Halk Bank AD Skopje

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2014

Contents

Independent auditor's report

To the Board of Directors and Shareholders of Halk Bank AD - Skopje

We have audited the accompanying financial statements of Halk Bank AD - Skopje (the 'Bank'), which comprise the Bank's separate statement of financial position as of 31 December 2014 and the statement of comprehensive income, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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 International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Halk Bank AD - Skopje as of 31 December 2014, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija doo.

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

29 April 2015

Statement of Financial Position

As at 31 December

In thousands of Denars	***Note***	**2014**	**2013**
Assets			
Cash and cash equivalents	*15*	6,056,771	4,514,268
Loans and advances to banks	*16*	8,703	7,682
Loans and advances to customers	*17*	17,198,091	13,820,526
Investment securities	*18*	1,750,631	1,148,215
Property and equipment	*19*	699,508	682,881
Intangible assets	*20*	33,119	28,560
Other financial assets	*21*	138,246	89,224
Other Non-financial assets	*21*	133,655	167,589
Total assets		26,018,724	20,458,945
Liabilities			
Deposits from banks	*22*	983,820	1,689,691
Deposits from customers	*23*	16,696,435	12,515,445
Other borrowed funds	*24*	3,951,938	2,275,446
Provisions	*25*	22,983	236
Other financial liabilities	*26*	157,020	127,793
Other Non-financial liabilities	*26*	30,840	31,902
Current income tax liability		30,730	-
Deferred income tax liability	*27*	29,055	-
Total liabilities		21,902,821	16,640,513
Equity	*28*		
Share capital		2,893,690	2,893,690
Share premium		325,854	325,854
Other reserves		137,181	129,882
Revaluation reserve for foreclosed assets		4,599	-
Retained earnings		754,579	469,006
Total equity		4,115,903	3,818,432
Total liabilities and equity		26,018,724	20,458,945

These financial statements set out on pages 1 to 77 are subject to approval by the Supervisory Board on 27 April 2015 and were signed on its behalf by Management board:

Mr. Necdet Palakci	Mr. Turhan Ademi	Mr. Tomce Tasevski
Chief Executive Manager	*Executive Manager*	*Executive Manager*

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

In thousands of denars	***Note***	**2014**	**2013**
Interest income	*8*	1,331,151	1,139,323
Interest expense	*8*	(472,213)	(411,511)
Net interest income		**858,938**	**727,812**
Fee and commission income	*9*	288,919	205,997
Fee and commission expense	*9*	(115,204)	(85,028)
Net fee and commission income		**173,715**	**120,969**
Net trading income	*10*	411	(327)
Net foreign exchange gain		23,872	29,199
Other operating income	*11*	57,009	17,930
		81,292	46,802
Operating income		1,113,945	895,583
Net impairment loss on financial assets	*15,19,20,21*	(36,227)	(21,620)
Personnel expenses	*12*	(272,322)	(269,238)
Depreciation and amortization	*19,20*	(96,504)	(90,553)
Other expenses	*13*	(354,524)	(319,233)
		(759,577)	(700,644)
Profit before tax		354,368	194,939
Income tax expense	27	(61,496)	-
Profit for the year		292,872	194,939
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in Denars per share)	*14*	1,012	674

Statement of Profit or Loss and Other Comprehensive Income (continued)

Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale investments:		
Revaluation reserve – foreclosed assets	4,599	
Gains less losses arising during the year -Fair value reserve	-	-
Items that will not be reclassified to profit or loss:		
Other comprehensive income for the year	292,872	194,939
Total comprehensive income for the year	297,471	194,939
Profit/(loss) is attributable to:		
- Owners of the Bank	297,471	194,939
Profit for the year	297,471	194,939
Total comprehensive income is attributable to:		
- Owners of the Bank	297,471	194,939
Total comprehensive income for the year	297,471	194,939

Statement of Changes in Equity

In thousands of denars	**Share capital**	**Share premium**	**Statutory reserve**	**Revaluation reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2013	2,893,694	325,854	128,612	4,976	275,337	3,628,473
Total comprehensive income for the year						
Profit or loss	-	-	-	-	194,939	194,939
Other comprehensive income						
Fair value reserve (available-for-sale financial assets)						
Net change in fair value	-	-	-	(4,976)	-	(4,976)
Total comprehensive income for the year	-	-	-	(4,976)	194,939	189,963
Transactions with equity holders, recognized directly in equity						
Transfer to retained earnings	-	-	-	-	-	-
Shares issued	-	-	-	-	-	-
Transactions as result of the merger with Ziraat Bank AD Skopje	-	-	-	-	-	-
Taken over reserves and retained earnings from Ziraat Bank	-	-	-	-	-	-
Taken over loss from Ziraat Bank	(4)	-	-	-	-	(4)
Total contributions by and distributions to equity holders	(4)	-	1,270	-	(1,270)	(4)
Balance at 31 December 2013	2,893,690	325,854	129,882	-	469,006	3,818,432

Statement of Changes in Equity (continued)

In thousands of denars	**Share capital**	**Share premium**	**Statutory reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2014	2,893,690	325,854	129,882		469,006	3,818,432
Total comprehensive income for the year						
Profit or loss	-	-	-	-	292,872	292,872
Other comprehensive income	-	-	-	-	-	-
Fair value reserve (available-for-sale financial assets)	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	292,872	292,872
Transactions with equity holders, recognized directly in equity						
Transfer to retained earnings	-	-	-	-	-	-
Shares issued	-	-	-	-	-	-
Transactions as result of the merger with Ziraat Bank AD Skopje	-	-	-	-	-	-
Taken over reserves and retained earnings from Ziraat Bank	-	-	-	-	-	-
Taken over loss from Ziraat Bank	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total contributions by and distributions to equity holders	-	-	7,299	-	(7,299)	-
Revaluation foreclosed assets	-	-	-	4,599	-	4,599
Balance at 31 December 2014	2,893,690	325,854	137,181	4,599	754,579	4,115,903

Statement of Cash Flows

In thousands of denars	*Note*	2014	2013
Cash flows from operating activities			
Profit for the period		354,368	194,939
Adjustments for:			
Depreciation and amortization	*20,21*	96,504	90,553
Capital gain on sale of property and equipment	*11*	(371)	(493)
Capital gain/(loss) on sale of assets acquired through foreclosure procedure	*11*	(2,993)	143
Capital loss on sale of property and equipment		286	14
Impairment charge/(release) for off balance sheet items	*11*	(82)	-
Net interest income	*8*	(858,938)	(727,812)
Net trading income	*10*	411	327
Net impairment loss on financial assets	*15,17, 18,21*	36,227	21,620
Impairment losses on assets acquired through foreclosure procedures	*13*	29,986	19,487
Dividend income	*11*	(4,886)	(4,165)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(349,488)**	**(405,387)**
Net (increase)/decrease in:			
- financial assets held for trading		-	61,508
- loans and advances to banks		(1,021)	11,265
- loans and advances to customers		(3,422,280)	(4,595,818)
- other assets		(60,646)	(37,698)
Net increase/(decrease) in:			
- deposits from banks		(705,875)	(309,310)
- deposits from customers		4,165,132	1,642,839
- other liabilities		85,881	54,483
		(288,297)	(3,578,118)
Interest received		1,317,012	1,128,806
Interest paid		(454,517)	(396,606)
Tax paid		(1,866)	-
Net cash from/(used in) operating activities		**572,332**	**(2,845,918)**

Statement of cash flows (continued)

In thousands of denars	*Note*	2014	2013
Cash flows from investing activities			
Acquisition of property and equipment		(96,593)	(106,715)
Proceeds from the sale of property and equipment		2,360	4,519
Acquisition of intangible assets	*20*	(23,373)	(17,322)
Acquisition of investment securities		(591,767)	(291,230)
Dividends received		4,886	4,165
Net cash used in investing activities		**(704,487)**	**(406,583)**
Cash flows from financing activities			
Proceeds from other borrowed funds		2,959,473	1,762,690
Repayment of other borrowed funds		(1,284,815)	(1,043,190)
Net cash from/(used in) financing activities		**1,674,658**	**719,500**
Net increase/(decrease) in cash and cash equivalents		1,542,503	(2,533,001)
Cash and cash equivalents at 1 January		4,514,268	7,047,269
Cash and cash equivalents at 31 December	*15*	**6,056,771**	**4,514,268**

Notes to the financial statements

1. General information

Halkbank AD Skopje (“the Bank” or “Halkbank”) is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The address of the Bank’s registered office is as follows:

Ul. “Kiril i Metodij“54
1000 Skopje
Republic of Macedonia

In 2011 the Bank changed its name from Export and Credit Banka AD Skopje to Halkbank AD Skopje, as a result of a change in the shareholders structure of the Bank.

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.

The shares of the Bank are traded on the free market on the Macedonian Stock exchange with trade symbol IKB and ISIN CODE (MKIKBA101015).

Main shareholders

	In 000 MKD				*in %*	
	2014	2014	2013	2013	2014	2013
Shareholder	Written in capital (Nominal value)	Number of shares	Written in capital (Nominal value)	Number of shares	Right for vote	Right for vote
Turkiye Halk Bankasi A.S. Ankara	2,858,360	285,836	2,858,360	285,836	98.78%	98.78%
Agency for confiscated property	31,200	3,120	31,200	3,120	1.08%	1.08%
Total	**2,889,560**	**288,956**	**2,889,560**	**288,956**	**99.86%**	**99.86%**

Merger with Ziraat Bank AD Skopje

On 24 February 2012 the Shareholder’s Assembly reached a decision for initiation of a procedure for merging the Bank with Ziraat Banka AD Skopje and authorized the Supervisory Board and the Managing Board of Halkbank to reach and approve all the necessary decisions and other documents in the process of merger.

In accordance with Chapter IV, article 1 line 17.4 of the “*Decision for issuing licenses to banks*” accompanying the request for issuing a licence for merger, the Bank submitted to the National Bank of the Republic of Macedonia (“NBRM”) a Merger Agreement concluded between the Supervisory Boards of both banks.

