash and cash equivalents	1,178,000	-	-	-	-	-	4,177,723	5,355,723
Loans and advances to Banks	1,452,811	37,582	-	-	-	-	142,717	1,632,910
Investments securities	-	-	-	100,371	-	-	-	100,371
Loans and advances to customers	496,545	1,235,429	2,324,788	3,845,814	8,615,703	3,405,372	125,417	20,049,068
Other financial assets	-	-	-	-	-	-	126,355	126,355
<b>Total assets</b>	<b>3,127,156</b>	<b>1,273,011</b>	<b>2,324,788</b>	<b>3,946,185</b>	<b>8,615,703</b>	<b>3,405,372</b>	<b>4,572,212</b>	<b>27,264,427</b>
<b>Liabilities</b>								
Liabilities to Banks	-	-	-	1,045,415	307,475	430,465	18,807	1,802,162
Liabilities to customers	11,492,536	103,156	38,628	899,779	7,162,985	347,933	-	20,045,017
Borrowings	410,925	30,897	497,435	82,175	392,667	145,396	1,597,862	3,157,257
Other financial liabilities	-	-	-	-	-	-	25,262	25,262
Subordinated debt	-	-	-	-	-	491,960	12,081	504,041
<b>Total liabilities</b>	<b>11,903,461</b>	<b>134,053</b>	<b>536,063</b>	<b>2,027,369</b>	<b>7,863,027</b>	<b>1,415,754</b>	<b>1,654,012</b>	<b>25,533,739</b>
<b>Interest sensitivity gap</b>	<b>(8,776,305)</b>	<b>1,138,958</b>	<b>1,788,725</b>	<b>1,918,816</b>	<b>762,676</b>	<b>1,989,618</b>	<b>2,918,200</b>	<b>1,730,688</b>
<b>Off statement of financial position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>in '000 MKD As at December 31, 2017</b>								
<b>Total assets</b>	<b>2,881,125</b>	<b>1,234,902</b>	<b>1,959,984</b>	<b>3,459,234</b>	<b>7,902,724</b>	<b>2,888,838</b>	<b>1,839,354</b>	<b>22,166,161</b>
<b>Total liabilities</b>	<b>6,178,619</b>	<b>963,640</b>	<b>1,572,092</b>	<b>2,101,013</b>	<b>2,992,087</b>	<b>1,369,946</b>	<b>5,104,386</b>	<b>20,281,783</b>
<b>Interest sensitivity gap</b>	<b>(3,297,494)</b>	<b>271,262</b>	<b>387,892</b>	<b>1,358,221</b>	<b>4,910,637</b>	<b>1,518,892</b>	<b>(3,265,032)</b>	<b>1,884,378</b>
<b>Off statement of financial position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,939,051</b>	<b>3,939,051</b>



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***IV. Liquidity risk**

The Bank's liquidity risk management (LRM) system is tailored to the specific characteristics of the Bank. On the one hand, the Bank is a lending institution and financial intermediary for small and medium enterprises. Consequently, its loan portfolio is the largest single component on the asset side, and is primarily funded through locally mobilised deposits. On the other hand, the loan portfolio is characterised by a large number of exposures to small businesses and is therefore highly diversified. Therefore cash flows are highly predictable. Since deposits are the primary source of financing for loan portfolio growth, the Bank's dependency on capital market instruments is low. All of these factors justify the use of a relatively simple and straightforward LRM system.

Liquidity risk (risk of not being liquid) is the danger that the Bank will no longer be able to meet its current and future payment obligations in full, or in a timely manner. Funding risk is the danger that additional funding can no longer be obtained, or can only be obtained at increased market interest rates.

The Bank's ALCO determines the liquidity strategy of the Bank and sets the liquidity risk limits. The treasury unit manages the Bank's liquidity on a daily basis and is responsible for the execution of the ALCO's decisions. Compliance with strategies, policies and limits are constantly monitored by the treasury back office and risk management department.

In addition to the requirements set by the local regulatory authorities, the standards that the Bank applies in this area are guided by the Group Liquidity Risk Management Policy, the Group Treasury Policy and the Group Funding Policy. Group Liquidity Risk Management Policy and Group Treasury Policy were first implemented by the Bank in 2009, while the Group Funding Policy was implemented in 2012 - Limit breaches and exceptions to these group policies are subject to decisions of the Group ALCO or Risk Management Committee.

