



# Financial Statements and Independent Auditors' Report

Kapital Banka AD, Skopje

31 December 2014

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# Independent Auditors' Report

Grant Thornton DOO  
Sv. Kiril i Metodij 52b/1-20  
1000 Skopje  
Macedonia

T +389 (2) 3214 700  
F +389 (2) 3214 710  
[www.grant-thornton.com.mk](http://www.grant-thornton.com.mk)

To the Shareholders of Kapital Banka AD, Skopje

## **Report on financial statements**

We have audited the accompanying financial statements of Kapital Banka AD, Skopje (the “Bank”) which comprise the Balance sheet as of 31 December 2014, and the Income statement, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 130.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulation of the National Bank of the Republic of Macedonia 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 about whether the financial statements are free from material misstatements. 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 Bank'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 Bank'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 qualified audit opinion.

*Basis for qualified opinion*

As it is disclosed in Note 22.2 to the accompanying financial statements, as of 31 December 2014, loans and advances to customers amounted to 1,451,735 thousand Denar, net of the respective allowance for impairment in the amount of Denar 106,701 thousand. Based on performed audit procedures, we identified additional amount of allowance for impairment of loans and advances to customers in the amount of Denar 15,428 thousand. Consequently, loans and advances to customers as of 31 December 2014 has been overstated and the loss for the year ended 31 December 2014 has been understated for the amount of 15,428 thousand Denar. The Bank has recorded this amount in its financial statements after the reporting date, which is not in accordance with adopted accounting framework that requires expenditures and related allowance for impairment to be recognized in the period when they have occurred.

*Qualified opinion*

In our opinion, except for the effect of the matter discussed in the paragraph "Basis of qualified opinion", the financial statements, present fairly, in all material respects, the financial position of the Bank as of 31 December 2014, and its financial performance and cash flows for the year then ended, in accordance with the regulation of the National Bank of the Republic of Macedonia.

*Other matter*

Financial statements of the Bank as of and for the year ended 31 December 2013 were audited by another auditor, which in its report dated 29 April 2014 expressed an unmodified opinion on those financial statements.

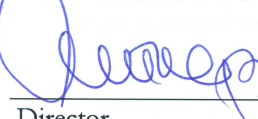
**Report on other legal and regulatory matters**

The Bank's management is also responsible for preparation of the Annual report of the Bank for the Bank's performance for 2014 in accordance with Article 384 of the Law on Trade Companies. Our responsibility is to express an opinion on the consistency of the annual report with the historical financial data reported in the Annual account and the audited financial statements as of and for the year ended 31 December 2014, in accordance with ISA 720, and in accordance with requirements of Article 34, paragraph 1, point (d) of the Law on Audit (Official Gazette of Republic of Macedonia No. 184/2014).

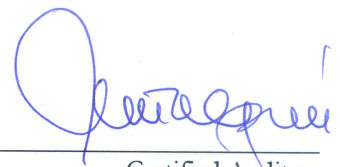
In our opinion, the historical financial information presented in the annual report of the Bank as of and for the year ended 31 December 2014 is consistent, in all material respects, with the information presented in the Annual accounts and the audited financial statements as of and for the year ended 31 December 2014.

Skopje,  
30 April 2015

Grant Thornton DOO



Director  
Suzana Stavrik

Certified Auditor  
Suzana Stavrik

Financial statements  
31 December 2014

## Income statement

	Notes	In Denar thousand	
		2014	2013
Interest income		150,897	122,495
Interest expense		(68,602)	(56,026)
<b>Net interest income / (expense)</b>	6	82,295	66,469
Fee and commission income		34,791	29,468
Fee and commission expense		(10,308)	(8,685)
<b>Net fee and commission income / (expense)</b>	7	24,483	20,783
Net trading income / (expenses)	8	-	-
Net income from other financial instruments carried at fair value	9	-	-
Foreign exchange gains / (losses), net	10	6,447	5,089
Other operating income	11	5,256	5,355
Participation in income of associates	24	-	-
Impairment losses of financial assets, net	12	(40,956)	(35,795)
Impairment losses of non – financial assets, net	13	3,095	4,770
Personnel expenses	14	(47,597)	(46,883)
Depreciation and amortization	15	(14,491)	(15,519)
Other operating expenses	16	(48,573)	(48,549)
Participation in losses of associates	24	-	-
<b>Profit / (loss) before taxation</b>		<b>(30,041)</b>	<b>(44,280)</b>
Income tax	17	-	-
<b>Profit / (loss) for the year from continuing operations</b>		<b>(30,041)</b>	<b>(44,280)</b>
Profit / (loss) from group of assets and liabilities held for sale *		-	-
<b>Profit / (loss) for the financial year</b>		<b>(30,041)</b>	<b>(44,280)</b>
<b>Profit / (loss) for the period, attributable to:*</b>			
shareholders of the Bank		-	-
Non controlling interest		-	-
<b>Earnings per share</b>	41		
Basic earnings per share (in Denar)		(1,045)	(1,541)
Diluted earnings per share (in Denar)		(1,045)	(1,541)

\*For consolidated financial statements only

See accompanying Notes to the financial statements

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## Statement of comprehensive income

	Notes	In Denar thousand	
		2014	2013
<b>Profit/ (loss) for the financial year</b>		<b>(30,041)</b>	<b>(44,280)</b>
<b>Other profits/(losses) not recognized in profit or loss (before taxation)</b>			
Revaluation reserves for assets available-for-sale			
- Unrealized net-changes in fair value of assets available for sale		857	415
- Realized profits/(losses) of assets available for sale, reclassified in profit and loss, net		-	-
Revaluation reserves for foreclosed assets			
- Revaluation reserve as at the date of foreclosure		14,477	173
- Decrease of the revaluation reserve, reclassified in profit and loss		(5,047)	-
Reserves for instruments for protection against risk of cash flows			
- Unrealized net-changes in fair value of instruments for protection against risk of cash flows		-	-
- Realized profits/losses from instruments for protection against risk of cash flows,		-	-
Reserves for instruments for protection against risk of net investments in foreign operations		-	-
Reserves for Foreign exchange differences from investments in foreign operations		-	-
Share in other profits/(losses) from associates, not recognized in profit or loss	24	-	-
Other profits/(losses) not recognized in profit or loss		-	-
Income tax from other profits/(losses) not recognized in profit or loss	17	-	-
<b>Total other profits/(losses) from the period, not recognized in profit or loss</b>		<b>10,287</b>	<b>588</b>
<b>Comprehensive income/(loss) for the financial year</b>		<b>(19,754)</b>	<b>(43,692)</b>
<b>Comprehensive income/(loss) for the financial year, attributed to: *</b>			
Bank's shareholders		-	-
Non controlling interest		-	-

\*For consolidated financial statements only

See accompanying Notes to the financial statements

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## Balance sheet

	Notes	In Denar thousand	
		2014	2013
<b>Актива</b>			
Cash and cash equivalents	18	794,740	433,934
Assets held for trading	19	-	-
Financial assets at fair value through profit and loss at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Loans and advances to banks	22.1	11	-
Loans and advances to customers	22.2	1,451,735	1,143,740
Investments in securities	23	237,140	117,658
Investments in associates (recorded according to "equity method")	24	-	-
Current income tax receivables	30.1	301	-
Other receivables	25	15,638	13,788
Assets pledged as collateral	26	-	-
Foreclosed assets	27	20,263	12,175
Intangible assets	28	14,798	18,653
Property and equipment	29	55,859	63,587
Deferred tax assets	30.2	-	-
Non – current assets held for sale and disposal group	31	-	171
<b>Total assets</b>		<b>2,590,485</b>	<b>1,803,706</b>
<b>Liabilities</b>			
Trade liabilities	32	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition	33	-	-
Derivatives held for risk management	21	-	-
Due to banks	34.1	65,003	66,957
Due to customers	34.2	2,127,943	1,405,081
Debt instruments issued	35	-	-
Borrowings	36	-	-
Subordinated liabilities	37	114,061	90,365
Special reserve and provisions	38	255	908
Current income tax liabilities	30.1	-	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	6,901	6,003
Liabilities related to disposal group	31	-	-
<b>Total liabilities</b>		<b>2,314,163</b>	<b>1,569,314</b>

See accompanying Notes to the financial statements

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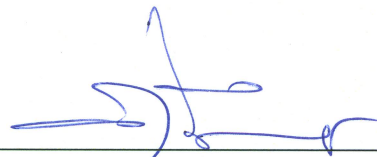
## Balance sheet (continued)

	Notes	In Denar thousand	
		2014	2013
<b>Equity</b>			
Subscribed capital	40	855,688	856,514
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves		11,532	1,245
Other reserves		-	-
Retained earnings /(Accumulated losses)		(590,898)	(623,367)
<b>Total equity and reserves attributable to the shareholders of the Bank</b>		<b>276,322</b>	<b>234,392</b>
Non controlling interest *		-	-
<b>Total equity and reserves</b>		<b>276,322</b>	<b>234,392</b>
<b>Total liabilities and equity and reserves</b>		<b>2,590,485</b>	<b>1,803,706</b>
Commitment and contingencies	42.1	268,860	199,226
Contingent assets	42.2	-	-

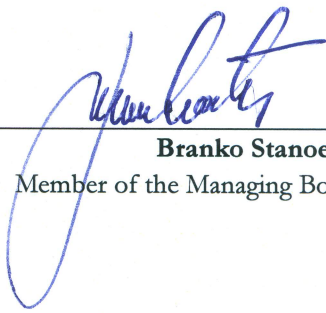
\*For consolidated statements only

These financial statements have been approved by the Bank's Supervisory Board on 29 April 2015.

Signed on behalf of the Bank by:

  
**Igor Stojnev**  
Chairman of the Managing Board



  
**Branko Stanoeski**  
Member of the Managing Board



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## Statement of changes in equity

	Equity			Revaluation reserve			Other reserves				Retained earnings		Total equity and reserves attributable to the shareho. of the Bank	Non cont rolling interest *	Total equity			
	Subscribed capital	Share premium	(Treas. shares)	Other equity instruments	Reval. Reserve of assets available for sale	Reval. Reserve for fore-closed assets	Risk Reserve	Forex reserve	Other reserve	Statutory reserve	Capital components of hybrid financial instruments.	Other reserves				Attribut. to sharehol	Limited for distrib. to sharehol (Accum. loss)	
in Denar thousand																		
At 01 January 2013	856,514	-	-	-	657	-	-	-	-	-	-	-	-	-	(579,087)	278,084	-	278,084
Opening balance adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>At 01 January 2013 adjusted</b>	<b>856,514</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>657</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(579,087)</b>	<b>278,084</b>	<b>-</b>	<b>278,084</b>
<b>Comprehensive profit/(loss) for the financial year</b>																		
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(44,280)	(44,280)	-	(44,280)
Other profit/(loss) not recognized in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of assets available – for – sale	-	-	-	-	415	-	-	-	-	-	-	-	-	-	-	415	-	415
Changes in fair value of risk protection of cash flows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of risk protection of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

See accompanying Notes to the financial statements

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## Statement of changes in equity (continued)

	Equity			Revaluation reserve			Other reserves			Retained earnings			Total equity and reserves attributable to the Bank		Non Controlling interest *	Total equity	
	Subscribed capital	Share premium	(Treas. shares)	Other equity instruments	Reval. Reserve of assets available for sale	Reval. Reserve for fore-closed assets	Risk Reserve	Forex reserve	Other reser.	Statutory reserve	Capital component s of hybrid financial instrument s.	Other reserves	Attribut. to sharehol.	Limited for distrib. to shareho l.			(Accum. loss)
in Denar thousand																	
Foreign exchange differences arising from investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets) / liabilities recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profits/ (losses) not recognized in profit or loss	-	-	-	-	-	173	-	-	-	-	-	-	-	-	-	173	173
<b>Total unrealized profits / (losses) recognized in equity</b>	-	-	-	-	415	173	-	-	-	-	-	-	-	-	-	588	588
<b>Total comprehensive income/ (loss) for the financial year</b>	-	-	-	-	415	173	-	-	-	-	-	-	-	-	(44,280)	(43,692)	(43,692)
<b>Transactions with shareholders, recognized in equity:</b>																	
Shares issued during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution to statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution to other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other corections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Transactions with shareholders, recognized in equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>On 31 December 2013 / 01 January 2014</b>	<b>856,514</b>	-	-	-	<b>1,072</b>	<b>173</b>	-	-	-	-	-	-	-	-	<b>(623,367)</b>	<b>234,392</b>	<b>234,392</b>