1. General information (continued)

The primary objective of the merger was continuance of the banking activities in the Republic of Macedonia through a larger bank, instead of two smaller banks as separate legal entities, both in ownership of the Republic of Turkey.

In accordance with the approval received from NBRM No. 7422 dated 10 September 2012, as well as the decision for inscription of change from the Central Register of the Republic of Macedonia dated 1 October 2012, Ziraat Bank AD Skopje was deleted from the trade register, and Halkbank become the legal successor of Ziraat Bank AD Skopje.

Representative office in the Republic of Serbia

On 14 December 2012 the Bank opened a representative office in Belgrade, Republic of Serbia.

The representative office does not have a status of a separate legal entity. Its main activities include representing Halkbank AD Skopje, market research, initiating business cooperation with companies in the Republic of Serbia, promotional and informational activities etc. The costs of operation are covered by Halkbank AD Skopje and are included in these financial statements.

2. Basis of preparation

(a) Statement of compliance

The financial statements of Halk Bank AD – Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). Additionally, the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body were applied.

There was no early adoption of any standard not yet effective.

The financial statements are presented in Macedonian denars rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5. Actual results may differ from those estimated.

- **Standards, amendments and interpretations effective and adopted by the Bank in 2014**

- IAS 32 (amended). In December 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation. The amendments to IAS 32 clarify the IASB's requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32. The pronouncement clarifies:

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

  The Bank adopted the amended standard as of 1 January 2014. The amended standard did not have material impact on the disclosures in the Bank's financial statements.

- IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS28(amended). In May 2011 the IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

  IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has:

    - power over the investee;
    - exposure, or rights, to variable returns from its involvement with the investee; and
    - the ability to use its power over the investee to affect the amount of the returns.

  IFRS 11 introduces new accounting requirements for joint arrangements, replacing IAS 31 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IFRS 11 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. A joint venture is a joint arrangement, whereby the parties that have joint control have rights to the net assets.

  IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27 Separate Financial Statements. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 Investments in Associates and Joint Ventures is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

The IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 in June 2012. The amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements and provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The Bank adopted this package of five new and revised standards as of 1 January 2014. Their adoption did not result in significant changes in the disclosures in the Bank's financial statements.

- IAS 36 (amended). In May 2013 the IASB published Recoverable Amount Disclosures for Non-Financial Assets, amendments to IAS 36 Impairment of Assets. The amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 to require disclosures about the recoverable amount of impaired assets. The amendments clarify the IASB's original intention: that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The Bank adopted the amended standard as of 1 January 2014. The amended standard did not have any impact on the Bank's financial statements.
- IAS 39 (amended). In June 2013 the IASB published Novation of Derivatives and Continuation of Hedge Accounting, amendments to IAS 39 Financial Instruments: Recognition and Measurement. The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9 Financial Instruments. The Bank adopted the amended standard as of 1 January 2014. The amended standard did not have any impact on the Bank's financial statements.
- IFRIC 21 In May 2013 the IASB issued IFRIC Interpretation 21: Levies, an Interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The new interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Bank adopted the interpretation as of 1 January 2014. The interpretation did not have any impact on the Bank's financial statements as the Bank's interpretation of the standard was identical to the IFRIC applied in 2014.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

- **Standards, amendments and interpretations effective in 2014 but not relevant for the Bank**

- IFRS 10, IFRS 12, IAS 27 (amended). In October 2013 the IASB published "Investment Entities" (Amendments to IFRS 10, IFRS 12 and IAS 27). As the Company does not have investment entities, the amendments did not have any impact on the Bank's financial statements.

- **Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Bank**

- IFRS 9 Financial Instruments: The standard forms the first part of a three-phase project to replace IAS 39 (Financial Instruments: Recognition and Measurement) with a new standard, to be known as IFRS 9 Financial Instruments. IFRS 9 prescribes the classification and measurement of financial assets and liabilities. The remaining phases of this project, dealing with the impairment of financial instruments and hedge accounting, as well as a further project regarding derecognition, are in progress.

  Financial assets – At initial recognition, IFRS 9 requires financial assets to be measured at fair value. After initial recognition, financial assets continue to be measured in accordance with their classification under IFRS 9. Where a financial asset is classified and measured at amortized cost, it is required to be tested for impairment in accordance with the impairment requirements in IAS 39. IFRS 9 defines the below rules for classification.

  IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity's business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.

  Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch').

  Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity's profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.

  Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.

  Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity's business model. The 'tainting rules' in IAS 39 have been eliminated.

  Financial liabilities – IFRS 9 Financial Instruments sets the requirements on the accounting for financial liabilities and replaces the respective rules in IAS 39 Financial Instruments: Recognition and Measurement. The new pronouncement

  - Carries forward the IAS 39 rules for the recognition and derecognition unchanged.
  - Carries forward most of the requirements in IAS 39 for classification and measurement.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

The IASB issued amendments to IFRS 9 in December 2011 and in November 2013 and deferred the mandatory effective date of IFRS 9. The deferral will make it possible for all phases of the IFRS 9 project to have the same mandatory effective date. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

The IASB completed the final element of IFRS 9 Financial Instruments in July 2014. The package of improvements introduced by IFRS 9 includes a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.

Classification and Measurement: Classification determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single impairment model being applied to all financial instruments.

Impairment: During the financial crisis, the delayed recognition of credit losses on loans (and other financial instruments) was identified as a weakness in existing accounting standards. As part of IFRS 9, the IASB has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a timelier basis.

Hedge accounting: IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

Own credit: IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss.

The application of the new standard and its amendments is required for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is currently analyzing the possible changes in the financial statements of the Bank that will be a result of the adoption of the new standard and its amendments.

- IFRS 11 (amended). In May 2014 the IASB published amendments to IFRS 11 Joint Arrangements. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment explicitly requires the acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the principles on business combinations accounting in IFRS 3. The application of the amendment is required for annual periods beginning on or after 1 January 2016. We do not expect that the adoption of the amendment would result in significant changes in the financial statements of the Bank.
  - IAS 16 and IAS 38 (amended). In May 2014 the IASB published amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets in May 2014. IAS 16 and IAS 38

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

- both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The application of the amendments is required for annual periods beginning on or after 1 January 2016. The adoption of the amendments will not result in any changes in the financial statements of the Bank as we apply linear depreciation and amortization.
- IFRS 15 -In May 2014 the IASB and the US FASB jointly issued a converged Standard on the recognition of revenue from contracts with customers. The core principle of the new Standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new Standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and new guidance for multiple element arrangements. The application of the new standard is required for annual periods beginning on or after 1 January 2017. Earlier application is permitted. The adoption of the new standard will result in significant changes in the financial statements of the Bank, primarily in respect of the timing of revenue recognition and in respect of capitalization of costs of obtaining a contract with a customer and contract fulfillment costs. The timing of revenue recognition, and the classification of our revenues as either service or equipment, will be affected due to the allocation of consideration in multiple element arrangements (solutions for our customers that may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time) no longer being affected by limitation cap methodology. Our operations and associated systems are complex and the currently estimated time and effort necessary to develop and implement the accounting policies, estimates, judgments and processes to comply with the new standard is expected to span a substantial period of time. As a result, at this time, it is not possible to make reasonable quantitative estimates of the effects of the new standard.
- IFRS 10 and IAS 28 The IASB issued narrow-scope amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments address the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The application of the amendments is required for annual periods beginning on or after 1 January 2016. We do not expect that the adoption of the amendments would result in significant changes in the financial statements of the Bank.

▪ Standards, amendments and interpretations that are not yet effective and not relevant for the Bank’s operations

- IAS 19 (amended). In November 2013 the IASB published amendments to IAS 19 Employee Benefits. The amendments apply to contributions from employees or third parties to defined benefit plans which are not relevant for the Bank. Therefore the amended standard will not have any impact on the Bank’s financial statements.
- IFRS 14 In January 2014 the IASB issued an interim Standard, IFRS 14 Regulatory Deferral Accounts. The new interim standard is applicable for first-time adopters which is not relevant for the Bank. Therefore the new interim standard will not have any impact on the Bank’s financial statements.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

- IAS 16 and IAS 41 (amended) In June 2014 the IASB published amendments that change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. Since the Bank is not engaged in agricultural activity, the amendments will not have any impact on the Bank's financial statements.
- IAS 27 (amended) In August 2014 the IASB published Equity Method in Separate Financial Statements (Amendments to IAS 27). The amendment is applicable for separate financial statements which is not relevant for the Bank. Therefore the amendment will not have any impact on the Bank's financial statements.

(b) Basis of measurement

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

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Macedonian denar ("MKD" or "denars"), which is the Bank's functional currency. Except as indicated, financial information, presented in MKD has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement, estimates and assumptions in the process of applying the Bank's accounting policies, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into Macedonian denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Macedonian denars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Macedonian denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into Macedonian denars at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD). The exchange rates used for translation at 31 December 2014 and 2013 were as follows:

	2014 **MKD**	**2013** **MKD**
1 EUR	61.48	61.51
1 USD	50.56	44.63

(b) Interest income and expense

Interest income and expense are recognized in the profit or loss, on an accrued basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

3. Significant accounting policies (continued)

Interest income and expense presented in the statement of comprehensive income include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other financial assets and liabilities carried at fair value through profit or loss, are presented in net income from other financial instruments at fair value through profit or loss in the statement of comprehensive income.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. For loans where there is objective evidence that an impairment loss has been incurred, booking of interest income is terminated not later than 90 days after the last payment. Payments received with respect to written-off loans are not recognized in net interest income

(c) Fees and commission income and expense

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

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, guarantees, letters of credit, domestic and foreign payment operations and other services, are recognized as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realized and unrealized fair value changes, interest, dividends and foreign exchange differences.

3. Significant accounting policies (continued)

(e) Dividends

Dividend income is recognized when the right to receive income is established.