On a daily level, Treasury unit manages liquidity using a cash flow and risk management unit monitors the liquidity using the daily liquidity report. Both tools are designed to provide a realistic picture of the future liquidity situation. They include assumptions about deposit and loan developments and help to forecast or monitor liquidity risk indicators.

In order to control liquidity risk, the Group Liquidity Risk Management Policy specifies certain limits and reporting triggers. Limits are not to be breached. Reporting triggers should serve as an early warning signal to avoid a limit breach, but do not necessarily imply a need to implement measures.

Limits are defined for the key liquidity risk indicators of the bank, which capture the most important liquidity risk elements and restrict them to an acceptable level. The reporting triggers complement them accordingly.

The key tool for measuring liquidity risk is a forward-looking liquidity gap analysis, which shows the contractual maturity structure of the assets and liabilities and estimates future funding needs based on certain assumptions. Starting with the estimation of the future liquidity in a normal financial environment, the assumptions are increasingly tightened in order to analyse the Bank's liquidity situation in a worst-case scenario (stress test).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2017***(All amounts in MKD thousands unless otherwise stated)*

The Bank also analyses its liquidity situation from a more structural perspective, taking into account the liquidity gaps of the later time buckets and additional sources of potential liquidity. The liquidity position also takes into account credit lines which can be drawn by the Bank with some time delay, and other assets which take some time to liquidate.

In order to safeguard the liquidity of the Bank even in stress situations, the potential liquidity needs in different scenarios are determined. The result is analysed and on this basis the Bank's liquidity reserve target is determined by the ALCO. The results of these stress tests are also used to determine liquidity standby lines provided by ProCredit Holding AG to the Bank if necessary.

The Bank also aims to diversify its funding sources. Depositor concentrations are monitored in order to avoid dependencies on a few large depositors. According to the Bank's internal guidelines a significant depositor concentration exists if the 5 largest non-financial customer depositors or all non-financial customer depositors having more than 1% share in the total non-financial customer deposit portfolio which can be withdrawn in the next 30 days exceed the deposit outflow assumption set at the level of 11%. This serves as an early warning signal and requires the reasons and mitigating measures to be reported to the Bank's ALCO and the Group Risk Management Committee.

The Bank also minimises its dependency on the interbank market. The ProCredit group's policies stipulate that the total amount of interBank liabilities may not exceed 40% of its available lines and overnight funding may not exceed 4% of total liabilities. Higher limits need to be approved by Group ALCO.

*Facts and figures concerning liquidity risk*

The following table shows the liquidity gap analysis, i.e. the (undiscounted) cash flows of the financial assets and financial liabilities of the Bank according to their remaining contractual maturities. The remaining contractual maturity is defined as the period between the balance sheet date and the contractually agreed due date of the asset or liability, or the due date of a partial payment under the contract for an asset or liability.

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

in '000 MKD As at December 31, 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Total	Carrying values
<b>Liabilities</b>								
Liabilities to Banks	11,920	558,623	252,508	561,648	40,190	449,054	1,873,943	1,802,162
Liabilities to customers	10,823,287	830,704	1,172,526	2,033,691	5,373,456	58,414	20,292,078	20,045,017
Borrowings	190,013	32,350	230,164	437,646	1,909,503	447,303	3,246,979	3,157,257
Other liabilities	22,712	11,827	-	-	-	-	34,539	34,539
Subordinated debt	-	12,081	-	33,393	133,663	543,193	722,330	504,041
<b>Total liabilities (contractual maturity dates)</b>	<b>11,047,932</b>	<b>1,445,585</b>	<b>1,655,198</b>	<b>3,066,378</b>	<b>7,456,812</b>	<b>1,497,964</b>	<b>26,169,869</b>	<b>25,543,016</b>
<b>Total assets (contractual maturity dates)</b>	<b>7,369,221</b>	<b>862,451</b>	<b>1,701,804</b>	<b>2,942,764</b>	<b>8,440,453</b>	<b>8,162,359</b>	<b>29,479,052</b>	<b>27,319,614</b>
<b>Total off balance sheet items</b>	<b>1,855,557</b>	<b>370,035</b>	<b>345,247</b>	<b>596,918</b>	<b>622,231</b>	<b>25,098</b>	<b>3,815,086</b>	<b>3,815,086</b>
<b>Net liquidity gap</b>	<b>(5,534,268)</b>	<b>(953,169)</b>	<b>(298,641)</b>	<b>(720,532)</b>	<b>361,410</b>	<b>6,639,297</b>	<b>(505,903)</b>	<b>(2,038,488)</b>