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## Statement of changes in equity (continued)

	Equity			Revaluation reserve			Other reserves			Retained earnings			Total equity and reserves attributable to the shareho. of the Bank	Non controlling interest *	Total equity			
	Subs-cribed capital	Share premium	(Treas. shares)	Other equity instruments	Reval. Reserve of assets available for sale	Reval. Reserve for fore-closed assets	Risk Reserve	Forex reserve	Other reser.	Statutor y reserve	Capital component s of hybrid financial instrument s.	Other reserve s				Attribut. to sharehol.	Limited for distrib. to sharehol.	(Accum. loss)
in Denar thousand																		
Corrections to the opening balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>At 01 January 2014, corrected</b>	<b>856,514</b>	-	-	-	<b>1,072</b>	<b>173</b>	-	-	-	-	-	-	-	-	<b>(623,367)</b>	<b>234,392</b>	-	<b>234,392</b>
<b>Comprehensive profit/ (loss) for the financial year</b>																		
Profit / loss for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(30,041)	<b>(30,041)</b>	-	<b>(30,041)</b>
Other profit/(loss) not recognized in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of assets available – for – sale	-	-	-	-	857	-	-	-	-	-	-	-	-	-	-	857	-	857
Changes in fair value of instruments for protection against risk of cash flows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of instruments for protection against risk of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange differences from investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets) / liabilities recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profits/ (losses) not recognized in profit or loss	-	-	-	-	-	9,430	-	-	-	-	-	-	-	-	-	9,430	-	9,430
<b>Total unrealized profits / (losses) recognized in equity</b>	-	-	-	-	857	9,430	-	-	-	-	-	-	-	-	-	<b>10,287</b>	-	<b>10,287</b>
<b>Total comprehensive income/ (loss) for the financial year</b>	-	-	-	-	<b>857</b>	<b>9,430</b>	-	-	-	-	-	-	-	-	<b>(30,041)</b>	<b>(19,754)</b>	-	<b>(19,754)</b>

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## Statement of changes in equity (continued)

	Equity			Revaluation reserve				Other reserves			Retained earnings		(Accum. loss)	Total equity and reserves attributable to the shareho. of the Bank	Non controlling interest *	Total equity	
	Subs-cribed capital	Share pre-ium	(Treas. shares)	Other equity instrume nts	Reval. Reserve of assets available for sale	Reval. Reserve for fore-closed assets	Risk Reserv e	Forex reserv e.	Other reser. reserve	Statutor y instrument s.	Capital component s of hybrid financial instrument s.	Other reserve s					Attribut. to sharehol. sharehol.
in Denar thousand																	
<b>Transactions with shareholders, recognized in equity:</b>																	
Shares issued during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution to statutory reserve																	
Distribution to other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covering accumulated losses from subordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	61,684	61,684	-
Other corections	(826)	-	-	-	-	-	-	-	-	-	-	-	-	-	826	-	-
<b>Transactions with shareholders, recognized in equity</b>	<b>(826)</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>62,510</b>	<b>61,684</b>	<b>61,684</b>
<b>At 31 December 2014</b>	<b>855,688</b>	-	-	-	<b>1,929</b>	<b>9,603</b>	-	-	-	-	-	-	-	-	<b>(590,898)</b>	<b>276,322</b>	-

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## Statement of Cash Flows

	Notes	<i>in Denar thousand</i>	
		2014	2013
<b>Operating activities</b>			
Profit / (Loss) before taxation		<b>(30,041)</b>	<b>(44,280)</b>
<i>Adjustment for:</i>			
Non controlling interest, included in consolidated income statement *		-	-
<i>Amortization and depreciation of:</i>			
Intangible assets		6,186	5,776
Property and equipment		8,305	9,743
<i>Capital gain from:</i>			
Sale of intangible assets		-	-
Sale of property and equipment		(76)	(1)
Sale of foreclosed assets		(2,236)	(38)
<i>Capital loss from:</i>			
Sale of intangible assets		-	-
Sale of property and equipment		-	-
Sale of foreclosed assets		102	-
Interest income		(150,897)	(122,495)
Interest expense		68,602	56,026
Net trading (income)/ expenses		-	-
<i>Impairment losses of financial assets, net</i>			
additional impairment losses		130,468	100,599
release of impairment losses		(89,512)	(64,804)
<i>Impairment losses of non – financial assets, net</i>			
additional impairment losses		2,026	3,044
release of impairment losses		(5,121)	(7,814)
<i>Special reserve</i>			
additional provisions		1,130	1,596
release of provisions		(1,783)	(2,217)
Dividend income		(64)	(55)
Participation of profit / (loss) of associates		-	-
Other adjustments		-	-
Received interest		143,758	119,859
Paid interest		(68,411)	(57,186)
<b>Profit / (Loss) from operations before changes in operating assets</b>		<b>12,436</b>	<b>(2,247)</b>
<i>(Increase) / decrease of operating assets:</i>			
Trading assets		-	-
Derivatives held for risk management		-	-
Loans and advances to banks		-	-
Loans and advances to customers		(344,534)	(338,897)
Assets pledged as collateral		-	-
Foreclosed assets		(3,057)	6,660
Obligatory deposit in foreign currency		(6,861)	(14,597)

See accompanying Notes to the financial statements

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## Statement of cash flows (continued)

	<i>In Denar thousand</i>	
	2014	2013
Obligatory deposit held with NBRM according to special regulations	-	-
Other receivables	573	(3,032)
Deferred tax assets	-	-
Non – current assets held for sale and disposal group	-	-
<i>Increase / (decrease) in operating liabilities:</i>	-	-
Trading liabilities	-	-
Derivative liabilities held for risk management	-	-
Due to banks	(1,942)	66,943
Due to customers	721,805	333,435
Other liabilities	898	855
Liabilities related to disposal group of assets	-	-
<b>Net cash flow from operating activities before taxation</b>	<b>379,318</b>	<b>49,120</b>
(Paid) / received income tax	-	-
<b>Net cash flow from operating activities</b>	<b>379,318</b>	<b>49,120</b>
<b>Cash flow from investment activity</b>		
(Investments in securities)	(303,172)	(41,128)
Inflows from sale of investment in securities	193,536	-
(Outflows from investment in subsidiaries and associates)	-	-
Inflows from disposal of investment in subsidiaries and associates	-	-
(Purchase of intangible assets)	(2,331)	(2,728)
Inflows from sale of intangible assets	-	-
(Purchase of property and equipment)	(236)	(2,377)
Inflows from sale of property and equipment	104	403
(Outflows from non – current assets held for sale)	-	(171)
Inflows from non – current assets held for sale	-	-
(Other outflows from investing activity)	-	-
Other inflows from investing activity	64	55
<b>Net cash flow from investing activity</b>	<b>(112,035)</b>	<b>(45,946)</b>
<b>Cash flow from financing activity</b>		
(Repayment of debt securities issued)	-	-
Issued debt securities	-	-
(Repayment of borrowings)	-	-
Increase of borrowings	-	-
(Repayment of issued subordinary debts)	-	-
Issued subordinated debts	86,235	40,049
Inflows from issued shares / equity instruments during the period	-	-
(Purchase of treasury shares)	-	-
Sold treasury shares	-	-
(Dividends paid)	-	-
(Other outflows from financing)	-	-
Other inflows from financing	-	-
<b>Net cash flow from financing activity</b>	<b>86,235</b>	<b>40,049</b>
Effect from allowance for impairment of cash and cash equivalents	427	(427)
Effect from foreign exchange differences of cash and cash equivalents	-	(58)
<b>Net increase / (decrease) of cash and cash equivalents</b>	<b>353,945</b>	<b>42,738</b>
Cash and cash equivalents as at 01 January	398,911	356,173
<b>Cash and cash equivalents as at 31 December</b>	<b>18</b>	<b>752,856</b>
	<b>752,856</b>	<b>398,911</b>

See accompanying Notes to the financial statements

# Notes to the financial statements

## **1 Introduction**

### **1.1 General**

Kapital Banka AD, Skopje (hereinafter “the Bank”) is a Shareholding Company incorporated in the Republic of Macedonia.

The address of its registered head office is: St. Filip Vtori Makedonski no. 3, 1000 Skopje, Republika Makedonija.

The Bank is licensed by the National Bank of Macedonia (“NBRM”) to perform payment operations in the country and abroad, including mediation and selling of foreign currency, lending in the country and deposit activities. As at 31 December 2014, the Bank employs 75 employees (2013: 72 employees).

The bank has no investments in subsidiaries and associates.

On 2 June 2014, the parent company of the Bank, Alfa Finance Holding with the Economic Bureau AD Skopje, the major partner of the MAK BS Savings House, Skopje has signed Agreement for intention of merging of the MAK BS Savings House to the Bank, and the Assembly of shareholders of the Capital Bank AD Skopje at 25 June 2014 passed a decision for merging of the MAK BS Savings House to the Bank.

The Bank's shares are quoted on the joint stock companies market with special reporting obligations of the Macedonian Stock Exchange AD Skopje, symbol INTP and ISIN code MKINTP101015.

These financial statements have been approved by the Bank’s Supervisory Board on 29 April 2015.

### **1.2 Basis of preparation**

#### **Statement of compliance**

These financial statements are prepared in accordance with the Law on trading companies (“Official Gazette of RM” no. 28/2004 ... 138/2014), Banking Law (“Official Gazette of RM” no. 67/2007, 90/2009, 67/2010 and 26/2013), by the law regulative prescribed by the National Bank of the Republic of Macedonia (“NBRM”) and the Decision on the Methodology of recording and valuation of accounting entries and preparation of financial statements (“Official Gazette of RM”, no.169/2010, 162/2012, 50/2013, 110/13) and the Guidelines for types and content of banks’ financial statements (“Official Gazette of RM”, no.169/2010, 152/2011, 54/2012 and 166/2013).

The financial statements are separate financial statements.

**Notes to the financial statements (continued)**  
**As of and for the year ended 31 December 2014**

**Basis of preparation (continued)**

The financial statements are prepared as at and for the years ended 31 December 2014 and 2013. If necessary, the presentation of comparative data is adjusted according to the changes in the presentation for the current year.

**Basis of measurement**

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

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

**Functional and presentation currency**

These financial statements are presented in Macedonian Denar (“MKD” or “Denar”), which is the Bank’s functional currency. Unless otherwise stated, all amounts are expressed in Denar thousands.

**Use of estimates and judgments**

The preparation of financial statements requires Management to make judgments, estimates and assumptions 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.

In particular, information about significant areas of estimation, uncertainty and critical judgments made by the Management in applying accounting standards that have the most significant effect on the amount recognized in the financial statements, are described in note 1.4 use of estimates and judgments.

**1.3 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 to Macedonian Denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian Denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Macedonian Denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items stated at historical cost, denominated in foreign currency, should be translated into Denars using the exchange rate as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Macedonian Denars at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

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

	<u>31 December 2014</u>	<u>31 Decemeber 2013</u>
1 EUR	61.4814 Denars	61.5113 Denars
1 USD	50.5604 Denars	44.6284 Denars
1 CHF	51.1152 Denars	50.1764 Denars



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

(b) Interest

Interest income and expense are recognized in the profit or loss using the effective interest method. 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the profit or loss include:

- interest on financial assets and liabilities at amortized cost using the effective interest method;
- interest on available-for-sale investment securities by using the effective interest method.

(c) Fees and commission

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.

Other fees and commission expenses relate mainly to financial service fees, which are expensed as the services are received.