(f) Lease payments made

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

(g) Income tax (current and deferred)

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax

As of 1 January 2009 to 31 December 2013, the Company has not paid income tax on its profit before tax until the profit was distributed in a form of dividend or other form of profit distribution regardless of whether in monetary or non-monetary form. 10% income tax was payable on the distributed part the profit at the moment of the dividend payment. Dividends distributed by Macedonian companies to resident legal entities were exempt from corporate income tax at the level of the distributing entity. Dividends distributed to individuals and foreign legal entities were not exempt from corporate income tax and were subject to 10% income tax at the level of the distributing entity and the corporate income tax liability arose at the time of the dividend payment.
Corporate income tax was also levied on non-deductible expenses incurred in the fiscal year, decreased by the amount of tax credits and other tax reliefs. Corporate income tax on non-deductible expenses was payable regardless the companies have generated profit or loss.

In 2014 a new tax regime had become effective according to which the base for income tax computation had been shifted from income “distribution” concept to the profit before taxes. The new CIT Law has been adopted and entered into force on 2 August 2014. It is applicable as of 1 January 2015 for the 2014 profit.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

In accordance with the tax legislation effective from 1 January 2009 to 31 December 2013, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed only to foreign legal entities. According IAS 12.52A and SIC 25, deferred tax assets and liabilities should be measured using the undistributed rate. This resulted in reversal of the deferred tax asset and all deferred tax liability balances as of 31 December 2009, and reversal of all deferred tax assets as of 31 December 2010, if any.

3. Significant accounting policies (continued)

(g) Income tax (current and deferred) (continued)

***Deferred income tax* (continued)**

Starting from 1 January 2014, deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax on different impairment provision relating to balance sheet and off -balance sheet credit exposures

As per Local GAAP, the Central Bank requirements (which are recognised for tax purposes) are in some areas more conservative in relation to the impairment provision and therefore the Local GAAP (Central Bank) impairment provision of loans and advances to customers, banks and off balance sheet exposures is higher compared to IFRS. Consequently the tax (Local GAAP) base of these financial assets is smaller than the carrying amount determined in accordance with IFRS. In respect of off balance sheet exposure the tax (Local GAAP) base of the Liability provision recognised is higher than the carrying amount determined in accordance with IFRS.

In these situations there is a taxable temporary difference which triggers the recognition of Deferred tax liability. The DTL is recognised for the difference between the tax (Local GAAP) base and the carrying amount determined in accordance with IFRS, times the applicable tax rate in Macedonia which is 10%.

Valuation of AFS investments

In line with the requirements of IAS 39 (Local GAAP and IFRS), the fair value measurement of AFS investments is recognised in other comprehensive income (revaluation reserve). When the AFS investments are sold or de recognised, than the Bank would recycle the accumulated revaluation reserve into the profit or loss account. At the moment of fair value measurement and creation of revaluation reserve, the tax base of the AFS investments is smaller than the carrying amount determined in accordance with IFRS and Local GAAP. Our consideration is that in this situation there is taxable temporary difference which triggers the recognition of Deferred tax liability. The DTL is recognised for the difference between the tax base and the carrying amount as per IFRS and Local GAAP, times the applicable tax rate in Macedonia which is 10%.

The Bank has recognized deferred tax liability in amount of MKD 29,055 thousand in these financial statements, on the basis of different impairment provision relating to balance sheet and off -balance sheet credit exposures as of 31 December 2014. There are no other temporary differences existing at those dates.

3. Significant accounting policies (continued)

(h) Financial assets and liabilities

(i) Recognition and initial measurement

The Bank initially recognizes loans and advances, deposits and borrowed funds on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

See accounting policies 3(i), (j), (k) and (l).

(iii) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

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

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

(iv) Offsetting

Assets and liabilities, and income and expenses, are not offset unless required or permitted by an IFRS.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

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

(vi) Fair value measurement

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.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent an orderly transaction between market participants

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Assets are measured at a bid price; liabilities are measured at an asking price.

(vii) Identification and measurement of impairment

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

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data such as adverse changes in the payment status of borrowers or issuers, or economic conditions. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

T All individually significant loans and advances and investment securities are assessed for specific impairment. Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4).

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(i) Cash and cash equivalents

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

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

(j) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that no derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

(k) Loans and advances

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

Loans and advances to banks are classified as loans and receivables.

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

3. Significant accounting policies (continued)

(l) Investment securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either held to maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

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

Held-to-maturity investments are carried at amortized cost using the effective interest method.

A sale or reclassification of a more than insignificant amount of Held-to-maturity investments would result in the reclassification of all Held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

  On 31.12.2014 the Held for Maturity Treasury bills are classified as cash due to the short term maturity of 28 days.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

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

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3. Significant accounting policies (continued)

(m) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized within other income or other expenses in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation rates, based on the estimated useful lives for the current and comparative periods are as follows:

	%
Buildings	2.5
Furniture and equipment	10 - 25

Depreciation methods, useful lives and residual value are reviewed at each financial reporting date and adjusted if appropriate.

3. Significant accounting policies (continued)

(n) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The amortization rates based on the estimated useful lives for the current and comparative periods are as follows:

	%
Software	25
Licences	25

Amortization methods, estimated useful lives and residual values are reviewed at each financial reporting date and adjusted if appropriate.

(o) Leased assets – lessee

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

Other leases are operating leases and the leased assets are not recognized on the Bank's statement of financial position.

3. Significant accounting policies (continued)

(p) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(q) Deposits and borrowed funds

Deposits and borrowed funds are the Bank's sources of debt funding.

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

Deposits and borrowed funds are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(r) Provisions

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

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

3. Significant accounting policies (continued)

(s) Employee benefits

(i) Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation and will have no legal or constructive obligation to pay further amounts. Contributions, based on salaries, are made to the national organisations responsible for the payment of pensions.

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

(ii) Short-term benefits

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

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

(iii) Other long-term employee benefits

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

(t) Share capital and reserves

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Share issue costs

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

(iii) Repurchase of share capital

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

(iv) Dividends

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

3. Significant accounting policies (continued)

(u) Earnings per share

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

(v) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Managing Board (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

4. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks

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

Risk management framework

The Supervisory Board ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Credit Committee and Risk Management Committee, which are responsible for developing and monitoring Bank's risk management policies in their specified areas.

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

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

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

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to investment and included in trading assets is managed as a component of market risk, further details are provided in note 4(d) below.

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk

The Supervisory Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to 1.000.000 EUR and credit exposures collateralized with deposit/s up to 10% of own assets. All credit exposures greater than 1.000.000 EUR, up to 25% of the bank's own assets that are not collateralized with deposit/s must be approved by the Supervisory Board.

Approving credit exposures below 350.000 EUR is delegated to the SME Credit Committee and to the Retail Credit Committee up to 150.000 EUR, as well as to the Branches' Credit Committees (each branch has assigned limit for approval).

Credit Division (Loan Policies and Practices Department, Credit Analysis Department, Corporate and SME Credit Department, Retail Credit Department, Division and Retail Division) is responsible for:

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk.* Assess all credit exposures in excess of designated limits, prior to facilities being committed to customers.
- *Limiting concentrations of exposure* to geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Banks's credit risk grading* in order to categorize exposures according to the degree of risk of financial loss and management of the risks. The risk grading system is used in determining where impairment losses may be required.

In measuring credit risk of loan 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 exposures 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').

These credit risk measurements, which reflect expected loss (the 'expected loss model') and are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee), are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model') rather than expected losses

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

4. Financial risk management (continued)

(b) Credit risk (contunued)

Management of credit risk (continued)

Bank's internal ratings scale

Bank's rating	Description of the grade
A	*Loans of a Standard Nature and Other Receivables*
B	*Loans and Other Receivables Under Close Monitoring*
C	*Loans and Other Receivables with Limited Recovery*
D	*Loans and Other Receivables with Suspicious Recovery*
E	*Loans and Other Receivables Considered as Losses*

The criteria for classification into A, B, C, D and E risk grades are as follows:

A risk category shall include credit exposure that meets the following criteria:

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

B risk category shall include credit exposure that meets the following criteria:

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

C risk category shall include credit exposure that meets the following criteria:

- cash inflows of client are unsuitable for regular settlement of liabilities;
- there is an inadequate maturity structure between the sources of funding of the program/project for which financial support has been requested from the bank and proceeds generated from the program/project;
- the bank does not hold the necessary and updated information to assess the creditworthiness of the client;
- the credit exposure is restructured;
- liabilities based on credit exposure are commonly settled with a delay of up to 120 days, or up to 180 days as an exception, if the delay only occasionally ranges from 121 to 180 days;
- Credit risk exposure to a client- non- financial entity, that has claims based on financial loan on an Entity with credit rating equal to or lower than CCC+ (according to the rating of Standard &Poor's or Fitch) or Caa1 (according to the Moody's rating) or an entity with a higher credit rating, but whose Domicile country enjoys a credit rating equal to or lower than CCC+ (according to the rating of Standard &Poor's or Fitch) or Caa1 (according to the Moody's rating);
-Credit risk exposure to a client-non- financial entity, that has claims based on financial loan on an Entity that has not been given any credit rating, but whose domicile country enjoys a credit rating equal to or lower than B- (according to the rating of Standard &Poor's or Fitch) or B3 (according to the Moody's rating) or whose domicile country has not been given any credit rating.

D risk category shall include credit exposure that meets the following criteria:

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

E risk category shall include credit exposure that meets the following criteria:

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

Reviewing compliance with agreed exposure limits, including those for industries, country risk and product types. Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Risk Management Committee, and appropriate corrective action is taken.

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

Regular audits of Credit divisions' processes are undertaken by Internal Audit.

4. Financial risk management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk

	Note	**Loans and advances to customers**		**Loans and advances to banks**		**Investment securities**	
In thousands of denars		**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	*17,16,18*	17,198,091	13,820,526	8,703	7,682	1,750,631	1,148,215
Individually impaired							
Grade A		-	5,364	-	-	-	-
Grade B		48,401	92,930	-	-	-	-
Grade C		69,363	35,656	-	-	-	-
Grade D		-	30,690	-	-	-	-
Grade E		419,143	327,083	59	-	-	-
Gross amount		536,907	491,723	59	-	-	-
Specific Allowance for impairment		(371,563)	(315,484)	(59)	-	-	-
Carrying amount		165,344	176,239	-	-	-	-
Past due but not impaired:							
Past due but not impaired comprises:							
up to 30 days		68,473	61,592	-	-	-	-
30-60 days		597,350	445,022	-	-	-	-
60-90 days		89,695	99,377	-	-	-	-
90-180 days		1,000	951	-	-	-	-
180 days+		28,956	25,414	-	-	-	-
Carrying amount		785,474	632,356	-	-	-	-
Neither past due nor impaired:							
Grade A		16,247,273	13,011,931	8,703	7,682	1,750,631	1,148,215
Carrying amount		16,247,273	13,011,931	8,703	7,682	1,750,631	1,148,215
Total carrying amount		17,198,091	13,820,526	8,703	7,682	1,750,631	1,148,215

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect part or all of the principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system where 97.3% of the loans are classified in A risk category.