in '000 MKD As at December 31, 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Total	Carrying values
<b>Liabilities</b>								
Liabilities to Banks	64,740	2,794	1,975	435,555	326,165	195,332	1,026,561	985,733
Liabilities to customers	9,555,695	703,797	1,142,450	1,911,073	2,230,208	77,821	15,621,044	15,513,995
Borrowings	306,414	32,682	200,849	373,576	1,843,279	605,953	3,362,953	3,258,591
Other liabilities	16,854	23,131	4,068	-	-	-	44,053	44,052
Subordinated debt	-	-	-	41,276	116,864	565,116	723,256	504,006
<b>Total liabilities (contractual maturity dates)</b>	<b>9,943,703</b>	<b>762,604</b>	<b>1,349,342</b>	<b>2,781,490</b>	<b>4,516,516</b>	<b>1,444,222</b>	<b>20,777,867</b>	<b>20,306,377</b>
<b>Total assets (contractual maturity dates)</b>	<b>5,005,288</b>	<b>1,347,977</b>	<b>2,005,496</b>	<b>3,701,215</b>	<b>8,413,915</b>	<b>3,676,617</b>	<b>24,150,508</b>	<b>22,006,213</b>
<b>Total off balance sheet items</b>	<b>2,067,497</b>	<b>252,934</b>	<b>412,402</b>	<b>678,892</b>	<b>443,820</b>	<b>83,505</b>	<b>3,939,050</b>	<b>3,939,050</b>
<b>Net liquidity gap</b>	<b>(7,005,912)</b>	<b>332,439</b>	<b>243,752</b>	<b>260,843</b>	<b>3,453,579</b>	<b>2,148,890</b>	<b>(566,409)</b>	<b>(2,239,214)</b>

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2017***(All amounts in MKD thousand unless otherwise stated)*

Although the contractual maturity liquidity table shows a significant liquidity shortfall in the up to 1 month category, this is quite a normal position for deposit taking banks and that it is the result of a large pool of customer demand deposits which are constantly being drawn and replenished in the short-term. The table only reflects the earliest possible drawings while not reflecting the expected drawings or including the expected effects of replenishments.

**Off – balance sheet items**

As at December 31, 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1-5 years	Over 5 years	Total
Guarantees	122,815	362,014	342,946	589,521	616,862	25,098	2,059,256
Letters of credit	10,825	8,021	2,301	7,397	5,369	-	33,713
Commitments to extend credit (loan commitment)	1,722,117	-	-	-	-	-	1,722,117
<b>Total</b>	<b>1,855,557</b>	<b>370,035</b>	<b>345,247</b>	<b>596,918</b>	<b>622,231</b>	<b>25,098</b>	<b>3,815,086</b>

As at December 31, 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1-5 years	Over 5 years	Total
Guarantees	88,618	249,403	405,579	662,331	443,820	83,505	1,933,256
Letters of credit	1,109	3,531	6,823	16,561	-	-	28,024
Commitments to extend credit (loan commitment)	1,977,770	-	-	-	-	-	1,977,770
<b>Total</b>	<b>2,067,497</b>	<b>252,934</b>	<b>412,402</b>	<b>678,892</b>	<b>443,820</b>	<b>83,505</b>	<b>3,939,050</b>

Due to the fact that not all cash flows will occur in the future as specified within the contracts, the Bank applies assumptions, especially regarding deposit withdrawals. These assumptions are very conservative.