(d) Dividends

Dividend income is recognized when the right to receive income is established. Dividends are reflected as a component of net trading income, or dividend income based on the underlying classification of the equity instrument.

(e) 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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

(f) Income tax expense

The Bank's obligation for current tax is calculated in accordance with the statutory tax regulations and by applying the prescribed tax rates which are in force or are significant in terms of their implementation on the date of the Balance sheet.

Current tax expenses at 10% is paid for the year which is determined as the difference between total revenues and total expenses for the period, increased with the non - recognized expenses for tax purposes adjusted for tax credit and less declared revenue. The tax basis is reduced for the amount of income from dividends realized through participation in the capital of another taxpayer – resident of the Republic of Macedonia, stipulating they are subject to tax expense by the taxpayer who pays the dividend. Taxpayer that will pay the dividends and other distribution from the retained earnings created in the period from 2009 to 2013 will also have the obligations to calculate and pay the tax for those distributions.

Income tax expense for the previously presented period shall be calculated at a rate of 10% on unrecognized expenses for tax purposes corrected by the tax credit and tax releases and exemptions, as well as on the distributed income for dividends to legal entities – non-residents and natural persons. Undistributed earnings are not subject to taxation.

Deferred income tax is recognized on the differences between the accounting value of assets and liabilities in financial statements and their relevant tax basis used during calculation of taxable income and is recorded by applying the liability method. Deferred tax liabilities are recognized for all taxable temporary differences, whereas a deferred tax asset is recognized for all deducted temporary differences to the extent of the probability that there will be sufficient future tax profit which will allow for using the temporary differences as refusal item.

Deferred tax assets and liabilities are measured according to the tax rates which are expected to be applied during the period when the liabilities are paid or assets realized, and stem from the prescribed tax rates (and tax laws) valid on the balance sheet date.

As at 31 December 2014 and 2013, the Bank has no registered deferred tax assets and liabilities, since there are no temporary differences on these dates.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits and borrowings on the date at which they are originated at cost. Regular 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.

**Notes to the financial statements (continued)**  
**As of and for the year ended 31 December 2014**

**Accounting policies (continued)**  
**Financial assets and liabilities (continued)**

**(ii) Classification**

See accounting policies 1 (h), (i), (j), (p).

**(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 surplus 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 Balance sheet.

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

**(iv) Offsetting**

Financial assets and liabilities are set off and the net amount is presented in the Balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, 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**

Fair value measurement assumes that an asset or a liability is exchanged between the market participants in an orderly transaction. Fair value can be assessed differently, depending on whether or not the asset or liability is traded in the active market or not.

*Active market: Fair value*

Active market is the market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information for the asset or liability.

Regular quoted price of the asset or liability is the one which is in the margins between the purchase and sales price and which best represents fair value under current conditions. Usually it is used the current: purchase price of the asset which is held or for the liability that should be issued, i.e. sales / bid price for the asset which should be acquired or for the liability which is held: average market price or other price in accordance with the usually accepted market practice.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

Financial assets and liabilities (continued)  
Fair value measurement (continued)

*Absence of an active market: Valuation techniques*

If there is no active market for the financial asset or liability, the Bank uses valuation techniques for which has the most available data, giving advantage to the data that can be determined by the market, for determining the fair value of the asset or liability.

Widely used valuation techniques are: market approach (quoted prices are used or other relevant information from market transactions with the same or similar assets or liabilities), cost approach (known as current replacement cost which reflects the amount that would be required currently to replace the asset) and income approach (discounted value of the current market expectations about future amounts (cash inflows or income and expenses from the asset or liability)).

In application of these valuation techniques the Bank considers the following:

- Application of information on negotiated prices for recent (from the past 6 months), normal commercial transactions for the same financial instrument between informed, willing parties (if they are available);
- If the previous valuation technique cannot be applied (there is no information available on the negotiated prices for recent transactions concerning the same financial instrument) then to determine the fair value the current market price of another, basically same, instrument should be used (in regards to the currency or the same or similar maturity date);
- If the information for fair value of the previous two techniques is inappropriate or cannot be applied, the fair value of the financial instrument is determined through analysis of the discounted cash flows or other alternative models for price determination.

The Bank can change or make changes in the technique for measurement of the financial instrument, if such change occurs due to the development of new markets, availability of new information, changes in market conditions or improvement of the technique for measurement and if it gives more accurate fair value of the financial instrument.

The analysis of discounted cash flows is an important and frequently applied technique for determining the fair value of many assets and liabilities. One of the most important factors in the application of this technique is the determination of an appropriate discount rate.

Discount rate should include uncertainties and risks from cash flow assessment, related to certain asset or liability, due to the fact that those risks and uncertainties will change.

The appropriate discount rate can be determined on the following way:

- Rate on the basis of current market yield from the instrument or instrument with similar characteristics;
  - Rate that is free from risk, adjusted for the appropriate risk that arises from the asset.
- While determining the discount rate the two factors should be taken in consideration separately. The interest rate that is free from risk normally is based on the government bonds with comparable characteristics (currency or maturity) of the assets or liabilities, for which the discount rate will be applied. Risk premium from the asset is equal to the amount which market participants would ask for as a compensation for the uncertainty of the future cash flows from the asset.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

Financial assets and liabilities (continued)

Fair value measurement (continued)

If the fair value of equity instruments not traded in an active market and the derivatives related to them which have to be settled with unquoted equity instruments cannot be reliably measured, those instruments should be carried at their cost.

(vii) Impairment of financial assets

The Bank assesses, on a monthly basis, whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are 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.

Up to 30 November 2013, The Bank recognizes impairment loss in accordance with the NBRM Decision for credit risk management (Official Gazette 17/2008), the Decisions for change and amending the Decision for credit risk management (Official Gazette 31/2009, 91/2011 and 127/2012) and from 01 December 2013, in accordance with the NBRM Decision for credit risk management (Official Gazette 50/2013) and Decisions for change and amending the Decision for credit risk management (Official Gazette 157/2013).

The Bank analyses impairment indicators on loans, receivables and securities on individual basis.

A financial asset is impaired if its carrying value is higher than its estimated recoverable amount. If such evidence exists, the Bank should estimate its recoverable amount of that asset or group of assets and recognize provision for impairment (impairment loss). Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency of payments 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 that correlate with defaults.

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 assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized 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 as a difference between the cost and fair value are 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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

Financial assets and liabilities (continued)

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security, are not reversed through the profit or loss, is recognized in other comprehensive income.

(h) 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 three months or less, 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 liabilities.

Cash and cash equivalents are carried at amortized cost in the Balance sheet.

(i) 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 future.

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.

(j) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit and loss, incremental direct transaction costs and subsequently 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. If the Bank buys debt securities classified as held-to-maturity, with discount or premium, the amount of the obtained discount or premium will be recorded on the discount or premium accounts within the appropriate group of accounts for investments in held-to-maturity securities. Other commissions and fees that are integral part of the effective interest rate, as well as transaction costs directly related to the transaction, are recorded on the accumulated amortization accounts within the appropriate group of investing accounts for held-to-maturity debt securities.

A sale or reclassification of a more than an 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.

(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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

Investment securities (continued)

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.

(k) Foreclosed assets

Foreclosed assets are recognized upon completed legal procedure to foreclose and to entitle asset with the ownership. Foreclosed assets are stated at the lower of carrying amount and fair value less costs to sell. At the moment of recognition of the foreclosed asset, the receivable is derecognized from the Balance sheet.

After 01 January 2012 the Bank recognized the impairment loss for the already foreclosed asset in the income statement equal at least to the higher amount of:

- the difference between the appraised value, reduced by the selling costs and the initial accounting value, reduced by the total amount of impairment loss; and
- 20% of the initial accounting value reduced by the total amount of impairment loss.

According to the new Decision for the accounting regulatory treatment of foreclosed assets from 28 March 2013 (Official Gazette no. 50/13), the Bank is obliged to recognize at least 20% from the beginning carrying value of the foreclosed asset as at the date when foreclosed.

If the amount of the closed impairment provision is higher than 20% from the beginning carrying value of the foreclosed asset, the Bank is obliged to recognize this difference as revalorization reserve on the date when the asset is foreclosed. Revalorization reserve is part of the Bank's additional equity and it can be excluded from the additional equity if the conditions in the Decision on the methodology for determining capital adequacy are met.

At least once in 12-month period the Bank is obliged to determine the appraised value of the foreclosed asset and to recognize impairment provision in profit and loss which is equal to the higher amount from:

- The negative difference between the estimated value and realizable value of the foreclosed asset; and
- 20% from the net carrying value of the foreclosed asset.

In the period between two estimations of the market value of the foreclosed asset the Bank will recognize additional impairment provision in profit and loss which is equal to the negative difference between the net carrying value and the value of the disclosed lower sales price of the foreclosed asset.

If the Bank fails to sell the foreclosed asset up to 01 January 2010 until 01 January 2017, the Bank is obliged to reduce the net carrying value of the foreclosed asset to 0 (zero).

**Notes to the financial statements (continued)**  
**As of and for the year ended 31 December 2014**

**Accounting policies (continued)**

**Foreclosed assets (continued)**

For foreclosed assets up to 1 January 2010 until the Decision takes effect, the Bank is obligated to make the first recognition of the impairment loss no later than 1 January 2014, and if they fail to sell later than 1 January 2018 are due on that date to bring down their net worth to 0 (zero).

If the Bank fails to sell the foreclosed asset up to 5 years, the Bank is obliged to reduce the net carrying value of the foreclosed asset to 0 (zero).

Foreclosed assets are derecognised upon sale of the asset, or when the asset is permanently withdrawn from use. Surplus realized upon sale of the asset is recognized in the profit of loss at the date of sale.

**(l) 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. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

**(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.

The Bank does not calculate depreciation for the property and equipment in preparation.

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

	%	%
	2014	2013
IT equipment	20	20
Telecommunications equipment	15	15
Furniture and office equipment	20	20
Vehicles	25	25
Investments in properties under lease	25	25
Other equipment	10	10

Depreciation methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

(m) 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 in profit and loss 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. The Bank does not calculate depreciation for the intangible assets in preparation. The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

	%	%
	2014	2013
Software	15	15
Other intangible assets	10-20	10-20

The method of calculation of depreciation, the useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) 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. Assets held under other leases are classified as operating leases and, apart for the leased assets, they are not recognized in the Bank's Balance sheet.

(o) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as assets held for sale. Immediately before classification as assets held for sale, the assets shall be measured in accordance with the accounting policies of the Bank.

Thereafter generally the assets are measured at the lower of their carrying amount and fair value less by the sales costs. Impairment losses at initial recognition as assets held for sale and gains and losses on subsequent measurement are recognized to profit or loss. Gains are not recognized in excess of accumulated impairment losses.

(p) Impairment of non-financial assets

The carrying amounts of the Savings House's non-financial assets, other than deferred tax 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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)  
Impairment of non-financial assets (continued)

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

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

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

(q) **Deposits, subordinated and other liabilities**

Deposits, subordinated and other liabilities 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, subordinated and other liabilities are initially measured at fair value plus 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.

(s) **Employee benefits**

(i) **Defined contribution plans**

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations 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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)  
Employee benefits (continued)

(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, according to the criteria set out in the General Collective Agreement. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

(t) Equity and reserves

(i) Ordinary shares

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

(ii) Reserves

Reserves, including other reserves and revaluation reserves, are generated throughout the period, based on distribution of profit in accordance with legal regulation and the Decisions made by the Bank's Assembly, changes if fair value of available for sale financial assets and revaluation of foreclosed assets. The Bank is obliged to allocate statutory reserves in the amount of 5% from the profit for the year, until the amount of the reserves does not achieve amount that is equal to 1/10 from the equity. In accordance with legal regulation, reserves can be used for loss cover and for dividends based on the decision of the Bank's Assembly.

(iii) Treasury shares

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.