4. Financial risk management (continued)

(b) Credit risk (continued)

Past due but not impaired loans

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

Allowances for impairment

The Bank at each balance sheet date has established a process for determining an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset. The main components of this allowance are a specific loss component that relates to individually significant exposures. Loans are evaluated individually for impairment based on factors such as payment history, borrower financial condition, collateral and current economic conditions. For collateral dependent loans their value is taken into account but discounted based on date of their last received appraisal and market conditions. For calculation of the net present value of the collaterals, following collaterals are taken into account; cash deposits, vehicles, real estate, equipment and other movable property. From these evaluations of expected cash flows and collateral values, specific allowances are determined. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

The internal rating systems described in Note 4 (b) focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. In the assessment of individual allowance for impairment the Bank uses the local policy as a starting point and makes specific adjustments, i.e. uses the collateral in the discounting of the future cash flow (under local policy certain characteristics should be fulfilled to use the collateral in the discounted cash flow) and makes adjustments for the non-performing interest, which under local policy is 100% impaired. However, the majority of the impairment provision comes from bottom two grading's.

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
In thousands of denars	**Gross**	**Net**
31 December 2014		
Individually impaired		
Grade A	-	-
Grade B	48,401	45,925
Grade C	69,363	55,409
Grade D	-	-
Grade E	419,143	64,010
Total	536,907	165,344
31 December 2013		
Individually impaired		
Grade A	5,364	5,080
Grade B	92,930	81,153
Grade C	35,656	23,740
Grade D	30,690	12,654
Grade E	327,083	53,612
Total	491,723	176,239

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

	Loans and advances to customers	
In thousands of denars	**2014**	**2013**
Cash collateral	452,644	174,932
Apartments	6,952,124	5,698,658
Business premises	11,964,112	10,289,508
Moveable lien	980,720	1,377,388
Other	533,508	2,429,417
	20,883,108	19,969,903

The disclosed fair value of collateral is determined by local valuer and represents value realisable by the legal owners of the assets. Management considers the loans covered by collateral as impaired because experience shows that a significant proportion of the collateral cannot be enforced due to administrative and legal difficulties. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy (continued)

Details of financial and non-financial assets acquired by the Bank during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year-end are shown below:

In thousands of denars	**2014**	**2013**
Land	-	4,933
Apartments	1,755	-
Business premises	-	-
Other	-	-
	1,755	4,933

The Bank's policy is to pursue timely realization of the collateral in an orderly manner.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Note	**Loans and advances to banks**		**Loans and advances to customers**		**Investment securities**	
In thousands of denars		**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	*17,16,18*	8,703	7,682	17,198,091	13,820,526	1,750,631	1,148,215
Concentration by sector							
Corporate		-	-	9,587,219	7,707,083	34,835	34,312
Public sector		-	-	46,894	66,795	1,715,796	1,113,903
Bank		8,703	7,682	-	-	-	-
Retail		-	-	7,563,978	6,046,648	-	-
		8,703	7,682	17,198,091	13,820,526	1,750,631	1,148,215
Concentration by location							
EU countries		8,703	7,682	-	-	-	4,277
Other European countries		-	-	301,612	344,161	-	-
USA		-	-	-	-	-	-
Republic of Macedonia		-	-	16,896,479	13,476,365	1,750,631	1,143,938
		8,703	7,682	17,198,091	13,820,526	1,750,631	1,148,215

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

4. Financial risk management (continued)

(b) Credit risk (continued)

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk through broker clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Cash and cash equivalents

The Bank held cash and cash equivalents of MKD 6,056,771 thousand at 31 December 2014 (2013: MKD 4,514,268 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank, domestic banks and foreign financial institution counterparties which are rated BBB - to AA, based on rating agency Standard&Poor's ratings.

(c) Liquidity risk

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

Management of liquidity risk

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

Assets, Liability and Payment Division receive information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Assets, Liability and Payment Division then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

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

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowed funds and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy. In order for the liquidity risk to be kept at acceptable level the bank has set internal limits on liquidity risk exposure which are regularly followed and reported. Also as part of the overall liquidity risk management in order to address future emergencies, as a liquidity crisis management tool the bank has established liquidity contingency plan with clearly defined roles and responsibilities of the parties involved in the processes itself. The Liquidity Contingency Plan is specifying developments, so that immediate actions will be taken in order to prevent escalation of such events. In regular course of the activities of the Bank liquidity risk is managed according to the Policy and Procedure on liquidity risk management. As key indicators, that will be used to recognize liquidity problems, the Bank, as minimum, is defining the following:

- substantial increase in the assets financed by short term deposits usually overnight deposits;
- significant and sudden decrease in the core deposits or loss of the regular depositors of the Bank;
- considerable decrease in the assets quality, particularly the credit portfolio;
- problems in the access to funds over a longer time period (such as low market liquidity);
- extensive withdrawal of deposits before their maturity date;
- regulatory liquidity indicators; internal liquidity indicators;

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

Within the plan it is cleared out that stress-testing analyses needs to be performed and reported at different levels.

As a part of the crisis management actions, within the Liquidity Contingency Plan, following are considered as immediate:

- borrow from the mother bank;
- borrow on inter-bank money market;
- sell short term securities (domestic and foreign);
- sell longer term securities (domestic and foreign);
- borrowing from the National Bank (overnight loan)

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

Residual contractual maturities of financial liabilities

In thousands of denars	***Note***	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2014								
Total Assets		27,208,517	27,208,517	7,778,738	1,090,475	4,298,349	7,545,263	6,495,692
Non-derivative liabilities								
Deposits from banks	*22*	983,820	(983,820)	(983,210)	-	(610)	-	-
Deposits from customers	*23*	16,696,435	(16,696,435)	(5,592,894)	(1,683,143)	(4,929,765)	(4,471,782)	(18,851)
Other borrowed funds	*24*	3,953,247	(3,953,247)	(25,516)	(31,451)	(285,284)	(2,806,476)	(804,520)
Other financial liabilities	26	157,020	(157,020)	(157,020)	-	-	-	-
Current income tax liability	27	30,730	(30,730)	-	-	(30,730)	-	-
Total Liabilities		21,821,252	(21,821,252)	(6,758,640)	(1,714,594)	(5,246,389)	(7,278,258)	(823,371)
Unrecognized loan commitments		2,560,253	(2,560,253)	(962,917)	(531,263)	(673,020)	(393,053)	-
Liquidity gap		2,827,012	2,827,012	57,181	(1,155,382)	(1,621,060)	(126,048)	5,672,321
31 December 2013								
Total Assets		20,196,187	20,196,187	5,066,213	597,666	3,316,496	5,997,312	5,218,500
Non-derivative liabilities								
Deposits from banks	*22*	1,689,691	(1,689,691)	(1,689,069)	-	(622)	-	-
Deposits from customers	*23*	12,515,445	(12,515,445)	(4,925,588)	(1,551,205)	(3,795,107)	(2,240,822)	(2,723)
Other borrowed funds	*24*	2,275,446	(2,275,446)	(37,356)	(15,560)	(689,385)	(1,328,520)	(204,625)
Other financial liabilities	26	159,695	(159,695)	(125,428)	-	(25,669)	-	(8,598)
Total Liabilities		16,640,277	(16,640,277)	(6,777,441)	(1,566,765)	(4,510,783)	(3,569,342)	(215,946)
Unrecognised loan commitments		2,560,252	(2,560,252)	(962,917)	(531,263)	(673,020)	(393,053)	-
Liquidity gap		995,658	995,658	(2,674,145)	(1,500,362)	(1,867,307)	2,034,917	5,002,554

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

The previous table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognized loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

(d) Market risks

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

Management of market risks

Excess of the liquidity the Bank is placing in high yielding instruments that according to the Central bank regulation are considered as placements with no risk. The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Treasury Front Office. Treasury Front Office daily follows the price movement of the quoted instruments and for adverse market movement, Board of Directors of the Bank, is instantaneously informed. In this process the Parent's support in terms of providing information on international market movements and developments is also utilized.

Assets and liabilities committee (ALCO) which holds a meeting every week is platform where market risks are analyzed and decisions are made at the operational level. ALCO performs analyses and makes decisions with regard to balance sheet structure, liquidity risk, and currency risk and also is analyzing the risk of the Bank's treasury unit.