The core assumptions used for the purposes of calculating the sufficient liquidity indicator are as follows:

- Mandatory reserves placed in Central Bank are excluded;
- Loans to banks with ProCredit Germany are considered with 80%;
- Loans and advances to customers contractually due in the next month are considered with only 50%, assuming 50% re-disbursement;
- 50% of interbank liabilities contractually due at sight will be withdrawn in the next month;
- 11% of non-financial customer deposits regardless of their contractual maturity will be withdrawn within the next month. If deposit concentration indicator exceeds the above-mentioned threshold, the outflow assumption is increased up to the level of the indicator.

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

- 5% of contingent liabilities from guarantees issued by the Bank will require a payment within the next month;
- 10% of credit lines which the Bank has committed to its customers, but which are currently undrawn, will be drawn within the next month;

20% of unused irrevocable credit commitments to PC institutions.

The goal is to always have sufficient liquidity in order to serve all expected liabilities within the next 90 days. From a technical point of view this implies that the Bank's available assets should always exceed the expected liabilities, as calculated by applying the above assumptions.

The following table summarises the results of this approach to measuring liquidity risk and shows the distribution of liquidity-relevant positions across certain time buckets.

Based on the gap analysis, a set of key liquidity risk indicators and early warning indicators are calculated and closely monitored on daily basis. The main liquidity indicators are the sufficient liquidity indicator (SLI) and the survival period. Sufficient liquidity indicator (SLI) compares the amounts of assets available and liabilities assumed to be due within the next 30 days. It must not fall below 1. Survival period is the time-period during which the bank can meet all its payments due without needing to generate additional (i.e. still not contracted) funds. The survival period is set at 90 days.

The indicators imply that the Bank always has sufficient funds to be able to repay the liabilities simulated to be due within the next 90 days.

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

in '000 MKD As at December 31, 2018	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	More than 1 year	Total
<b>Assets</b>						
Cash	379,267	-	-	-	-	379,267
Mandatory reserves with central Bank	1,725,424	-	-	-	-	1,725,424
Other central Bank balances (excl. MR)	2,077,217	-	-	-	-	2,077,217
Loans and advances to banks Unused irrevocable and unconditional credit commitments	1,528,572	-	-	-	-	1,528,572
T-bills & marketable securities	1,176,776	-	-	100,371	-	1,277,147
Placements with PC Banks (incl. PCH)	64,426	-	-	-	-	64,426
Placements with external Banks	37,582	-	-	-	-	37,582
Loans and advances to customers	588,776	1,263,654	2,375,060	3,931,245	12,299,188	20,457,923
<b>Total Assets</b>	<b>7,578,040</b>	<b>1,263,654</b>	<b>2,375,060</b>	<b>4,031,616</b>	<b>12,299,188</b>	<b>27,547,558</b>
<b>Liabilities</b>						
Current liabilities to Banks (due daily)	16,136	-	-	307,475	1,352,890	1,676,501
Current liabilities to customers (due daily)	10,980,936	847,586	1,142,270	1,863,166	4,158,966	19,001,926
Contingent liabilities from guarantees	2,092,936	-	-	-	-	2,092,936
Unused irrevocable credit commitments	1,721,436	-	-	-	-	1,721,436
Liabilities to PC Banks (incl. PCH)	56,105	553,455	491,960	-	-	1,101,520
Liabilities to external Banks	137,904	-	131,532	243,868	1,077,739	1,591,043
Liabilities to IFIs	21,523	30,748	94,702	182,630	1,222,267	1,551,870
Liabilities to customers (TDAs)	-	-	-	-	-	-
Subordinated debt	-	-	-	-	491,960	491,960
<b>Total Liabilities</b>	<b>15,035,976</b>	<b>1,431,789</b>	<b>1,860,464</b>	<b>2,597,141</b>	<b>8,303,822</b>	<b>29,229,192</b>
Expected liquidity gap	(7,457,936)	(168,135)	514,596	1,434,475	3,995,366	
Sufficient Liquidity Indicator	1,78					
in '000 MKDAs at December 31, 2017						
<b>Total Assets</b>	<b>2,895,306</b>	<b>982,417</b>	<b>1,558,852</b>	<b>2,759,311</b>	<b>12,277,086</b>	<b>20,472,972</b>
<b>Total Liabilities</b>	<b>1,684,235</b>	<b>494,118</b>	<b>891,080</b>	<b>2,198,224</b>	<b>15,173,392</b>	<b>20,441,049</b>
Expected liquidity gap	1,211,071	488,299	667,772	561,087	(2,896,306)	
Sufficient Liquidity Indicator	1,72					

The expected liquidity gap quantifies the potential liquidity needs within a certain time period if it has a negative value, and it shows a potential excess liquidity if it has a positive one. This calculation includes positive excess values from the previous time buckets. On an operational level, the gap report is broken down into the most important currencies (Hard - foreign and the local currency).