(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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

(v) **Commission bussines**

The Bank manages assets on behalf of legal entities and citizens, and keeps and invest those assets in various financial instruments upon direction of the client. For these services receives compensation, and funds from this operation are excluded from the financial statements since they are not assets of the Bank.

(w) **Segment reporting**

The segment is a component of the Bank that can be deferred or that is engaged either in providing products or services (opeating/business segment), or in providing products or services in specific areas (geographical segment) and is subject to risks and rewards different than the other segments. The Bank primarily reports by operating segments.

**1.4 Use of estimates and judgments**

The most important areas in need of estimates and judgments include:

**Impairment of loans and advances**

Assets carried at amortized costs are evaluated for impairment losses as described in accounting policy 1.3 (g) (vii).

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

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 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 investor, industry and sector performance, changes in technology, and operational and financing cash flows.

**Determining fair value**

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 1.3 (g) (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.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Accounting policies (continued)

**Impairment of non-financial assets**

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

**1.5 Changes in accounting policies, estimates and error correction**

There have been no changes in the accounting policies, estimates and errors in the accompanying financial statements.

**1.6 Compliance to legislative regulations**

In 2014, the Bank has active measures to maintain compliance with the Plan to improve the Bank position which was adopted by Decision of the Nacional Bank of Republic of Macedonia issued in 2011, and the amendment of the same decision during 2012. In 2014 National Bank of Macedonia handed measures to the Bank in a form of decision and written warning. The measures are handed on the basis of the findings from partial site supervision of the Bank in previous years and this year.

The Bank immediately took activities for its elimination and regularly reported to NBRM. Regarding these findings the Bank has submitted to NBRM Action plan for removal of the non-compliances.

As at 31 December 2014 there is no non-compliance with the regulations prescribed by the National Bank of Republic of Macedonia in relation to the solvency and capital adequacy, exposure limits of the Bank, the investments of the Bank, the Bank's liquidity and open foreign exchange position.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

## 2 Risk management

The Bank is exposed to various financial risks in the course of its activity. The most significant risks to which the Bank is exposed in its operations are:

- credit risk
- liquidity risk
- market risks
- operational risk

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.

The Bank constantly seeks to achieve an appropriate balance between risk and return and minimize potential adverse effects on the financial performance of the Bank.

### Risk management framework

Management activities of financial risks include analysis, evaluation, acceptance and management. The Bank's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on the financial performance of the Bank.

The system of risk management is in compliance with the provisions of the legislation concerning the management risk.

The system of risk management assumes clear organizational structure for risk management of the Bank that provides existence of clear lines of responsibility, effective segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, the Management Board, senior management, as and between the Bank and its customers, and all other stakeholders.

Also, an effective system of risk management presupposes an effective system of internal control and audit.

The Bank has established policies for risk management aimed to identify and analyze these risks, to set appropriate risk limits and controls risks, and to monitor risks and adherence to limits by means of reliable and modern information systems.

The Bank regularly reviews the suitability of policies and systems for risk management or revise them in accordance with changes in the risk profile of the bank, changes in market conditions, products and best practices.

Risk Management Board is functioning as a separate body in the organizational structure of the system of risk management. Risk Management Board establishes short-term and long-term strategies for managing all kinds of material risks which the Bank is exposed to during its operation, establish and monitor the implementation of policies for risk management and gives proposals for their revision, follows NBRM regulations governing risk management and compliance system of risk management of the Bank with those regulations. Risk Management Board continually assesses and monitors the Bank's risk profile and identify the acceptable level of risk exposure potential losses in order to minimize, defines and regularly reviews exposure limits certain types of risks, monitor the results of the stress-testing the effects of activities undertaken on the basis of these results and monitors the efficiency of the internal control and risk management.

In performing its functions, the Risk Management Board is supported by the Internal Audit Department.

The Internal Audit Department is responsible for the independent review of risk management and the manner of their control. The Internal Audit undertakes both regular and periodic audits of internal controls and procedures for risk management and the results are reported to the Audit Committee.

The most important types of risk which the Bank is exposed to are credit risk, liquidity risk, market risk and operational risk.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
Risk Management (continued)

## 2.1. Credit risk

Credit risk is the most important risk for the Bank, and therefore the management carefully monitors the exposure to credit risk.

Credit risk is the current or prospective risk on the financial result and capital arising from failure to meet the terms of the contract with the bank or otherwise fail to perform as agreed or her client inability to pay its obligations to it in the agreed amount and / or within the agreed deadline.

Exposure to this risk mainly arises from the activities of lending to households and legal entities and activities related to off-balance sheet financial instruments (approved credit limits, guarantees and letters of credit).

In order to to successfully manage this risk, the Bank takes into consideration all the positions of the Bank's assets which represent credit risk exposure.

Also, the Bank takes into consideration all the elements of credit risk exposure, the individual risk of default of any individual or entity debtor and its associated entities, country risk, risk of koncentracija exposure to credit risk.

### Credit risk Management

The Managing Board delegate the responsibility for the management of credit risk to its Credit Committee which approves all credit exposures up to EUR 150,000.

All credit exposures above EUR 150,000 are approved by the Supervisory Board.

Corporate clients department, the Department for business and individuals development, the Department of Legal Affairs in close cooperation with the Department for Risk Management is responsible for the control of credit risk, which includes:

- *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*. Credit departments 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 assessment by respective institutions, market liquidity and country (for investment securities).
- *Classification of the credit exposure of the Bank* according to the degree of risk of financial loss faced and to focus on risk management. The Bank has developed internal rating of credit exposure that is used to determine the amount of impairment, ie special reserve to cover potential losses from the balance sheet or off-balance sheet exposure to credit risk.

According to Bank policies, the determination of impairment, ie special reserve is made on an individual basis.

The current classification of the Bank's receivables from customers consist of five risk levels or categories that reflect different levels of risk and available collateral (A, B, C, D and E).

The calculated impairment, ie special reserve falls within the following framework:

- From 0% to 5% of the credit risk expose are classified in risk category A,
- Above 5% to 20% of the credit risk expose are classified in risk category B,
- Above 20% to 45% of the credit risk expose are classified in risk category C,

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Risk Management (continued)  
Credit risk (continued)

- Above 45% to 70% of the credit risk expose are classified in risk category D and
- Above 70% to 100% of the credit risk expose are classified in risk category E.

• *Monitor compliance* with established legal and internal limits of the Bank's exposure to credit risk, including those for exposure to the type provision, exposure to country risk, exposure to banks and financial institutions etc.

Defined limits are monitored and are subject to review annually or more frequently if necessary.

Limiting credit risk, ie the defined limits are approved by the Supervisory Board.

Exposure to credit risk is also managed through regular analysis of the ability of users of the loans and the borrowers to fulfill the undertaken obligations to the Bank based on interest and principal.

Risk Management Sector prepares monthly reports on the Bank's exposure to credit risk:

- Total on-balance and off-balance sheet exposure to credit risk segments (credit cards, corporate clients, individuals, banks and financial institutions),
- Total on-balance and off-balance sheet exposure to credit risk in the status of the receivable - regularly, past due or dysfunctional,
- The amount of the value of the performed impairment, ie special reserve Segment,
- Structure of the total assets (on-balance and off-balance sheet) exposure to credit risk in certain risk categories,
- Amount of non-performing portfolio of the Bank by segments,
- Review of the Bank's exposure to credit risk by countries and cities (geographical concentration),
- review of the 20 largest exposures to clients - non-financial entities with regular status,
- review of the 20 largest exposures to clients - individuals with regular status,
- Review of non-performing receivables from customers - non-financial entities and activities undertaken for their collection,
- Overview of the 20 largest non-performing receivables from customers - individuals and activities undertaken for their collection,
- A report on the collection of non-performing receivables during the analyzed period (month) and a report on the movement of the collection of these receivables in the analyzed period (year),
- A report on the movement of assets exposed to credit risk analysis period,
- exposures greater than 5% of Bank's own funds,
- Indicators of quality of the loan portfolio of Capital Bank compared to the whole banking sector, and especially in the sector of small banks, and they are regularly submitted to the Risk Management Board.

Based on reports and analysis, the Board Risk Management provides recommendations for taking action to reduce the Bank's exposure to credit risk.

The Bank employs a range of practices and experiences to mitigate or restrict the credit risk. As one of the most traditional and common practice to mitigate credit risk is accepting suitable collateral for approved loans.



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Risk Management (continued)

Credit risk (continued)

Basic types of collateral for loans and other receivables which represent exposure to credit risk are:

- Deposit / depots, bank guarantees and first class corporate guarantees,
- mortgage or pledge on real estate - residential buildings, office buildings and other real estate,
- pledge of movable property - vehicles, equipment, stock etc.,
- Bill of exchange and bill of exchange statement in the form of a notarial deed,
- pledge of financial instruments (debt and ownership securities).

Loans approved to corporate clients and long-term loans to individuals are generally secured; approved overdraft bank accounts and credit cards issued to individuals are secured by guarantors and / or bills of exchange at the full amount of principal, interest and other costs. In order to minimize the credit loss the Bank requires additional collateral from the counterparty in case identify indicators of impairment losses for the relevant individual loans and advances.

Generally, the Bank does not require collateral on loans and advances to banks. The debt securities, treasury bills and other bills are generally unsecured.

Appropriate departments are obliged to implement credit policies and procedures of the Bank. They, in cooperation with the Risk Management Department are responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks.

Internal Audit undertakes both regular checks on the operations of the Department for work with corporate clients and the Department for development of business and individuals.

**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 all 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.

**Past due, but not impaired loans**

Past due, but not impaired are loans and securities where contractual interest or principal are past due by 60 days late, but the Bank believes that it is appropriate to calculate the impairment losses, due to the amount of provision of first class instruments according to the Decision for credit risk management.

**Allowances for impairment**

The Bank calculates impairment that represents its estimate of incurred credit losses in the loan portfolio. The main components of this impairment is a specific loss of value applies individually to all exposures.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

Risk Management (continued)

Credit risk (continued)

Write-off policy

Bank writes off a loan / security (and any related allowances for impairment) when the Supervisory Board determines that the loans / securities are uncollectible. The decision is made after considering information such as significant changes in the financial position of the borrower / issuer of securities, the borrower / issuer is unable to meet its obligations, or that the amount from collateral will not be sufficient to pay the entire exposure. Bank write off a loan / security (and any related impairment) on the basis of a court decision when all possibilities for collection has been exhausted. Also, the Bank write-off of certain receivables without a final court decision, if there is unambiguous evidence of the impossibility for collecting them. Estimates of fair value are based on the value of the collateral at the time of borrowing.