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

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

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

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is asset sensitive because of the majority of the interest-earning assets and liabilities; the Bank has the right simultaneously to change the interest rates. However the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios (continued)

A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

In thousands of denars	***Note***	**Carrying amount**	**Less than 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
31 December 2014							
Cash and cash equivalents	*15*	3,278,009	3,278,009	-	-	-	-
Loans and advances to banks	*16*	-	-	-	-	-	-
Loans and advances to customers	*17*	17,143,316	893,810	1,549,228	11,718,080	1,992,350	989,848
Investment securities	*18*	1,697,784	-	347,161	345,777	704,846	300,000
Total		22,119,109	4,171,819	1,896,389	12,063,857	2,697,196	1,289,848
Deposits from banks and other financial institutions	*22*	979,133	978,523	-	610	-	-
Deposits from customers	*23*	15,710,399	4,989,818	1,567,588	7,103,525	2,049,468	-
Other borrowed funds	*24*	3,940,708	85,146	103,030	1,920,531	1,767,467	64,534
Total		20,630,240	6,053,487	1,670,618	9,024,666	3,816,935	64,534
Interest rate gap		1,488,869	(1,881,668)	225,771	3,039,191	(1,119,739)	1,225,314
31 December 2013							
Cash and cash equivalents	*15*	3,992,035	3,992,035	-	-	-	-
Loans and advances to banks	*16*	-	-	-	-	-	-
Loans and advances to customers	*17*	13,763,654	1,053,709	1,639,918	9,947,067	767,848	355,112
Investment securities	*18*	1,106,539	-	-	801,654	304,885	-
Total		18,862,228	5,045,744	1,639,918	10,748,721	1,072,733	355,112
Deposits from banks and other financial institutions	*22*	1,678,742	1,678,132	-	610	-	-
Deposits from customers	*23*	11,536,421	4,196,685	1,501,462	4,891,193	947,081	-
Other borrowed funds	*24*	2,267,287	78,310	169,337	1,374,000	593,595	52,045
Total		15,482,450	5,953,127	1,670,799	6,265,803	1,540,676	52,045
Interest rate gap		3,379,778	(907,383)	(30,881)	4,482,918	(467,943)	303,067

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios (continued)

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Effect in thousands of denars	**Profit / loss for the period**
2014	
Interest income (1% increase)	195,015
Interest income (1% decrease)	(195,015)
Interest expense (1% increase)	181,684
Interest expense (1% decrease)	(181,684)
2013	
Interest income (1% increase)	172,732
Interest income (1% decrease)	(172,732)
Interest expense (1% increase)	143,518
Interest expense (1% decrease)	(143,518)

Exposure to currency risk – non-trading portfolios

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

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to currency risk – non-trading portfolios (continued)

The Bank's exposure to foreign currency risk for non-trading portfolio is as follows:

In thousands of denars	2014					2013				
	MKD	**EUR**	**USD**	**Other**	**Total**	**MKD**	**EUR**	**USD**	**Other**	**Total**
Monetary assets										
Cash and cash equivalents	5,057,642	849,101	26,987	123,041	6,056,771	3,331,250	907,636	165,227	110,155	4,514,268
Loans and advances to banks	-	-	8,703		8,703	-	-	7,682	-	7,682
Loans and advances to customers	7,769,711	9,404,973	23,407	-	17,198,091	5,941,737	7,732,849	145,940	-	13,820,526
Investment securities	1,695,362	55,269	-	-	1,750,631	1,087,469	56,469	4,277	-	1,148,215
Other financial assets	66,246	71,775	199	26	138,246	36,220	47,555	1,335	4,114	89,224
	14,588,961	10,381,118	59,296	123,067	25,152,442	10,396,676	8,744,509	324,461	114,269	19,579,915
Monetary liabilities										
Deposits from banks	624	957,637	-	25,559	983,820	624	1,688,562	498	7	1,689,691
Deposits from customers	12,020,574	4,323,824	267,155	84,882	16,696,435	8,209,978	3,916,584	308,268	80,615	12,515,445
Other borrowed funds	14,882	3,937,056			3,951,938	23,977	2,251,469	-	-	2,275,446
Tax liabilities	30,730	-	-	-	30,730	-	-	-	-	-
Other financial liabilities	98,165	57,002	1,348	505	157,020	98,370	21,166	8,235	21	127,793
	12,164,975	9,275,519	268,503	110,946	21,819,943	8,332,949	7,877,781	317,001	80,643	16,608,375
Net FX position	2,423,986	1,105,599	(209,207)	12,121	3,332,499	2,063,727	866,728	7,460	33,626	2,971,540

In performing the currency risk stress test, the Bank in the worst case scenario assesses the impact of the 20% denar devaluation in relation with other currencies. Results of the stress test show that assumed 20% denar devaluation would lead to gains from changes in exchange rate in amount of 166,379 thousand MKD. This will have a positive effect on the Own funds as well through P&L.

4. Financial risk management (continued)

(e) Operational risk

Operational risk is risk of loss due to inappropriate or weak internal processes, inappropriate persons and inappropriate or weak systems in the Bank as well as external events.

The Bank defined its framework for managing with the operational risk by adopting the Policy and Procedure on operational risk management. Policy and Procedure for Operational Risk Management was adopted by the Supervisory Board of the Bank. In the Policy the basic aims are defined such as operational risk management (system and processes for managing operational risk, organizational structure, reporting system, internal control and etc), as well as measuring and monitoring the operational risk. Implementation of the operational risk management framework is meant to be delivered by performing RCSA (Risk and control self-assessment) which is continuous process, and by using the operational loss event database.

Within the strategy for Risk Management, the Bank has defined the acceptable level of exposure to operational risk. The Bank plans to use the basic indicator for operational risk in calculating the capital necessary for covering operational risk.

For the purposes of calculation of capital adequacy, the Bank uses the basic indicator approach for the determining the capital required for coverage of operational risk.

(e) Capital management

Regulatory capital

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

In implementing capital adequacy requirements NBRM requires the Bank to maintain a prescribed ratio of 8% of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets and sum of capital requirements for currency risk.

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

- Core capital, which includes ordinary and noncumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the balance sheet and confirmed by a Decision of the Bank's Shareholders’ Assembly or accumulated loss from previous year, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.

4. Financial risk management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.
- The total of core capital and supplementary capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

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

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

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

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

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

In 2012 NBRM introduced new Decision on the methodology for determining capital adequacy, prescribing the manner of calculation of capital required by banks for coverage of credit, operational, market and currency risks, as well as the manner of calculation of own funds. The calculation of the capital required for coverage of operational risk is based on the standardized approach in accordance with Basel II. The new decision is in force starting 1 July 2012.

As at 31 December 2014 the capital adequacy ratio of the Bank is 15.33% (31 December 2013: 18,08%) and is above the prescribed minimum of 8%.

5. Key sources of estimation uncertainty

Capital allocation

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

Allowances for impairment losses on loans and advances

Assets accounted for at amortized cost are assessed for impairment on a basis described in accounting policy 3(h) (vii).

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

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

Allowance for impairment of available for sale equity investments

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

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(h)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

5. Key sources of estimation uncertainty (continued)

Critical accounting judgments in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The fair value measurement is disclosed in the accounting policy 3(h) (vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument, that the entity can access at the measurement date.;

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). 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. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

Level 2: This category includes investment in Government Bills in amount of 692,937 thousand mkd and Government Bonds in amount of 1,022,859 thousand mkd (2013: includes investment in Government Bonds in amount of 312,249 and Government Bills in amount of 801,654 thousand MKD and Eurobonds in amount of 130,833 thousand MKD).

The presented price is the price from the first recognition in the Balance sheet according the initial deal.

This instruments can be sold on the Secondary market in the Country.

Level 3: This category includes investments in equity shares, that are not quoted, there is no active market , and are held at cost. However when the Bank decides they can be be sold on Secondary Stock exchange market.

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

In thousands of denars	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2014					
Investment securities	*18*	-	1,715,796	34,835	1,750,631
		-	1,715,796	34,835	1,750,631
31 December 2013					
Investment securities	*18*	-	1,113,903	34,312	1,148,215
		-	1,113,903	34,312	1,148,215

5. Key sources of estimation uncertainty (continued)

Critical accounting judgments in applying the Bank's accounting policies (continued)

Financial asset and liability classification

The Bank may designate financial assets and liabilities on inception into different accounting categories in certain circumstances:

- In classifying financial assets as “trading”, the Bank has determined that it meets the definition of financial assets held for trading.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation.
- In classifying financial assets as Held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date.

Details of the Bank's classification of financial assets and liabilities are given in note 7.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

5. Key sources of estimation uncertainty (continued)

Critical accounting judgments in applying the Bank's accounting policies (continued)

Financial asset and liability classification (continued)

In thousands of denars	**Investments securities**	**Total**
Balance at 1 January 2013	34,343	34,343
Total gains or losses		
In profit or loss	163	163
In other comprehensive income		
Purchases	1,899	1,899
Settlements	(2,093)	(2,093)
Balance at 31 December 2013	34,312	34,312
Total gains/(losses) recognised in profit or loss for financial assets and liabilities outstanding as at 31 December 2013	163	163
Balance at 1 January 2014	34,312	34,312
Total gains or losses		
In profit or loss	399	399
In other comprehensive income		
Purchases	4,800	4,800
Settlements	(4,676)	(4,676)
Balance at 31 December 2014	34,835	34,835
Total gains/(losses) recognised in profit or loss for financial assets and liabilities outstanding as at 31 December 2014	399	399

6. Operating segments

The Bank has 4 reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Managing Board reviews internal management reports. The following summary describes the operations in each of the Bank's reportable segments:

- Corporate Banking - Includes loans, deposits and other transactions and balances with corporate customers
- Retail Banking - Includes loans, deposits and other transactions and balances with retail customers
- Investment Banking - Includes the Bank's trading and investment finance activities
- Treasury - Undertakes the Bank's funding and centralized risk management activities through investing in liquid assets such as short-term placements and government debt securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about operating segments

31 December 2014

In thousands of denars	Investment Banking	Corporate Banking	Retail Banking	Central Treasury	Unallocated	Total
External revenue						
Net interest income	130,247	359,626	399,648	(30,583)	-	858,938
Net fee and commission income/(expense)	(20,759)	110,596	83,878	-	-	173,715
Net trading income	-	-	-	411	-	411
Other operating income	-	54,911	20,381	5,589	-	80,881
Total segment revenue	109,488	525,133	503,907	(24,583)	-	1,113,945
Other material non-cash items:						
Impairment losses on financial assets	-	(23,059)	(62,456)	(159)	49,447	(36,227)
Depreciation and amortization	-	(53,077)	(43,427)	-		(96,504)
Personnel expenses and other expenses	-	(182,279)	(336,951)	(77,630)	(29,986)	(626,846)
Reportable segment profit before income tax	109,488	266,718	61,073	(102,372)	19,461	354,368
Reportable segment assets	3,329,395	10,594,101	7,444,773	4,650,455	-	26,018,724
Reportable segment liabilities		8,439,507	8,508,524	4,934,170	4,136,523	26,018,724

6. Operating segments (continued)

Information about operating segments (continued)