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018**

*(All amounts in MKD thousand unless otherwise stated)*

As mentioned above, the Bank also performs stress test calculations in order to safeguard the liquidity of the Bank. The result is analysed and the Bank's liquidity reserve target is determined by the Bank's ALCO. The results of the stress tests are also used to determine liquidity standby lines provided by ProCredit Holding AG to the Bank if necessary. As of 31 December 2018, stress tests show positive liquidity position in the observed time buckets (up to 30 days in the first, second and fourth stress test scenario and up to 90 days in the third stress test scenario).

The Bank aims to rely primarily on customer deposits for its funding. This source is supplemented by funding received from international financial institutions (IFIs), such as Council of Europe Development Bank (CEB), European Investment Bank (EIB) and also Macedonian Bank for Development promotion (MBDP) which provide earmarked funds under targeted financing programmes (e.g. for lending to SMEs). In order to further diversify its sources of funds, the Bank also maintains relationships with other Banks, especially for short-term liquidity lines. In addition, ProCredit Holding and ProCredit Bank Germany provides short and long-term funding.

Overall the Bank considers its funding sources to be sufficiently diversified, especially given that the bulk of the Bank's funds are provided by a large number of customer deposits.

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

## F. Additional Notes

## 53) Fair value of financial instruments

The following table gives an overview of the carrying amounts and fair values of the financial assets and liabilities according to the classes of financial instruments, defined in accordance with the business of the Bank. The following table shows the distribution of fair values over the different fair value hierarchies:

in '000 MKD

31.12.2018

Assets	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash	-	5,355,723	-	5,355,723	5,355,723
Loans and advances to banks	-	1,632,910	-	1,632,910	1,632,910
Loans and advances to customers (net of allowance)	-	-	20,077,404	20,077,404	20,049,068
Investment securities (FVOCI)	-	100,371	-	100,371	100,371
Other financial assets	-	126,355	-	126,355	126,355
<b>Liabilities</b>					
Liabilities to Banks	-	1,802,162	-	1,802,162	1,802,162
Liabilities to customers	-	20,045,018	-	20,045,018	20,045,018
Borrowings	-	-	3,039,110	3,039,110	3,157,257
Subordinated debt	-	535,370	-	535,370	504,041
Other financial liabilities	-	-	25,282	25,282	25,262

in '000 MKD

31.12.2017

Assets	Level 1	Level 2	Level 3	Fair value	Carrying value
Cash	-	3,010,902	-	3,010,902	3,010,902
Loans and advances to banks	-	1,071,230	-	1,071,230	1,071,230
Loans and advances to customers (net of allowance)	-	-	17,668,735	17,668,735	17,637,564
Other financial assets	-	-	87,102	87,102	87,102
<b>Liabilities</b>					
Liabilities to Banks	-	985,733	-	985,733	985,733
Liabilities to customers	-	15,460,458	-	15,460,458	15,513,995
Borrowings	-	289,565	2,798,100	3,087,665	3,258,591
Subordinated debt	-	-	490,689	490,689	504,006
Other financial liabilities	-	-	19,458	19,458	19,458



**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)*

The fair value of claims and term deposits at variable rates of interest is identical to their carrying amounts. The fair value of claims and liabilities at fixed rates of interest was determined using the discounted cash flow method, using current market interest rates for financial instruments with similar default risks and similar remaining terms to maturity ranging from 0.1% - 3.7%.

The estimated fair value of the receivables corresponds to the discounted amount of the estimated expected future cash flows, i.e. net of allowance for impairment. The expected cash flows are discounted to fair value at the current market interest rates of the respective markets ranging from 1.5% - 24%.

The fair values of financial instruments which are carried at fair value are observable market prices in active markets, as well as values calculated with a valuation technique based on currently observable market data. (see also note (6)).