*Total credit risk exposure before received collateral*

The total exposure to credit risk is presented by the carrying amount of financial assets in the balance sheet shown in the table below:



## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## A. Analysis of total credit risk exposure (continued)

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available- for- sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance exposures		Total		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
<i>In Denar thousand</i>																			
Individually insignificant exposures (portfolio of small loans)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individually significant exposures, non-impaired on individual basis (impairment provision and special reserve on a collective basis)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Carrying value of exposures recognized collectively, less impairment provision and special reserve on collective basis</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Carrying value of exposures for which no impairment provision/special reserves has been allocated</b>																			
<b>Matured receivables</b>																			
<b>Maturity structure of matured receivables for which no impairment provision has been allocated</b>																			
Up to 30 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying value of due receivables for which no impairment provision has been allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Non-matured receivables</b>																			
Restructured receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	11	-	110,045	33,316	234,471	115,502	-	-	424,057	305,057	1,082	1	7,084	7,012	206,079	82,697	982,829	543,585	

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## A. Analysis of total credit risk exposure (continued)

	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance exposures		Total	
<i>In Denar thousand</i>	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Carrying value for non-matured receivables for which no impairment provision/ special reserve has been allocated	11	-	110,045	33,316	234,471	115,502	-	-	424,057	305,057	1,082	1	7,084	7,012	206,079	82,697	982,829	543,585
<b>Total carrying value for credit risk receivables prior to impairment provision and special reserves</b>	<b>11</b>	<b>-</b>	<b>1,558,436</b>	<b>1,223,592</b>	<b>245,355</b>	<b>125,432</b>	<b>-</b>	<b>-</b>	<b>424,057</b>	<b>305,894</b>	<b>2,699</b>	<b>2,268</b>	<b>20,731</b>	<b>23,404</b>	<b>231,022</b>	<b>168,723</b>	<b>2,482,311</b>	<b>1,849,311</b>
<b>(Total impairment provision and special reserve)</b>	<b>-</b>	<b>-</b>	<b>(106,701)</b>	<b>(79,851)</b>	<b>(8,215)</b>	<b>(7,774)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(427)</b>	<b>(376)</b>	<b>(436)</b>	<b>(12,482)</b>	<b>(15,525)</b>	<b>(255)</b>	<b>(907)</b>	<b>(128,029)</b>	<b>(104,920)</b>
<b>Total carrying value for credit risk receivables less impairment provision and special reserve</b>	<b>11</b>	<b>-</b>	<b>1,451,735</b>	<b>1,143,740</b>	<b>237,140</b>	<b>117,657</b>	<b>-</b>	<b>-</b>	<b>424,057</b>	<b>305,467</b>	<b>2,323</b>	<b>1,831</b>	<b>8,249</b>	<b>7,879</b>	<b>230,767</b>	<b>167,816</b>	<b>2,354,282</b>	<b>1,744,391</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## B. Collateral value (fair value) for mitigating of credit risk

In Denar thousand	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Other receivables		Off-balance exposures		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Value of collateral for credit exposure assessed for impairment on individual basis																
First-class collateral instruments:																
Cash deposits ( depot and /or limited accounts in the Bank)	-	-	140,765	65,681	-	-	-	-	-	-	-	-	-	-	140,765	65,681
Government securities	-	-	94,528	3,577	-	-	-	-	-	-	-	-	-	-	94,528	3,577
Government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank guarantees	-	-	-	175	-	-	-	-	-	-	-	-	-	-	-	175
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporative guaranties (except for bank and insurance companies)	-	-	68,022	39,982	-	-	-	-	-	-	-	-	-	-	68,022	39,982
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage																
Property for own use (flats, houses)	-	-	739,650	717,154	-	-	-	-	-	-	-	-	-	-	739,650	717,154
Business property	-	-	571,292	606,975	-	-	-	-	-	-	-	-	-	-	571,292	606,975
Movable property pledge	-	-	437,956	423,078	-	-	-	-	-	-	-	-	-	-	437,956	423,078
Other types of guarantee	-	-	286,401	2,317,354	-	-	-	-	-	-	-	-	-	-	286,401	2,317,354
<b>Total value of collateral for credit exposure assessed for impairment on individual basis</b>	<b>-</b>	<b>-</b>	<b>2,338,614</b>	<b>4,173,976</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,338,614</b>	<b>4,173,976</b>



## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## C. Concentration of credit risk by sectors and activities

The following table presents the Bank's credit risk exposure according to recorded amounts, categorized by industrial sectors as at 31 December 2014 and 2013:

In Denar thousand	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance exposures		Total		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
Non residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishery	-	-	2,034	1,669	-	-	-	-	-	-	-	1	-	91	-	-	2,034	1,761	-
Mining	-	-	-	965	-	-	-	-	-	-	-	1	-	12	-	-	-	-	978
Food industry	-	-	10,252	2,719	-	-	-	-	-	-	1	-	-	-	516	380	10,769	3,099	-
Textile industry clothing and footwear manufacturing	-	-	20,926	21,331	-	-	-	-	-	-	24	25	1	5	-	-	20,951	21,361	-
Chemical industry, production of building materials, production and processing of fuel, pharmaceutical industry	-	-	40,493	32,361	1,049	920	-	-	-	-	41	32	-	47	1,632	419	43,215	33,779	-
Production of metals, machinery, tools and equipment	-	-	34,207	2,906	194	179	-	-	-	-	2	-	-	-	-	-	34,403	3,085	-
Other manufacturing Industry	-	-	72,234	51,633	-	-	-	-	-	-	33	7	4	6	31	15,504	72,302	67,150	-
Supply of electricity, gas, steam and air conditioning	-	-	195,138	68,203	-	-	-	-	-	-	276	18	-	-	16,455	1,428	211,869	69,649	-
Water supply, waste water disposal, waste management and environment sanitation	-	-	2,179	2,514	-	-	-	-	-	-	-	-	-	-	-	-	2,179	2,514	-
Construction	-	-	161,823	174,074	1,100	712	-	-	-	-	276	341	1	-	6,991	6,940	170,191	182,067	-





## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## C. Concentration of credit risk by sectors and activities (continued)

<i>In Denar thousand</i>	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance exposures		Total		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
Exterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	252,968	239,423	-	-	-	-	-	-	9	35	249	7,435	23,323	22,455	276,549	269,348	
Sole traders and individuals that are not considered as traders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>11</b>	<b>-</b>	<b>1,451,735</b>	<b>1,143,740</b>	<b>237,140</b>	<b>117,657</b>	<b>-</b>	<b>-</b>	<b>424,057</b>	<b>305,467</b>	<b>2,323</b>	<b>1,831</b>	<b>8,249</b>	<b>7,879</b>	<b>230,767</b>	<b>167,816</b>	<b>2,354,282</b>	<b>1,744,391</b>	

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Credit risk (continued)

## D. Concentration of credit risk by geographical location

The following table presents the Bank's credit risk exposure according to recorded amounts, categorized by geographic regions as at 31 December 2014 and 2013:

In Denar thousand	Loans and advances to banks		Loans and advances to other customers		Investment in financial assets available-for-sale		Investment in financial assets held-to-maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance exposures		Total		
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	
<b>Geographical location</b>																			
Republic of Macedonia	11	-	1,451,735	1,143,740	237,140	117,657	-	-	307,381	233,723	2,323	1,830	8,249	7,879	230,767	167,816	2,237,606	1,672,646	
EU member countries	-	-	-	-	-	-	-	-	116,676	71,743	-	-	-	-	-	-	116,676	71,743	
Europe (other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
OECD member countries (without the European member-countries of OECD)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>11</b>	<b>-</b>	<b>1,451,735</b>	<b>1,143,740</b>	<b>237,140</b>	<b>117,657</b>	<b>-</b>	<b>-</b>	<b>424,057</b>	<b>305,467</b>	<b>2,323</b>	<b>1,831</b>	<b>8,249</b>	<b>7,879</b>	<b>230,767</b>	<b>167,816</b>	<b>2,354,282</b>	<b>1,744,391</b>	

Notes to the financial statements (continued)  
As at and for the year ended 31 December 2014  
Risk Management (continued)

## 2.2 Liquidity risk

Liquidity risk is the probability the Bank can not provide sufficient funds to settle its short-term obligations when they come due or to provide the necessary funds with much higher costs. Liquidity risk arises from the inability of the Bank to timely and quickly turn assets into cash with minimal costs, and the inability to properly manage unexpected changes in the sources of funds.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Division of assets, liquidity and trading securities follows the daily liquidity of the Bank and current market conditions on a regular basis. This department receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business combinations. Division of assets, liquidity and trading securities manage portfolio of short-term liquid assets, largely consist of short-term marketable securities and placements with other banks in order to ensure adequate liquidity of the Bank..

Policies and procedures for managing liquidity risk, which are prepared by Risk Management Sector in cooperation with the Department of assets, liquidity and trading securities are subject to review by the Risk Management Board and approved by the Supervisory Board. Liquidity position of the Bank is monitored by the analysis of daily reports on liquidity. In accordance with the provisions of the legislation, the Bank prepares reports for the Bank's exposure to liquidity risk and submit them to the Nacional Bank of Republic of Macedonia on a monthly basis.

### ***Exposure to liquidity risk***

The Bank has access to a diverse funding base. The sources of funds are equity, subordinated loans and a wide range of deposit products.

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.

As part of the strategy for managing liquidity risk, the Bank holds a portfolio of highly liquid assets.

The following tables analyze assets and liabilities of the Bank into relevant maturity based on the remaining period from the reporting date to the contractual maturity date as of 31 December 2014 and 2013. The amounts are presented on a gross basis, ie not taking into account the amounts of accumulated depreciation, impairment and allocated special reserve..

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Liquidity risk (continued)

Analysis according to the maturity of financial assets (residual maturity)

In Denar thousand

31 December 2014	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>Financial assets</b>							
Cash and cash equivalents	752,856	-	-	41,884	-	-	794,740
Trading assets	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss at its/their initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	11	-	-	-	-	-	11
Loans and advances to customers	235,874	92,679	469,005	142,586	309,107	317,854	1,567,105
Investment in securities	245,355	-	-	-	-	-	245,355
Investments in associated Current income tax receivables (current)	301	-	-	-	-	-	301
Other receivables	28,496	-	-	-	-	-	28,496
Pledged assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>1,262,893</b>	<b>92,679</b>	<b>469,005</b>	<b>184,470</b>	<b>309,107</b>	<b>317,854</b>	<b>2,636,008</b>
<b>Financial liabilities</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit and loss and its/their initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due to banks	65,003	-	-	-	-	-	65,003
Due to customers	469,249	213,783	1,017,885	340,174	86,752	100	2,127,943
Issued debt securities	-	-	-	-	-	-	-
Credit liabilities	-	-	-	-	-	-	-
Subordinated liabilities	242	48	30	-	-	113,741	114,061
Current income tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	6,901	-	-	-	-	-	6,901
<b>Total financial liabilities</b>	<b>541,395</b>	<b>213,831</b>	<b>1,017,915</b>	<b>340,174</b>	<b>86,752</b>	<b>113,841</b>	<b>2,313,908</b>
<b>Off-balance entries</b>							
Off-balance assets	-	-	-	-	-	-	-
Off-balance liabilities	30,979	31,310	87,044	52,016	63,088	4,678	269,115
<b>Net liquidity gap</b>	<b>690,519</b>	<b>(152,462)</b>	<b>(635,954)</b>	<b>(207,720)</b>	<b>159,267</b>	<b>199,335</b>	<b>52,985</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Liquidity risk (continued)

Analysis according to the maturity of financial assets and liabilities (residual maturity) (continued)

In Denar thousand

31 December 2013	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>Financial assets</b>							
Cash and cash equivalents	458,601	-	836	35,023	-	-	494,361
Trading assets	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	91,718	63,784	426,905	165,872	294,111	189,054	1,231,444
Investment in securities	125,432	-	-	-	-	-	125,432
Investment in associates	-	-	-	-	-	-	-
Current income tax receivables	-	-	-	-	-	-	-
Other receivables	30,079	-	-	-	-	-	30,079
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>705,730</b>	<b>63,784</b>	<b>427,741</b>	<b>200,895</b>	<b>294,111</b>	<b>189,054</b>	<b>1,881,316</b>
<b>Financial liabilities</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due to banks	66,943	-	-	-	-	-	66,943
Due to customers	351,242	219,740	544,271	256,107	28,504	5,218	1,405,081
Issued debt securities	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-
Subordinated liabilities	652	522	-	-	-	89,191	90,366
Current income tax liabilities	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	6,002	-	-	-	-	-	6,002
<b>Net liquidity gap</b>	<b>424,839</b>	<b>220,262</b>	<b>544,271</b>	<b>256,107</b>	<b>28,504</b>	<b>94,409</b>	<b>1,568,392</b>
<b>Off-balance entries</b>							
Off-balance assets	-	-	-	-	-	-	-
Off-balance equity and liabilities	26,074	50,187	80,970	13,911	28,991	-	200,134
<b>Net liquidity gap</b>	<b>280,891</b>	<b>(156,478)</b>	<b>(116,530)</b>	<b>(55,212)</b>	<b>265,607</b>	<b>94,645</b>	<b>312,924</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

**2.3 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.

## 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-bearing assets and interest-bearing liabilities mature or reprise at different times or 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 sensitive to changes in interest rates because for the majority of the interest-bearing assets and liabilities, the Bank has the right to simultaneously change the interest rates. When interest rates are decreasing, margins earned will also narrow, as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

Table 2.3.2 b analyze interest-bearing assets and liabilities of the Bank into the period of the change in interest rates at 31 December 2014 and 31 December 2013.