31 December 2013

In thousands of denars	**Investment Banking**	**Corporate Banking**	**Retail Banking**	**Central Treasury**	**Unallocated**	**Total**
External revenue						
Net interest income	126,790	311,744	303,871	(14,593)	-	727,812
Net fee and commission income/(expense)	-	79,886	60,277	(19,194)	-	120,969
Net trading income	-	-	-	(327)	-	(327)
Other operating income	-	6,786	992	4,165	35,186	47,129
Total segment revenue	126,790	398,416	365,140	(29,949)	35,186	895,583
Other material non-cash items:						
Impairment losses on financial assets	161	(6,409)	(14,781)	(591)	-	(21,620)
Depreciation and amortization	-	-	-	-	(90,553)	(90,553)
Personnel expenses and other expenses	-	(298,366)	(290,105)	-	-	(588,471)
Reportable segment profit before income tax	126,951	93,641	60,254	(30,540)	(55,367)	194,939
Reportable segment assets	2,844,997	8,264,282	6,412,674	2,936,992	-	20,458,945
Reportable segment liabilities	-	6,129,138	6,522,276	3,965,137	3,842,394	20,458,945

6. Operating segments (continued)

Information about operating segments (continued)

Reconciliations of reportable segment revenues, profit or loss and assets and liabilities

In thousands of denars	**2014**	**2013**
Revenues		
Total revenue for reportable segments	1,113,863	860,397
Unallocated amounts	-	35,186
Total Revenue	1,113,863	895,583
Profit or loss		
Total profit or loss for reportable segments	334,907	250,306
Unallocated amounts	19,461	(55,367)
Profit before income tax	354,368	194,939
Assets		
Total assets for reportable segments	26,018,724	20,458,945
Other unallocated amounts	-	-
Total assets	26,018,724	20,458,945
Liabilities		
Total liabilities for reportable segments	21,882,201	16,616,551
Other unallocated amounts	4,136,523	3,842,394
Total liabilities	26,018,724	20,458,945

Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers and assets are based on geographical location of the assets.

Geographical information

In thousands of denars	**Republic of Macedonia**	**Europe**	**Other**	**Total**
2014				
External revenues	1,115,667	(1,538)	(184)	1,113,945
Non-current assets*	732,627	-	-	732,627
2013				
External revenues	908,794	(13.053)	(158)	895,583
Non-current assets*	711,441	-	-	711,441

* Includes property and equipment and intangibles assets

7. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the carrying amount and fair values of the Bank's financial assets and financial liabilities:

In thousands of denars	***Note***	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortized cost**	**Total carrying amount**	**Fair value**
31 December 2014								
Cash and cash equivalents	*15*	-	-	-	-	6,056,771	6,056,771	6,056,771
Loans and advances to banks	*16*	-	-	8,703	-	-	8,703	8,703
Loans and advances to customers	*17*	-	-	17,198,091	-	-	17,198,091	17,198,091
Investment securities								
Measured at fair value	*18*	-	-	-	1,750,631	-	1,750,631	1,750,631
Other financial assets	*21*	-	-	138,246	-	-	138,246	138,246
		-	-	17,345,040	1,750,631	6,056,771	25,152,442	25,152,442
Deposits from banks	*22*	-	-	-	-	983,820	983,820	983,820
Deposits from customers	*23*	-	-	-	-	16,696,435	16,696,435	16,696,435
Other borrowed funds	*24*	-	-	-	-	3,951,938	3,951,938	3,951,938
Other financial liabilities	*26*	-	-	-	-	157,020	157,020	157,020
		-	-	-	-	21,789,213	21,789,213	21,789,213
31 December 2013								
Cash and cash equivalents	*15*	-	-	-	-	4,514,268	4,514,268	4,514,268
Loans and advances to banks	*16*	-	-	7,682	-	-	7,682	7,682
Loans and advances to customers:	*17*	-	-	13,820,526	-	-	13,820,526	13,820,526
Investment securities:								
Measured at fair value	*18*	-	-	-	1,148,215	-	1,148,215	1,148,215
Other financial assets	*21*	-	-	89,224	-	-	89,224	89,224
		-	-	13,917,432	1,148,215	4,514,268	19,579,915	19,579,915
Deposits from banks	*22*	-	-	-	-	1,689,691	1,689,691	1,689,691
Deposits from customers	*23*	-	-	-	-	12,515,445	12,515,445	12,515,445
Other borrowed funds	*24*	-	-	-	-	2,275,446	2,275,446	2,275,446
Other financial liabilities	*26*	-	-	-	-	127,793	127,793	127,793
		-	-	-	-	16,608,375	16,608,375	16,608,375

7. Financial assets and liabilities (continued)

Investment securities – unquoted equity securities at cost

The above table includes MKD 34,835 thousand (2013: MKD 34,312 thousand) of equity investment securities in both the carrying amount and fair value columns that are measured at cost and for which disclosure of fair value is not provided because their fair value cannot be reliably measured. According to the Bank's management fair value do not differ significantly from the carrying amount and it is not cost effective to carry out independent valuation.

8. Net interest income

In thousands of denars	**2014**	**2013**
Interest income		
Cash and cash equivalents	86,237	108,766
Loans and advances to banks		-
Loans and advances to customers	1,181,956	994,833
Investment securities	62,958	35,724
Total interest income	1,331,151	1,139,323
Interest expense		
Deposits from banks	4,225	7,877
Deposits from customers	412,258	356,188
Other borrowed funds	55,218	47,406
Other liabilities	512	40
Total interest expense	472,213	411,511
Net interest income	858,938	727,812

9. Net fee and commission income

In thousands of denars	**2014**	**2013**
Fee and commission income		
Credit related fees	28,101	20,298
Payment operations in the country	67,008	45,728
Payment operations abroad	52,491	53,682
Letters of credit and guarantees	21,291	20,182
Other	120,028	66,107
Total fee and commission income	288,919	205,997
Fee and commission expense		
Payment operations within the country	21,818	21,552
Payment operations abroad	9,657	9,341
Letters of credit and guarantees	197	363
Other	83,532	53,772
Total fee and commission expense	115,204	85,028
Net fee and commission income	173,715	120,969

10. Net trading income

In thousands of denars	**2014**	**2013**
Interest income	510	109
Net change in fair value of held-for-trading assets	(99)	(436)
Total net trading income	411	(327)

11. Other operating income

In thousands of denars	**2014**	**2013**
Capital gain on sale of assets available for sale	18,897	-
Capital gain on sale of property and equipment	371	493
Capital gain on sale of assets acquired through foreclosure procedure	2,993	143
Dividends on available-for-sale equity securities	4,886	4,165
Collection of previously written off receivables	20,537	757
Release of impairment provision for off balance	82	1,523
Calculated expenses in previous years	4,272	1,253
Refund of phone expanses	141	524
Income from collected claims insurance	636	250
Sale of bills of exchange	464	581
Other	3,730	8,241
	57,009	17,930

12. Personnel expenses

In thousands of denars	**2014**	**2013**
Wages and salaries	199,781	197,636
Compulsory contributions	68,716	67,347
Other staff costs	3,825	4,255
	272,322	269,238

13. Other expenses

In thousands of denars	**2014**	**2013**
Materials and services	123,073	129,056
Marketing and advertisement costs	32,774	33,119
Insurance premiums of deposits	41,828	44,472
Telecommunications	18,186	21,591
Rents	40,133	33,407
Security expenses	20,424	19,009
Tax on non-deductable expenses	-	1,864
Insurance of property and employees	5,212	4,455
Impairment losses on assets acquired through foreclosure procedure	29,986	19,487
Other	42,908	12,773
	354,524	319,233

14. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2014, was based on the profit attributable to ordinary shareholders of MKD 292,872 thousand (2013: MKD 194,939 thousand) and a weighted average number of ordinary shares outstanding of 289,369 (2013: 289,369), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of denars	**2014**	**2013**
Net profit for the period	292,872	194,939
Net profit attributable to ordinary shareholders	292,872	194,939

Weighted average number of ordinary shares

Number of shares	**2014**	**2013**
Issued ordinary shares at 1 January	289,369	289,369
Weighted average number of ordinary shares at 31 December	289,369	289,369
Basic and Diluted earnings per share	1,012	674

15. Cash and cash equivalents

In thousands of denars	**2014**	**2013**
Cash on hand	646,160	506,509
Balances with the National Bank of Republic of Macedonia	3,724,549	1,904,380
Current accounts with foreign banks	107,778	406,573
Current accounts with local banks	335	110
Treasury bills	1,578,009	1,696,706
Total cash	6,056,831	4,514,278
Specific Allowance for impairment	(60)	(10)
Total cash after ımpaırment	6,056,771	4,514,268

In thousands of denars	**2014**	**2013**
Specific Allowances for impairment		
Balance at 1 January	10	-
Impairment loss for the year recognized in the income statement		
Charge for the year	109	10
Release for the year	-	-
Other corrections	(59)	-
Balance at 31 December	60	10

At 31 December 2014 cash and cash equivalents included MKD 6,056,771 thousand (2013: MKD 4,514,268 thousand) and as obligatory reserve requirement in MKD and MKD 696,463 thousand (2013: MKD 551,810 thousand) as obligatory reserve in foreign currency requirement. Funds from obligatory reserve in foreign currency are not available for the Bank's daily business.