**54) Pledged assets**

in '000 MKD	31.12.2018		31.12.2017	
	Pledged asset	Related liability	Pledged asset	Related liability
Loans and advances to customers	960,569	1,296,649	1,622,078	1,918,660
<b>Total</b>	<b>960,569</b>	<b>1,296,649</b>	<b>1,622,078</b>	<b>1,918,660</b>

The major part of this item consists of assets which were pledged on a portfolio basis against funds which the Bank obtained at market rates from international financial institutions. The pledges would be exercised in case of default of interest or principal payment on the respective loans; the maturities of the pledges are the same as the maturities of the respective related liabilities.

**55) Contingent liabilities and commitments**

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
Guarantees and stand-by letters of credit	2,059,256	1,933,257
Documentary and commercial letters of credit	33,713	28,024
Credit commitments (irrevocable loan commitments)	1,722,117	1,977,770
<b>Total</b>	<b>3,815,086</b>	<b>3,939,051</b>

The above table discloses the nominal principal amounts of contingent liabilities, commitments and guarantees, i.e. the amounts at risk, should contracts be fully drawn upon and clients default. It is expected that a significant portion of guarantees and commitments will expire without being drawn upon; therefore the total of the contractual amounts is not representative of future liquidity requirements. An estimate of amount and timing of outflow is not practicable.

**PROCREDIT BANK AD – SKOPJE**

Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

**56) Related party transactions**

The ultimate parent company of the Bank is ProCredit Holding AG. The Bank's related parties include the parent, fellow subsidiaries, key management personnel, close family members of key management personnel and entities which are controlled or significantly influenced by key management personnel or their close family members.

Transactions of Bank with ProCredit group companies

According to the group's strategy, the Parent acts as an additional provider of funds (including subordinated debt) for its subsidiaries.

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	IPC GmbH*	Procredit Banks, Academies and PCH	01.01.- 31.12.2018
Income	103	-	-	-	72	175
Expenses	(24)	-	-	-	(214,726)	(214,750)
Net income	78	-	-	-	(214,653)	-(214,575)
Assets	870	-	-	-	248,520	249,390
Liabilities	3,021	-	-	-	3,283,334	3,286,355

in '000 MKD	Management Board	Supervisory board	Family members of key personnel	IPC GmbH	Procredit Banks, Academies and PCH	01.01.- 31.12.2017
Income	69	-	-	-	22	91
Expenses	(2)	-	-	-	(187,452)	(187,454)
Net income	67	-	-	-	(187,430)	(187,363)
Assets	1,955	-	-	-	172,826	174,781
Liabilities	2,415	-	-	-	1,439,436	1,441,851

The transactions leading to the above balances were made in the ordinary course of business and on substantially the same terms as for comparable transactions with entities or persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of payment defaults nor did they comprise other unfavourable features.

**PROCREDIT BANK AD – SKOPJE**

**Notes to the financial statements for the year ended 31 December 2018**  
*(All amounts in MKD thousand unless otherwise stated)*

**57) Key management compensation**

During the reporting period, total compensation paid to the management of the Bank amounted to:

in '000 MKD	1.1.-31.12.2018	1.1.-31.12.2017
short-term benefits	15,640	10,033
<b>Total</b>	<b>15,640</b>	<b>10,033</b>

The members of the Supervisory Board do not receive any compensation from the Bank.

**58) Significant post-balance sheet events**

- Starting from 1 January 2019 new Law for Income tax comes into force, which includes mostly changes to transfer pricing provisions according to the arm's length principle as well as changes in the categories of tax non-deductible expenses, including changes of the tax treatment of the depreciation. The Bank is currently assessing the potential impact of the changes which will may have impact on the income tax as not all the bylaws for application of the new Law changes are yet published.
- The Shareholders Assembly adopted the proposal of the Supervisory board of the Bank for allocation of the profit according statutory financial statements on March 20<sup>th</sup>. With this decision, gross dividend amount of 116,840,000 MKD was paid to Procredit Holding on March 28<sup>th</sup>.
- Apart from the above, no other significant events have occurred after the statement of financial position date, which need to be presented in the financial statements.