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

## 2.3.1 Analysis of the sensitivity of assets and liabilities to changes in market risk

## A. Analysis of the sensitivity of assets and liabilities to changes in market risk

	<b>Profit/(loss)</b> <i>In Denar thousand</i>	<b>Own funds</b> <i>In Denar thousand</i>	<b>Risk-weighted assets</b> <i>In Denar thousand</i>	<b>Capital adequacy ratio</b> <i>In %</i>
<i>In Denar thousand</i>				
2014				
Amount before sensitivity analysis/stress tests (31.12.2014)	(30,041)	387,846	1,747,847	22,19%
<b>Effects from used scenarios</b>				
Risks from changes in foreign exchange rates				
<b>Depreciation of the Denar compared to other currencies (direct currency risk)</b>				
<b>10%</b>	516	388,362	1,787,427	21,73%
<b>15%</b>	775	388,261	1,807,217	21,48%
<b>30%</b>	1,549	389,395	1,866,588	20,86%
Risks from changes in interest rates				
<b>Change the nominal interest rate</b>				
<b>Increase for 1.5%</b>	(311)	387,535	1,747,846	22,17%
<b>Increase for 2%</b>	(414)	387,432	1,747,846	22,16%
<b>Increase for 2.5%</b>	(518)	387,328	1,747,846	22,16%
2013				
Amount before sensitivity analysis/stress tests (31.12.2013)	(44,280)	319,584	1,474,444	21,67%
<b>Effects from used scenarios</b>				
Risks from changes in foreign exchange rates				
<b>Depreciation of the Denar compared to other currencies (direct currency risk)</b>				
<b>10%</b>	523	320,107	1,505,528	21,26%
<b>15%</b>	784	320,368	1,521,071	21,06%
<b>30%</b>	1,569	321,153	1,507,698	20,49%
Risks from changes in interest rates				
<b>Change the nominal interest rate</b>				
<b>Increase for 1.5%</b>	(196)	319,388	1,474,444	21,66%
<b>Increase for 2%</b>	(261)	319,323	1,474,444	21,66%
<b>Increase for 2.5%</b>	(326)	319,258	1,474,444	21,65%





## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

2.3.2 Analysis of the risk of changes in interest rates of financial assets and liabilities (trading assets are not included)

## A. Analysis of sensitivity from changes in interest rates

## Changes of economic values of the portfolio from bank activities at 31 December 2014 (in Denar thousand)

	Position	Currency	Amount
1.1	Net weighted position of currencies CHF (FCC + SCC + PKS)	CHF	(4)
1.2	Net weighted position for currency EUR (FCC + SCC + PKS)	EUR	(20,077)
1.3	Net weighted position for currency MKD (FCC + SCC + PKS)	MKD	(7,033)
1.4	Net weighted position for currency MKDkiEUR (FCC + SCC + PKS)	MKDkiEUR	6,597
1.5	Net weighted position for currency USD (FCC + SCC + PKS)	USD	(152)
1.6	Net weighted position for currency GBP (FCC + SCC + PKS)	GBP	(41)
	<b>Total weighted value – changes in the economic value of the portfolio of banking activities</b>		<b>(20,710)</b>
2	Own funds		387,846
4	<b>Total weighted value/assets (2/3*100)</b>		<b>5.34%</b>

## Changes of economic values of the portfolio from bank activities at 31 December 2013 (in Denar thousand)

	Position	Currency	Amount
1.1	Net weighted position of currencies CHF (FCC + SCC + PKS)	CHF	(4)
1.2	Net weighted position for currency EUR (FCC + SCC + PKS)	EUR	(15,565)
1.3	Net weighted position for currency MKD (FCC + SCC + PKS)	MKD	(1,729)
1.4	Net weighted position for currency MKDkiEUR (FCC + SCC + PKS)	MKDkiEUR	4,535
1.6	Net weighted position for currency USD (FCC + SCC + PKS)	USD	(152)
1.9	Net weighted position for currency GBP (FCC + SCC + PKS)	GBP	(134)
	<b>Total weighted value – changes in the economic value of the portfolio of banking activities</b>		<b>(13,049)</b>
3	Own funds		319,584
4	<b>Total weighted value/assets (2/3*100)</b>		<b>4.08%</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

Analysis of the risk of changes in interest rates of financial assets and liabilities (trading assets are not included) (continued)

## B. Analysis of the reconciliation of interest rates

<i>In Denar thousand</i>	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total interest bearing assets / liabilities
<b>31 December 2014</b>							
<b>Financial assets</b>							
Cash and cash equivalents	291,736	-	-	-	-	-	291,736
Financial assets at fair value through profit and loss at its/their initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	173,908	146,722	1,072,913	5,415	-	-	1,398,958
Investment in securities	21,690	50,000	50,040	57,020	55,000	-	233,750
Other unmentioned interest sensitive assets	-	-	-	-	-	-	-
<b>Total interest sensitive financial assets</b>	<b>487,334</b>	<b>196,722</b>	<b>1,122,953</b>	<b>62,435</b>	<b>55,000</b>	<b>-</b>	<b>1,924,444</b>
<b>Financial liabilities</b>							
Financial liabilities at fair value through profit and loss at its/their initial recognition	-	-	-	-	-	-	-
Due from banks	65,000	-	-	-	-	-	65,000
Due from customers	330,272	159,918	1,272,918	190,990	-	-	1,954,098
Debt securities issued	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-
Subordinated liabilities and hybrid instruments	-	-	-	-	-	113,741	113,741
other unmentioned interest sensitive liabilities	-	-	-	-	-	-	-
<b>Total interest sensitive financial liabilities</b>	<b>395,272</b>	<b>159,918</b>	<b>1,272,918</b>	<b>190,990</b>	<b>-</b>	<b>113,741</b>	<b>2,132,839</b>
<b>Net-balance position</b>	<b>92,062</b>	<b>36,804</b>	<b>(149,965)</b>	<b>(128,555)</b>	<b>55,000</b>	<b>(113,741)</b>	<b>(208,395)</b>
Off-balance interest sensitive assets positions	-	-	-	-	-	-	-
Off-balance interest sensitive liabilities position	-	-	-	-	-	-	-
<b>Net off-balance position</b>							
<b>Total net position</b>	<b>92,062</b>	<b>36,804</b>	<b>(149,965)</b>	<b>(128,555)</b>	<b>55,000</b>	<b>(113,741)</b>	<b>(208,395)</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

Analysis of the risk of changes in interest rates of financial assets and liabilities (trading assets are not included) (continued)

## B. Analysis of the reconciliation of interest rates (continued)

<i>In Denar thousand</i>	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total interest bearing assets / liabilities
<b>31 December 2013</b>							
<b>Financial assets</b>							
Cash and cash equivalents	231,818	-	-	-	-	-	231,818
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	80,096	86,141	924,585	5,882	-	-	1,096,704
Investments in securities	89,746	-	114,600	-	-	-	204,346
Other unmentioned interest sensitive assets	8,709	-	-	-	-	-	8,709
<b>Total interest sensitive financial assets</b>	<b>410,369</b>	<b>86,141</b>	<b>1,039,185</b>	<b>5,882</b>	<b>-</b>	<b>-</b>	<b>1,541,577</b>
<b>Financial liabilities</b>							
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Due from banks	66,943	-	-	-	-	-	66,943
Due from customers	104,219	165,254	790,036	133,339	-	-	1,192,848
Debt securities issued	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-
Subordinated liabilities and hybrid instruments	-	-	-	-	-	89,191	89,191
Other unmentioned interest sensitive liabilities	105,214	-	-	-	-	-	105,214
<b>Total interest sensitive financial liabilities</b>	<b>276,376</b>	<b>165,254</b>	<b>790,036</b>	<b>133,339</b>	<b>-</b>	<b>89,191</b>	<b>1,454,196</b>
<b>Net-balance position</b>	<b>133,993</b>	<b>(79,113)</b>	<b>249,149</b>	<b>(127,457)</b>	<b>-</b>	<b>(89,191)</b>	<b>87,381</b>
Off-balance interest sensitive assets positions	-	-	-	-	-	-	-
Off-balance interest sensitive liabilities positions	-	-	-	-	-	-	-
<b>Net off-balance position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net position</b>	<b>133,993</b>	<b>(79,113)</b>	<b>249,149</b>	<b>(127,457)</b>	<b>-</b>	<b>(89,191)</b>	<b>87,381</b>

**Notes to the financial statements (continued)**

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

**Risk Management (continued)****Market risks (continued)****2.3.3 Currency risk**

Currency risk is the risk of loss due to change in exchange rates between and / or change the value of the Denar against the value of other foreign currencies.

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank determines that the net exposure is carried on a satisfactory level through buying and selling foreign currencies due to the compensation of the short-term exceptions. The Macedonian Denar is fixed with the Euro and the monetary projection is that the forex rate Denar / Euro will stay stable.

The monitoring of this risk on a regular basis provides security for the Supervisory Board and that the established control system works properly.

The tables below representing the open foreign currency position of monetary assets and liabilities of the Bank by currency on 31 December 2014 and 2013.

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

## Currency risk (continued)

	<i>In Denar thousand</i>	MKD	EUR	USD	Other	Total
<b>31 December 2014</b>						
<b>Monetary assets</b>						
Cash and cash equivalents		610,716	155,284	20,612	8,128	794,740
Trading assets		-	-	-	-	-
Financial assets at fair value through profit and loss at its/their initial recognition		-	-	-	-	-
Derivative assets held for risk management		-	-	-	-	-
Loans and advances to banks		11	-	-	-	11
Loans and advances to customers		1,094,536	357,199	-	-	1,451,735
Investment in securities		122,469	114,671	-	-	237,140
Investment in associates		-	-	-	-	-
Current income tax receivables		301	-	-	-	301
Other receivables		15,228	244	166	-	15,638
Assets pledged as collateral		-	-	-	-	-
Deferred tax assets		-	-	-	-	-
<b>Total monetary assets</b>		<b>1,843,261</b>	<b>627,398</b>	<b>20,778</b>	<b>8,128</b>	<b>2,499,565</b>
<b>Monetary liabilities</b>						
Trading liabilities		-	-	-	-	-
Financial liabilities at fair value through profit and loss at tis/their initial recognition		-	-	-	-	-
Derivative liabilities held for risk management		-	-	-	-	-
Due from banks		65,003	-	-	-	65,003
Due from customers		1,544,119	556,063	20,580	7,181	2,127,943
Debt securities issued		-	-	-	-	-
Borrowings		-	-	-	-	-
Subordinated liabilities		-	114,061	-	-	114,061
Current income tax liabilities		-	-	-	-	-
Deferred tax liabilities		-	-	-	-	-
Other liabilities		4,450	2,332	119	-	6,901
<b>Total monetary liabilities</b>		<b>1,613,572</b>	<b>672,456</b>	<b>20,699</b>	<b>7,181</b>	<b>2,313,908</b>
<b>Net-position</b>		<b>229,689</b>	<b>(45,058)</b>	<b>79</b>	<b>947</b>	<b>185,657</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Risk Management (continued)

## Market risks (continued)

## Currency risk (continued)

	<i>In Denar thousand</i>	MKD	EUR	USD	Other	Total
<b>31 December 2013</b>						
<b>Monetary assets</b>						
Cash and cash equivalents		229,077	105,689	91,241	7,927	433,934
Trading assets		-	-	-	-	-
Financial assets at fair value through profit and loss at its/their initial recognition		-	-	-	-	-
Derivative assets held form risk management		-	-	-	-	-
Loans and advances to banks		-	-	-	-	-
Loans and advances to customers		802,304	341,436	-	-	1,143,740
Investment in securities		45,866	71,792	-	-	117,658
Investment in associates		-	-	-	-	-
Current income tax receivables		-	-	-	-	-
Other receivables		13,373	266	149	-	13,788
Assets pledged as collateral		-	-	-	-	-
Deferred tax assets		-	-	-	-	-
<b>Total monetary assets</b>		<b>1,090,620</b>	<b>519,183</b>	<b>91,390</b>	<b>7,927</b>	<b>1,709,120</b>
<b>Monetary liabilities</b>						
Trading liabilities		-	-	-	-	-
Financial liabilities at fair value through profit and loss at its/their initial recognition		-	-	-	-	-
Derivative liabilities held for risk management		-	-	-	-	-
Due from banks		-	-	66,957	-	66,957
Due from customers		935,025	441,661	22,665	5,730	1,405,081
Debt securities issued		-	-	-	-	-
Borrowings		-	-	-	-	-
Subordinated liabilities		-	90,365	-	-	90,365
Current income tax liabilities		-	-	-	-	-
Deferred tax liabilities		-	-	-	-	-
Other liabilities		5,905	73	-	25	6,003
<b>Total monetary liabilities</b>		<b>940,930</b>	<b>532,099</b>	<b>89,622</b>	<b>5,755</b>	<b>1,568,406</b>
<b>Net-position</b>		<b>149,690</b>	<b>(12,916)</b>	<b>1,768</b>	<b>2,172</b>	<b>140,714</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

**3 Capital adequacy**

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

The Bank is obliged to maintain the capital adequacy ratio in accordance with the prescribed ratio of the Bank's own assets versus the amount of the risk-weighted total assets. Total risk-weighted assets are sum of credit risk-weighted assets, total currency risk-weighted assets and total operating risk-weighted assets.