15. Cash and cash equivalents (continued)

Foreign Banks and their credit rating, where the Bank has Current accounts in the position Cash and cash equivalents, are listed below:

Banka	Krediten rejting na banka na dolg rok		
	Fitch	Moody's	S & P
BANCA POPOLARE DI MILANO SCaRL	BB+	B1	B+
COMMERZBANK AG	A+	Baa1	A-
CREDIT SUISSE AG	A	A1	A
DANSKE BANK A/S	A	A3	A
DEMIR-HALK BANK (NEDERLAND) NV	/	Ba2	/
DEUTSCHE BANK AG FRANKFURT AM MAIN	A+	A3	A
DEUTSCHE BANK TRUST COMPANY AMERICAS NEW YORK	A+	A3	A
ERSTE GROUP BANK AG	A	Baa2	A-
INTESA SANPAOLO SpA MILAN	BBB+	Baa2	BBB-
LANDESBANK BADEN-WURTTEMBER	A+	A2	/
NOVA LJUBLJANSKA BANKA DD LJUBLJANA	BB-	Caa1	BB-
RAIFFEISEN BANK INTERNATIONAL	A	Baa2	A-
SVENSKA HANDELSBANKEN AB STOCKHOLM	AA-	Aa3	AA-
TURKIYE HALK BANKASI AS	BBB-	Baa3	/
UBS AG ZURICH	A	A2	A
UNICREDIT SPA MILAN	BBB+	Baa2	BBB-
UNICREDIT BANK AUSTRIA AG	A	Baa2	BBB+
TURKIYE GARANTI BANKASI A.S.	BBB-	Baa3	BB+
Türkiye Cumhuriyeti ZIRAAT BANKASI AS	BBB-	Baa3	/

Source: www.bankersalmanac.com 02.02.2015

16. Loans and advances to banks

In thousands of denars	**2014**	**2013**
Restricted loans and advances to foreign banks	8,703	7,682
	8,703	7,682
Current	-	-
Non-current	8,703	7,682

The restricted deposits include deposit placed in Deutsche Bank AG in the amount of MKD 8,703 thousand (2013: MKD 7,682 thousand) as collateral for transactions performed with MASTER payment cards. These funds are not available for the Bank's daily business.

According to the Standard and Poors the Local long Term rating for UK and Belgium is AAA.

17. Loans and advances to customers

Loans and advances to customers at amortized cost

In thousands of denars	**2014**	**2013**
Retail customers:		
Mortgage lending	483,369	420,842
Consumer loans	5,903,660	4,629,827
Credit cards	760,997	598,889
Other	663,233	594,679
Corporate customers	9,758,395	7,891,773
Less allowances for impairment	(371,563)	(315,484)
Total loans and advances to customers	17,198,091	13,820,526
Current	7,846,995	3,206,071
Non-current	9,351,096	10,614,455

In thousands of denars	**2014**	**2013**
Specific Allowances for impairment		
Balance at 1 January	315,484	276,427
Impairment loss for the year recognized in the income statement		
Charge for the year	32,968	18,584
Effect from interest	23,127	20,565
Other corrections	(16)	(92)
Balance at 31 December	371,563	315,484

18. Investment securities

Available-for-sale investment securities

In thousands of denars	**2014**	**2013**
Government Bonds	1,022,859	312,249
Government Bills	692,937	801,654
Unquoted equity securities at cost	34,835	34,312
Specific Allowance for impairment		-
	1,750,631	1,148,215
Current	1,265,448	843,330
Non-current	485,183	304,885

In thousands of denars	**2014**	**2013**
Specific Allowances for impairment		
Balance at 1 January	-	163
Impairment loss for the year recognized in the income statement		
Charge for the year	-	-
Release for the year	-	(161)
Other corrections	-	(2)
Balance at 31 December	-	-

Government Bonds and Government bills can be sold on Macedonian Secondary stock exchange market.

According the Fitch the local Long term Rating of Republic of Macedonia is BB+.

	2014		**2013**	
Type of investements	Days of Maturity	Interest Rate	Days of Maturity	Interest Rate
Government bills	14	3.25%	364	(3.60%-4.25%)
Government bonds	84-3623	3,60% - 4,80%	1826	4.90%

19. Property and equipment

In thousands of denars	**Buildings**	**Furniture and equipment**	**Assets under construction**	**Leasehold improvements**	**Total**
Cost					
Balance at 1 January 2013	574,259	408,108	10,216	37,297	1,029,880
Acquisitions	9,948	72,057	135	20,799	102,939
Disposals	-	(4,040)	-	-	(4,040)
Balance at 31 December 2013	584,207	476,125	10,351	58,096	1,128,779
Balance at 1 January 2014	584,207	476,125	10,351	58,096	1,128,779
Acquisitions	3,317	52,462	23,391	25,385	104,555
Disposals	-	(2,276)	(9,704)	-	(11,980)
Balance at 31 December 2014	587,524	526,311	24,038	83,481	1,221,354
Depreciation					
Balance at 1 January 2013	84,268	287,047	-	10,731	382,046
Depreciation for the period	14,444	46,523	-	6,665	67,632
Disposals	-	(3,780)	-	-	(3,780)
Balance at 31 December 2013	98,712	329,790	-	17,396	445,898
Balance at 1 January 2014	98,712	329,790	-	17,395	445,897
Depreciation for the period	14,632	54,083	-	8,977	77,692
Disposals	-	(1,743)	-	-	(1,743)
Balance at 31 December 2014	113,344	382,130	-	26,372	521,846
Carrying amounts					
Balance at 1 January 2013	489,991	121,061	10,216	26,566	647,834
Balance at 31 December 2013	485,495	146,335	10,351	40,700	682,881
Balance at 31 December 2014	474,180	144,181	24,038	57,109	699,508

There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2013: zero).

As at 31 December 2014 the Bank does not hold property deeds for two houses with carrying amount MKD 1.973 thousand (2013: MKD 1,095 thousand). The Bank is in process of obtaining the necessary documents.

As at 31 December 2014 the Bank does not have any property pledged as collateral (2013: none).

Operating leases

The Bank leases business premises under operating leases. The leases are cancellable and typically run for a period of up to 5 years.

20. Intangible assets

In thousands of denars	**Software**	**Rights and licenses**	**Assets under development**	**Total**
Cost				
Balance at 1 January 2013	89,340	48,806	5,381	143,527
Acquisitions	13,726	679	2,916	17,321
Disposal	-	-	-	-
Balance at 31 December 2013	103,066	49,485	8,297	160,848
Balance at 1 January 2014	103,066	49,485	8,297	160,848
Acquisitions	1,947	15,499	5,927	23,373
Disposal	-	-	-	-
Balance at 31 December 2014	105,013	64,984	14,224	184,221
Amortization				
Balance at 1 January 2013	66,132	42,635	598	109,365
Amortization for the period	18,972	2,798	1,153	22,923
Disposal	-	-	-	-
Balance at 31 December 2013	85,104	45,433	1,751	132,288
Balance at 1 January 2014	85,104	45,433	1,751	132,288
Amortization for the period	11,466	5,256	2,092	18,814
Disposal	-	-	-	-
Balance at 31 December 2014	96,570	50,689	3,843	151,102
Carrying amounts				
Balance at 1 January 2013	23,208	6,171	4,783	34,162
Balance at 31 December 2013	17,962	4,052	6,546	28,560
Balance at 31 December 2014	8,443	14,295	10,381	33,119

21. Other assets

In thousands of denars	**2014**	**2013**
Other Financial assets		
Trade receivables	1,450	1,869
Fee and commission receivables	7,477	4,710
Receivables upon performed transactions - Western Union	148	1,328
Receivables upon performed transactions – Master Card	37,496	30,507
Receivables upon performed transactions – Visa	83,319	43,917
Receivables upon court taxes	19,159	16,776
Other	6,322	4,096
Total Other Financial assets	155,371	103,203
Specific Allowances for impairment	(17,125)	(13,979)
Total Less allowances for impairment	**138,246**	**89,224**
Current	155,371	103,203
Other Non-financial Assets		
Advances for intangible assets	9,375	10,570
Inventories	8,155	13,040
Asset acquired through foreclosure procedure	97,327	132,029
Prepayments	18,798	11,950
Total Other Non-financial assets	**133,655**	**167,589**

In thousands of denars	**2014**	**2013**
Specific allowances for impairment		
Balance at 1 January	13,979	10,801
Charge for the year	3,149	3,187
Other corrections	(3)	(9)
Balance at 31 December	17,125	13,979

21. Other assets (continued)

Asset acquired through foreclosure procedure

In thousands of denars	Land	Construction	Equipment	Flats	Other	Total
Nominal Value						
Balance at 1 January 2013	54,668	77,181	2,138	25,183	5,993	165,163
Takeover during the year	4,933	-	-	-	-	4,933
Transfer to tangible assets	-	-	-	-	(4,304)	(4,304)
Balance at 31 December 2013	59,601	77,181	2,138	25,183	1,689	165,792
Balance at 1 January 2014	59,601	77,181	2,138	25,183	1,689	165,792
Takeover during the year	-	-	-	1,755	-	1,755
Sold during the year	-	-	(2,138)	(7,877)	(910)	(10,925)
Balance at 31 December 2014	59,601	77,181	-	19,061	779	156,622
Impairment						
Balance at 1 January 2013	2,273	4,310	167	7,861	647	15,258
Transfer to tangible assets	2,622	13,824	62	2,394	586	19,488
Impairment during the year	-	-	-	-	(983)	(983)
Balance at 31 December 2013	4,895	18,134	229	10,255	250	33,763
Balance at 1 January 2014	4,895	18,134	229	10,255	250	33,763
Impairment during the year	12,303	14,513	382	3,815	314	31,327
Transfer to tangible assets	-	-	(611)	(4,837)	(347)	(5,795)
Balance at 31 December 2014	17,198	32,647	-	9,233	217	59,295
Carrying amounts						
Balance at 1 January 2013	52,395	72,871	1,971	17,322	5,346	149,905
Balance at 31 December 2013	54,706	59,047	1,909	14,928	1,439	132,029
Balance at 31 December 2014	42,403	44,534	-	9,828	562	97,327

22. Deposits from banks

In thousands of denars	**2014**	**2013**
Domestic banks	70,580	84,461
Foreign banks	913,240	1,605,230
Total	983,820	1,689,691
Current	4,661	10,871
Non - current	979,159	1,678,820

Time deposits from foreign banks represent a short term deposit from Halk Bank Turkey with interest rate of 0.1% - 0.5% p.a.