**PROCREDIT BANK AD – SKOPJE**

Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

**59) IFRS 9**

in '000 MKD	IAS 39 carrying amount 31.12.2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 01.01.2018
Cash and cash equivalents (IAS 39)	3,010,902			
<i>Remeasurement: ECL allowance</i>			(1,353)	
Central bank balances (IFRS 9)				2,579,936
Cash (IFRS 9)				429,613
Loans and advances to banks (IAS 39)	1,071,230			
<i>Remeasurement: ECL allowance</i>			(598)	
Loans and advances to banks (IFRS 9)				1,070,632
Loans and advances to customers (IAS 39)	17,637,564			
<i>Reclassification from Allowance for losses on loans and advances (IAS 39)</i>		359,363		
<i>Reclassification to Other assets (IFRS 9)</i>		(6,127)		
<i>Remeasurement: Loans and advances to customers</i>			1,502	
<i>Remeasurement: ECL allowance (net)</i>			(478,303)	
Loans and advances to customers (net incl. CLA IFRS 9)				17,513,999
Allowance for losses on loans and advances				
Opening balance under IAS 39	(359,363)			
<i>Reclassification to Loans and advances to customers (ECL allowance)</i>		359,363		
Closing balance under IFRS 9				n/a
Deferred tax liabilities (IAS 39)	-			
<i>Remeasurement in OCI</i>			12,645	
Deferred tax assets (IFRS 9)				12,645
Other assets (IAS 39)	278,267			
<i>Reclassification from available for sale (shares) (IAS 39)</i>				
<i>Reclassification &amp; Remeasurement from Loans and advances to customers (IAS 39)</i>		6,127		
<i>Reclassification from Liabilities to customers (IAS 39)</i>				
<i>Reclassification &amp; Remeasurement: ECL allowance (net)</i>			(933)	
Other assets (IFRS 9)				283,461

## PROCREDIT BANK AD – SKOPJE

## Notes to the financial statements for the year ended 31 December 2018

(All amounts in MKD thousand unless otherwise stated)

in '000 MKD	IAS 39 carrying amount 31.12.2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 01.01.2018
Provisions (IAS 39)	23,825			
Reclassification & Remeasurement			12,214	
Provisions (IFRS 9)				36,039
Deferred tax liabilities (IAS 39)	700			
Remeasurement			(700)	
Deferred tax assets (IFRS 9)				-
Equity				
Translation reserve (IAS 39)	(120,114)			
Translation reserve (IFRS 9)				(120,114)
Revaluation reserve (IAS 39)	-			
Remeasurement: ECL allowance			925	
Revaluation reserve (IFRS 9)				925

in '000 MKD	IAS 39 loss allowance 31.12.2017	Remeasurement: ECL allowance	IFRS 9 loss allowance 01.01.2018	Stage 1	Stage 2	Stage 3
Loss allowance for central banks	-	(1,353)	(1,353)	(1,353)	-	-
Loss allowance for loans to banks	-	(598)	(598)	(598)	-	-
Loss allowance for investment securities	-	(925)	(925)	(925)	-	-
Loss allowance for loans to customers	(359,363)	(118,940)	(478,303)	(155,098)	(130,637)	(192,568)
Loss allowance for account receivables	n/a	(933)	(933)	(933)	-	-
Loss allowance for contingent liabilities	(8,937)	(12,214)	(21,151)	(14,162)	(2,569)	(4,420)

**PROCREDIT BANK AD – SKOPJE****Notes to the financial statements for the year ended 31 December 2018***(All amounts in MKD thousand unless otherwise stated)***60) Exchange rates**

For the balance sheet and the income statement the following exchange rates used for translation of EUR to MKD were applied:

Currency code	Country	2018		2017	
		At balance sheet date	Average for the year	At balance sheet date	Average for the year
MKD	Macedonia	61.495	61.5113	61.4907	61.5743

**61) Address and general information**

Procredit Bank A.D., Skopje has been registered as a Stock Company domiciled in Republic of North Macedonia. The address of its registered office is as follows:

Manapo 7  
1000 Skopje  
Republic of North Macedonia

The names of the members of Managing Board of the Bank serving during the financial year and to the date of this report are as follows:

General Manager	Jovanka Joleska Popovska
Member of Managing Board	Emilija Spirovska
Member of Managing Board	Mimoza Godanci Aliu