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

- Core capital, which includes ordinary and non-cumulative 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.
- 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.



**Notes to the financial statements (continued)****As at and for the year ended 31 December 2014****(All the amounts are expressed in Denar thousand, unless otherwise stated)****Capital adequacy (continued)**

As at 31 December 2014 the regulated activities of the Bank were in accordance with all external imposed capital requirements during the period.

During the year there were no significant changes in the Bank's approach to capital management.

The allocation of the core capital between specific operations and activities in the largest scale resulting from optimizing the return on allocated capital, the amount of capital allocated to each operation or activity is based on its own resources, the process of allocating capital to specific operations and activities under consideration by Supervisory Board, independently of those responsible for the operation.

Bank's assets and the capital adequacy as of 31 December 2014 and 2013 are as follows:

Notes to the financial statements (continued)  
As at and for the year ended 31 December 2014  
(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Capital adequacy (continued)

## Report on capital adequacy

No.	Description	31 December 2014	31 Decemeber 2013
1	2	3	4
<b>I</b>	<b>Credit risk weighted assets</b>		
1	Credit risk weighted assets with the standardized approach	1,577,558	1,347,513
2	Capital necessary to cover credit risk	126,205	107,801
<b>II</b>	<b>Foreign currency risk weighted assets</b>		
3	Aggregate foreign currency position	5,164	5,228
4	Net-position of gold	-	-
5	Capital necessary to cover currency risk	-	-
6	Foreign exchange risk weighted assets	-	-
<b>III</b>	<b>Operating risk weighted assets</b>		
7	Capital necessary to cover operating risk with the basic indicator approach	13,623	10,154
8	Capital necessary to cover operating risk with the standardized approach	-	-
9	Operating risk weighted assets	170,288	126,930
<b>IV</b>	<b>Other risk weighted assets</b>		
10	Capital necessary to cover the risk from price changes of goods	-	-
11	Capital necessary to cover market risks (11.1+11.2+11.3+11.4+11.5)	-	-
11.1	Capital necessary to cover position risks (11.1.1+11.1.2+11.1.3+11.1.4)	-	-
11.1.1	Capital necessary to cover the specific risk from investment in debt instruments	-	-
11.1.2	Capital necessary to cover the general risk from investment in debt instruments	-	-
11.1.3	Capital necessary to cover the specific risk from investment in equity securities	-	-
11.1.4	Capital necessary to cover the general risk from investment in equity securities	-	-
11.2	Capital necessary to cover the settlement risk	-	-
11.3	Capital necessary to cover counterparty risk	-	-
11.4	Capital necessary to cover overdraft of exposure limits	-	-
11.5	Capital necessary to cover market risks from options	-	-
12	Capital necessary to cover the other risks (10+11)	-	-
13	Other risk weighted assets	-	-
<b>V</b>	<b>RISK WEIGHTED ASSETS</b>	<b>1,747,847</b>	<b>1,474,443</b>
14	Capital necessary to cover the risks	139,828	117,955
<b>VI</b>	<b>OWN FUNDS</b>	<b>387,846</b>	<b>319,584</b>
<b>VII</b>	<b>ADEQUACY OF CAPITAL (V/IV)</b>	<b>22.19</b>	<b>21.67</b>

Notes to the financial statements (continued)  
As at and for the year ended 31 December 2014  
(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Capital adequacy (continued)

## Report on own funds

No.	DESCRIPTION	31 December 2014	31 December 2013
	<b>Core capital</b>		
	<b>Paid-in and subscribed ordinary and non-cumulative preference shares</b>		
<b>1</b>		<b>855,688</b>	<b>856,514</b>
1.1	Nominal value	855,688	856,514
1.1.1	Nominal value of ordinary shares	855,688	856,514
1.1.2	Nominal value of non-cumulative preference shares	-	-
1.2	Premium	-	-
1.2.1	Premium of ordinary shares	-	-
1.2.2	Premium of non-cumulative preference shares	-	-
<b>2</b>	<b>Reserves and retained earnings and loss</b>	<b>(560,857)</b>	<b>(579,087)</b>
2.1	Reserve fund	-	-
2.2	Retained earnings	-	-
2.3	Accumulated loss from previous years	(560,857)	(579,087)
2.4	Current profit	-	-
<b>3</b>	<b>Positions arising from consolidation</b>	<b>-</b>	<b>-</b>
3.1	Minority interest	-	-
3.2	Reserves from exchange rate differences	-	-
3.3	Other differences	-	-
<b>4</b>	<b>Deduction</b>	<b>31,872</b>	<b>48,065</b>
4.1	Loss at the year end or current loss	30,041	44,280
4.2	Treasury shares	-	-
4.3	Intangible assets	1,831	3,785
4.4	Differences between amounts of the required and recognized impairment/special reserve	-	-
4.5	Amount of unallocated impairment and special reserve as a result of accounting time lag	-	-
4.6	Unrealized loss from equity instruments available-for-sale	-	-
4.7	Other deductions	-	-
<b>I</b>	<b>CORE CAPITAL</b>	<b>262,959</b>	<b>229,362</b>

## Notes to the financial statements (continued)

As at and for the year ended 31 December 2014

(All the amounts are expressed in Denar thousand, unless otherwise stated)

## Capital adequacy (continued)

Report on own funds (continued)

No.	DESCRIPTION	31 December 2014	31 December 2013
	<b>Additional capital</b>		
	<b>Paid-in and subscribed cumulative preference shares and premium on such share</b>		
5		-	-
5.1	Nominal value	-	-
5.2	Premium	-	-
6	<b>Revaluation reserves</b>	<b>11,146</b>	<b>1,031</b>
7	<b>Hybrid instruments</b>	-	-
8	<b>Subordinated instruments</b>	<b>113,741</b>	<b>89,191</b>
9	<b>Amount of subordinated instruments that may be included in the additional capital</b>	<b>113,741</b>	<b>89,191</b>
II	<b>ADDITIONAL CAPITAL</b>	<b>124,887</b>	<b>90,222</b>
	<i>Deduction from core capital and additional capital</i>	-	-
10	Capital investments in other banks and financial institutions with more than 10% share participation in such institutions	-	-
11	Investments in subordinated and hybrid capital investments and other instruments of institutions referred to in 10	-	-
12	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	-	-
13	Direct capital investments in insurance and reinsurance companies exceeding 10% of their capital	-	-
14	Investments in financial instruments issued by the insurance and reinsurance companies where the Bank owns over 10% of their capital	-	-
15	Amounts representing excess of limits of investments in non – financial institutions	-	-
16	Positions arising from consolidations (negative amounts)	-	-
III	<b>DEDUCTIONS</b>	-	-
IV	<b>Core capital after deductions</b>	<b>262,959</b>	<b>229,362</b>
V	<b>Additional capital after deduction</b>	<b>124,887</b>	<b>90,222</b>
	<b>Own funds</b>		
VI	<b>Core capital</b>	<b>262,959</b>	<b>229,362</b>
VII	<b>Additional capital</b>	<b>124,887</b>	<b>90,222</b>
VIII	<b>OWN FUNDS</b>	<b>387,846</b>	<b>319,584</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

#### 4 Segment reporting

Segment reporting is performed by the Bank's operating segments, perscribed with NBRM's regulative.

An operating segment is a component of the Bank's activities which meets the following conditions:

- Performs activities which generate income and expenses;
- The Bank's Supervisory Board reviews operating performance in separate operating segments on a regular basis (at least semi-annually), in order to estimate achievements and make decisions for future business activities of said segment;
- Separate financial information on the segment is available,

The Bank discloses information for every significant operating segment separately. An operating segment is considered significant if any of the following quantitative thresholds are reached:

- The segment's income (including the incomes from transfers between segments) participates with 10% or more in the Bank's total income;
- The absolute amount of profit or loss of the segment is 10% or more than the higher amount between a) total profits from all operating segments with registered earnings or b) total losses off all operating segments that have registered losses;
- The segment's assets participate with 10% or more in the Bank's total assets.

The bank should disclose information on the concentration of its business activities on certain significant customers. An important client is the one from which the Bank achieved 10% or more of total revenues and total expenditures of the Bank.

The following summary describes the operations in each of the Bank's primary reportable segments:

- Retail - loans, credit cards, current and term deposits, payment services, etc.;
- Corporate banking (dealing with financial and non-financial companies) - loans, term deposits, guarantees and letters of credit, payment services, derivatives, etc.;
- Investment banking - managing assets of others, advisory services, services related to issuing securities etc. and
- other, not included above.

The bank should disclose an analysis of its business activities according to geographical secondary segments, ie geographical areas where they are carried out, for the following geographic areas:

- Republic of Macedonia;
- Member countries of the European union;
- Other European countries outside the European Union;
- Countries outside Europe, members of the Organization for economic Co-operation and Development (OECD); and;
- Other countries.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Segment reporting (continued)

## A. Operating segments

<i>In Denar thousand</i> <b>2014</b>	Retail customers	Corporate banking	Investmen t banking	Treasury	Equity investme nts	Other remai- ning non- signifi- cant seg- ments	Non- allocated
Net interest income /(expense)	(9,660)	96,090	7,694	(11,829)	-	-	82,295
Net income /(expenses) from fees and commission	5,229	25,675	-	(6,421)	-	-	24,483
Net income from trading	-	-	-	-	-	-	-
Net income from other financial instruments carried at their fair value	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	11,703	11,703
Income realized between segments	-	-	-	-	-	-	-
<b>Total income per segment</b>	<b>(4,431)</b>	<b>121,765</b>	<b>7,694</b>	<b>(18,250)</b>	<b>-</b>	<b>11,703</b>	<b>118,481</b>
Impairment provision of financial assets, net	(4,360)	(36,583)	(441)	428	-	-	(40,956)
Impairment loss of non-financial assets, net	-	-	-	-	-	3,095	3,095
Amortization	-	-	-	-	-	(14,491)	(14,491)
Restructuring costs	-	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	(96,170)	(96,170)
<b>Total expenses per segment</b>	<b>(4,360)</b>	<b>(36,583)</b>	<b>(441)</b>	<b>428</b>	<b>-</b>	<b>(107,566)</b>	<b>(148,522)</b>
Financial performance per segment	(8,791)	85,182	7,253	(17,822)	-	(95,863)	(30,041)
Income tax	-	-	-	-	-	-	-
<b>Profit/(loss) for the financial year</b>							<b>(30,041)</b>
Total assets per segment	254,259	1,155,805	463,876	612,010	-	104,535	2,590,485
Unallocated assets per segment	-	-	-	-	-	-	-
<b>Total assets</b>	<b>254,259</b>	<b>1,155,805</b>	<b>463,876</b>	<b>612,010</b>	<b>-</b>	<b>104,535</b>	<b>2,590,485</b>
Total liabilities per segment	1,186,679	377,660	563,860	179,063	-	6,901	2,314,163
Unallocated liabilities per segment	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>1,186,679</b>	<b>377,660</b>	<b>563,860</b>	<b>179,063</b>	<b>-</b>	<b>6,901</b>	<b>2,314,163</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Segment reporting (continued)  
A. Operating segments (continued)