23. Deposits from customers

In thousands of denars	**2014**	**2013**
Retail customers	8,471,892	6,504,744
Corporate customers	8,193,188	5,996,071
Public sector	31,355	14,630
Total deposits	16,696,435	12,515,445
Current	4,233,617	3,369,335
Non-Current	11,308,987	8,507,752
Restricted	1,153,831	638,358

24. Other borrowed funds

In thousands of denars	**2014**	**2013**
Bank loans from other financial institutions	3,951,938	2,275,446
Current	342,251	742,301
Non-Current	3,609,687	1,533,145
Total other borrowed funds	3,951,938	2,275,446

24. Other borrowed funds (continued)

Terms and conditions of outstanding loans were as follows:

In thousands of denars					2014		2013	
		Currency	**Nominal interest rate**	**Year of maturity**	**Initial Amount**	**Carrying amount**	**Initial Amount**	**Carrying amount**
Unsecured loans	**MBPR**	EUR	1%-3%	2017-2022	1,173,164	1,175,110	839,106	840,243
Unsecured loans	**SOROS**	EUR	0%-2.5%	According the agreements with the clients	2,348	2,348	2,350	2,350
Unsecured loans	**EFCE**	EUR	3.171%-3.544%	2024	707,036	708,904	153,778	155,154
Unsecured loans	**MRFP**	EUR	5.70%-5.85%	2015 - 2016	34,587	34,762	91,585	92,040
Unsecured loans	**DHB**	EUR	2.4%	2016	768,518	769,915	615,113	616,292
Unsecured loans	**GGF**	EUR	2.871%-3.244%	2022	818,932	819,190	255,887	254,742
Unsecured loans	**EBRD**	EUR	2.171%-2.444%	2015 - 2017	210,793	211,642	289,982	290,648
Unsecured loans	**FIOM**	MKD	0% - 2%	According the agreements with the clients	14,882	14,882	21,695	23,977
Secured loan	**YAPI KREDI BANK**	EUR	2.35%	25.01.2016	215,185	215,185	-	-
Total					**3,945,445**	**3,951,938**	**2,269,496**	**2,275,446**

25. Provisions

In thousands of denars	**Off balance sheet items**	**Litigation and claims**	**Employee provisions**	**Total**
Balance at 1 January 2014	57	179	-	236
Provisions made during the year	-	-	22,745	22,745
Release for the year	(82)	-	-	(82)
Other corrections	84	-	-	84
Balance at 31 December 2014	59	179	22,745	22,983

In thousands of denars	**Off balance sheet items**	**Litigation and claims**	**Employee provisions**	**Total**
Balance at 1 January 2013	1,582	179	-	1,761
Provisions made during the year	-	-	-	-
Release for the year	(1,524)	-	-	(1,524)
F/x exchange	(1)			(1)
Balance at 31 December 2013	57	179	-	236

26. Other liabilities

In thousands of denars	**2014**	**2013**
Other Financial liabilities		
Suppliers payable	10,087	9,655
Other Liabilities for employees	87	20,911
Liabilities upon performed transactions – Master Card	70,574	48,027
Liabilities upon performed transactions – Visa	-	522
Other	76,272	48,678
Total other Financial liabilities	**157,020**	**127,793**
Current	157,020	127,793
Other Non-financial liabilities		
Liabilities for employees benefits	12,644	8,598
Accrued expenses	18,196	23,304
Total other Non-financial liabilities	**30,840**	**31,902**

According the Standard and Poor’s the local Long term rating for United Kingdom and for Belgium is AAA

27. Income tax expense

Current and deferred tax expense

	2014	2013
Current income tax expense	32,441	-
Deferred income tax expense	29,055	-
Income tax expense	**61,496**	**-**

The tax expense for the period comprises current and deferred tax. Current tax expense (2014:MKD 32,441) is calculated based on the new tax regime become effective in2014 according to which the base for income tax computation had been shifted from income "distribution" concept to the profit before taxes. Deferred tax expense is calculated based on the difference between local regulation for impairment provision for on and off balance sheet exposures, because as per Local GAAP, the Central Bank requirements (which are recognised for tax purposes) are in some areas more conservative in relation to the impairment provision and therefore the Local GAAP (Central Bank) impairment provision of loans and advances to customers, banks and off balance sheet exposures is higher compared to IFRS. Consequently the tax (Local GAAP) base of these financial assets is smaller than the carrying amount determined in accordance with IFRS. In respect of off balance sheet exposure the tax (Local GAAP) base of the Liability provision recognised is higher than the carrying amount determined in accordance with IFRS. In these situations there is a taxable temporary difference which triggers the recognition of Deferred tax liability. The DTL is recognised for the difference between the tax (Local GAAP) base and the carrying amount determined in accordance with IFRS (2014: MKD 290,551), times the applicable tax rate in Macedonia which is 10%. (2014: MKD 29,055)

28. Capital and reserves

Share capital

	Ordinary shares	
In number of shares	**2014**	**2013**
On issue at 1 January	289,369	289,369
Issued during the year	-	-
On issue at 31 December	289,369	289,369

At 31 December 2014 the authorized share capital comprised 289,369 (2013: 289,369) ordinary shares. Ordinary shares have a par value of MKD 10,000 (2013: MKD 10,000). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share (2013: one vote per share) at shareholders' meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

The following shareholders have an interest exceeding 5% of the Bank's issued voting share capital:

	% of voting share capital	
	2014	**2013**
Turkiye Halk Bankasi A.S. Ankara	98.78%	98.78%

Agency for managing repossessed property	1.08%	1.08%

28. Capital and reserves (continued)

Statutory reserve

Under local statutory legislation, the Bank is required to set aside 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the minimum level is reached the statutory reserve can also be used for distribution of dividends, based on a decision of the shareholders' meeting, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's Statute.

According to the amendments on the Trading Companies Law, which come into effect from 1 January 2013, the amount necessary to be allocated to statutory reserve is reduced from 15% to 5%, while the level of reserves does not reach 1/10 of the share capital.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognized.

Dividends

After 31 December 2014 no dividends were proposed by the Supervisory Board of the Bank.

29. Contingencies

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

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

In thousands of denars	***Note***	**2014**	**2013**
Guarantees			
in MKD		961,098	653,660
in foreign currency		-	372,869
Letters of credit in foreign currency		492,849	793,205
Loan commitments		1,056,465	918,284
Contingencies before provisions		2,510,412	2,738,018
Provisions	*25*	(59)	(57)
Contingencies after provisions		2,510,353	2,737,961

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

The amount of the revocable contingencies is 4,830,079 thousands MKD, and the amount of the irrevocable contingencies is 3,308,368 thousand MKD (2013: the amount of the revocable contingencies is 3,652,520 thousand MKD, and the amount of the irrevocable once is 2,821,214 thousand MKD).

30. Related parties transactions

On 7 April 2011 Halk Bank Turkey purchased majority of the shares of Export and Credit Bank AD, Skopje (Halkbank AD, Skopje) of 91.56% and became the parent company of the Bank. Shares were acquired from Demir Halk Bank, Netherlands (DHB Bank) which owned 66.56% of shares of Export and Credit Banka AD, Skopje (Halkbank AD, Skopje) and 25% of shares from the European Bank for Research and Development (EBRD). After the changes in 2012 and the merger of Ziraat Bank AD Skopje, Halkbank Turkey owns 98.78% of the voting share capital.

According to the Banking Law persons related to the Bank are the following: persons with special rights and responsibilities and persons related thereto, shareholders with qualified holding in the Bank (direct or indirect ownership of at least 5% of the total number of shares or the issued voting shares in a Bank or which makes it possible to exercise a significant influence in the Bank) and entities related thereto and responsible persons of those shareholders – legal entities.

The Bank approves loans, extends guarantees attracts and takes deposits and loans from enterprises and banks to which it is related.

The volumes of related party transactions at the yearend are as follows:

(i) Cash and cash equivalents

	Transactions with the Parent Bank	
In thousands of denars	**2014**	**2013**
Placements as at 1 January	2,628	1,193
Placements during the year	16,936,134	223,332,894
Withdrawals during the year	(16,937,858)	(223,331,459)
Cash and cash equivalents outstanding at 31 December	904	2,628
Interest income earned	-	-

(ii) Loans and advances to related parties

	Key management personnel of the Bank and other related parties	
In thousands of denars	**2014**	**2013**
Loans outstanding at 1 January	23,763	8,383
Loans issued during the year	-	40,669
Loan repayments during the year	(8,896)	(25,289)
Loans outstanding at 31 December	14,867	23,763
Specific allowance for impairment	(298)	(199)
Interest income earned	2,185	1,517

30. Related parties transactions (continued)

(iii) Deposits from related parties

In thousands of denars	Parent and with it related parties 2014	Parent and with it related parties 2013	Other related parties 2014	Other related parties 2013	Key management personnel of the Bank and with them related parties 2014	Key management personnel of the Bank and with them related parties 2013
Deposits at 1 January	1,605,230	1,992,108	-	-	22,639	12,595
Deposits received during the year	8,123,293	214,247,551	-	-	846,725	233,369
Deposits repaid during the year	(8,815,283)	(214,634,429)	-	-	(769,565)	(223,325)
Deposits at 31 December	913,240	1,605,230	-	-	99,799	22,639
Interest expense on deposits	3,671	7,522	-	-	20,070	188

(iv) Borrowings from related parties

In thousands of denars	Parent and with it related parties 2014	Parent and with it related parties 2013	Other related parties 2014	Other related parties 2013
Borrowings at 1 January	615,113	-	-	-
Borrowings received during the year	779,313	615,113	-	-
Borrowings repaid during the year	(625,908)	-		
Borrowings at 31 December	768,518	615,113	-	-
Interest expense - borrowings	18,802	10,683	-	-

(v) Other transactions with related parties

In thousands of denars	Other related parties 2014	Other related parties 2013	Parent 2014	Parent 2013	Key management personnel of the Bank and with the related parties 2014	Key management personnel of the Bank and with the related parties 2013
Cash and cash equivalents	64	30	904	2,628	-	-
Commitments and contingences	-	-	76,807	5,484	6,405	4,613
Provision for off balance	-	-	-	-	(64)	47
Interest income	-	-	-	-	2,185	1,517
Fee and commission expense	36	81	239	213	-	501
Fee and commission income	7	6	61	127	905	1,175

30. Related parties transactions (continued)

(vi) Key management personnel compensation

In thousands of denars	**2014**	**2013**
Short-term employee benefits	81,782	79,846
Termination benefits	-	-
	81,782	79,846

31. Subsequent events

After 31 December 2014 – the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.