<i>In Denar thousand</i>	Retail customers	Corporate banking	Investment banking	Treasury	Equity investments	Other remaining non-significant segments	Non-allocated
<b>2013</b>							
Net interest income /(expense)	(5,455)	75,041	3,457	(6,574)	-	-	66,469
Net income /(expenses) from fees and commission	4,901	20,806	-	(4,924)	-	-	20,783
Net income from trading	-	-	-	-	-	-	-
Net income from other financial instruments carried at their fair value	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	10,444	10,444
Income realized between segments	-	-	-	-	-	-	-
<b>Total income per segment</b>	<b>(554)</b>	<b>95,847</b>	<b>3,457</b>	<b>(11,498)</b>	<b>-</b>	<b>10,444</b>	<b>97,696</b>
Impairment provision of financial assets, net	(6,542)	(29,445)	(215)	407	-	-	(35,795)
Impairment loss of non-financial assets, net	-	-	-	-	-	4,770	4,770
Amortization	-	-	-	-	-	(15,519)	(15,519)
Restructuring costs	-	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-	-
Other expenses	-	-	-	-	-	(95,432)	(95,432)
<b>Total expenses per segment</b>	<b>(6,542)</b>	<b>(29,445)</b>	<b>(215)</b>	<b>407</b>	<b>-</b>	<b>(106,181)</b>	<b>(141,976)</b>
Financial performance per segment	(7,096)	66,402	3,242	(11,091)	-	(95,737)	(44,280)
Income tax	-	-	-	-	-	-	-
<b>Profit/(loss) for the financial year</b>	<b>(7,096)</b>	<b>66,402</b>	<b>3,242</b>	<b>(11,091)</b>	<b>-</b>	<b>(95,737)</b>	<b>(44,280)</b>
Total assets per segment	246,660	882,837	206,502	371,294	-	96,413	1,803,706
Unallocated assets per segment	-	-	-	-	-	-	-
<b>Total assets</b>	<b>246,660</b>	<b>882,837</b>	<b>206,502</b>	<b>371,294</b>	<b>-</b>	<b>96,413</b>	<b>1,803,706</b>
Total liabilities per segment	924,080	237,727	-	403,211	-	4,296	1,569,314
Unallocated liabilities per segment	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>924,080</b>	<b>237,727</b>	<b>-</b>	<b>403,211</b>	<b>-</b>	<b>4,296</b>	<b>1,569,314</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Segment reporting (continued)

**B. Concentration of total revenues and expenses by significant customers**

	<i>In Denar thousand</i>	Operating segments		All other insignificant operating segments	Non-allocated	Total by significant customer
		Corporate - Interest	Corporate-commissions			
<b>2014</b>						
Customer 1						
Revenues		5,143	86	-	-	5,229
(Expenses)		(1,916)	-	-	-	(1,916)
Customer 2						
Revenues		5,223	507	-	-	5,730
(Expenses)		(7,689)	-	-	-	(7,689)
Customer 3						
Revenues		2,952	278	-	-	3,230
(Expenses)		(2,022)	-	-	-	(2,022)
Customer 4						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
Customer 5						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
Customer 6						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
<b>Total by segment</b>		<b>1,691</b>	<b>871</b>	<b>-</b>	<b>-</b>	<b>2,562</b>
<b>2013</b>						
Customer 1						
Revenues		5,459	224	-	-	5,683
(Expenses)		(3,287)	-	-	-	(3,287)
Customer 2						
Revenues		3,918	580	-	-	4,498
(Expenses)		(1,785)	-	-	-	(1,785)
Customer 3						
Revenues		2,423	1,012	-	-	3,435
(Expenses)		(1,501)	-	-	-	(1,501)
Customer 4						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
Customer 5						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
Customer 6						
Revenues		-	-	-	-	-
(Expenses)		-	-	-	-	-
<b>Total by segment</b>		<b>5,227</b>	<b>1,816</b>	<b>-</b>	<b>-</b>	<b>7,043</b>



Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

Segment reporting (continued)

**C. Geographic areas**

<i>In Denar thousand</i>	Republic of Macedonia	EU member countries	Europe (other coun-tries)	OECD member countrie s	Other	Other insignificant geographic segments	Non- allocated	Total
<b>2014</b>								
<b>Total revenues</b>	117,729	752	-	-	-	-	-	<b>118,481</b>
<b>Total assets</b>	2,473,808	116,677	-	-	-	-	-	<b>2,590,485</b>
<b>2013</b>								
<b>Total revenues</b>	96,767	929	-	-	-	-	-	<b>97,696</b>
<b>Total assets</b>	1,732,372	71,334	-	-	-	-	-	<b>1,803,706</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014

## 5 Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be replaced or a liability settled on an arm's length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

### *Cash and cash equivalents*

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

### *Loans and advances to customers*

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating interest rates and their fair value is determined by discounting of future cash flows using the market interest rate.

### *Investment securities*

Investment securities include interest bearing assets held to maturity and assets classified as available for sale carried at fair value. The calculation of fair value of assets available for sale has been disclosed below in this note and has been determined on the basis of the disclosed hierarchy.

### *Other receivables*

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

### *Deposits*

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The fair value of the term deposits with variable interest rates approximates their carrying values as at the Balance sheet date.

### *Other liabilities*

The accounting value of loan liabilities approximates their fair value due to their variable interest rates and their changes.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Fair value of financial assets and liabilities (continued)

## A. Fair value of financial assets and liabilities

	<i>In Denar thousand</i>	2014 Carrying Value	2014 Fair Value	2013 Carrying Value	2013 Fair Value
<b>Assets</b>					
Cash and cash equivalents		794,740	794,740	433,934	433,934
Trading assets		-	-	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition		-	-	-	-
Derivative assets held for risk management		-	-	-	-
Loans and advances to banks		11	11	-	-
Loans and advances to other customers		1,451,735	1,451,735	1,143,740	1,143,740
Investment in securities		237,140	237,140	117,658	117,658
Investment in associates		-	-	-	-
Current income tax receivables		-	-	-	-
Other receivables		15,939	15,939	13,788	13,788
Assets pledged as collateral		-	-	-	-
Deferred tax assets		-	-	-	-
<b>Liabilities</b>					
Trading liabilities		-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition		-	-	-	-
Derivative liabilities held for risk management		-	-	-	-
Due from banks		65,003	65,003	66,957	66,957
Due from other customers		2,127,943	2,127,943	1,405,081	1,405,081
Issued debt securities		-	-	-	-
Borrowings		-	-	-	-
Subordinated liabilities		114,061	114,061	90,365	90,365
Current income tax liabilities		-	-	-	-
Deferred tax liabilities		-	-	-	-
Other liabilities		6,901	6,901	6,003	6,003

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Fair value of financial assets and liabilities (continued)

B. Levels of fair value of financial assets and liabilities, assessed by fair value

The Bank classifies its financial assets and liabilities according to the hierarchy of valuation techniques and information whether the necessary input for evaluation publicly accessible or not, according to which there are three levels of the fair value hierarchy and:

Level 1 - fair value is determined by direct application / reference to the quoted market price of financial instruments in an active market. The Bank has classified in Level 1 equity instruments traded on the Macedonian Stock Exchange.

Level 2 - fair value is determined using valuation techniques that include inputs (input) from active markets (inputs can directly or indirectly be confirmed and monitored in active markets, such as .: listed prices in an active market for similar financial instruments, or any significant inputs into the model to determine the fair value can be verified and monitored in an active market).

Level 3 - fair value is determined using valuation techniques that include inputs (inputs) that can directly or indirectly be confirmed and monitored in an active market or based on a valuation technique in which the highest share information risks of financial instruments that can be monitored and confirmed in active markets. The Bank has not classified instruments in Level 3.

**B1. Levels of fair value of financial assets and liabilities, assessed by fair value**

	<i>In Denar thousand</i>	Note	Level 1	Level 2	Level 3	Total
<b>2014</b>						
<b>Financial assets at fair value</b>						
Trading assets		19	-	-	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition		20	-	-	-	-
Derivative assets held for risk management		21	-	-	-	-
Investment in securities, available for sale		23.1	118,060	119,080	-	237,140
<b>Total</b>			<b>118,060</b>	<b>119,080</b>	-	<b>237,140</b>
<b>Financial liabilities at fair value</b>						
Trading liabilities		32	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition		33	-	-	-	-
Derivative liabilities held for risk management		21	-	-	-	-
<b>Total</b>			-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Fair value of financial assets and liabilities (continued)

B. Levels of fair value of financial assets and liabilities, assessed by fair value (continued)

B1. Levels of fair value of financial assets and liabilities, assessed by fair value (continued)

<i>In Denar thousand</i>	Note	Level 1	Level 2	Level 3	Total
<b>2013</b>					
<b>Financial assets at fair value</b>					
Trading assets	19	-	-	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investment in securities , available for sale	23,1	5,797	111,861	-	117,658
<b>Total</b>		<b>5,797</b>	<b>111,861</b>	-	<b>117,658</b>
<b>Financial liabilities at fair value</b>					
Trading liabilities	32	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
<b>Total</b>		-	-	-	-

B2. Transfers between levels 1 and 2 by fair value

<i>In Denar thousand</i>	2014		2013	
	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1
<b>Financial assets at fair value</b>				
Trading assets	-	-	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investment in securities	-	-	-	-
<b>Total</b>	-	-	-	-
<b>Financial liabilities at fair value</b>				
Trading liabilities	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
<b>Total</b>	-	-	-	-

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

## Fair value of financial assets and liabilities (continued)

## B. Levels of fair value of financial assets and liabilities, assessed by fair value (continued)

## B3. Reconciliation of movements in fair value during the year, measured in Level 3

<i>In Denar thousand</i>	Trading assets	Financial assets at fair value through profit and loss at its/ their initial recognition.	Investment in securities available-for- sale	<b>Total assets</b>	Trading liabilities	Financial liabilities at fair value through profit and loss at its/ their initial recognition	<b>Total liabili- ties</b>
<b>At 01 January 2013</b>	-	-	-	-	-	-	-
Profits/ (losses) recognized in							
- Statement of Incon-	-	-	-	-	-	-	-
- Other							
profits/(losses) not recognized in profit or loss	-	-	-	-	-	-	-
Financial instruments purchased in the period	-	-	-	-	-	-	-
Financial instruments sold in the period	-	-	-	-	-	-	-
Financial instruments issued in the period	-	-	-	-	-	-	-
Financial instruments paid for in the period	-	-	-	-	-	-	-
Reclassified financial instruments to/(from) Level 3	-	-	-	-	-	-	-
Reclassified in loans and advances	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	-	-	-	-	-	-	-
<b>Total profit/(loss) recognized in profit and loss for financial assets and liabilities held until 31 December 2013</b>	-	-	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Fair value of financial assets and liabilities (continued)

*B. Levels of fair value of financial assets and liabilities, assessed by fair value (continued)*

*B3. Reconciliation of movements in fair value during the year, measured in Level 3 (continued)*

<i>In Denar thousand</i>	Trading assets	Financial assets at fair value through profit and loss at its/ their initial recognition.	Investment in securities available-for-sale	<b>Total assets</b>	Trading liabilities	Financial liabilities at fair value through profit and loss at its/ their initial recognition	<b>Total liabilities</b>
<b>At 01 January 2014</b>	-	-	-	-	-	-	-
Profits/ (losses) recognized in							
- Statement of Incorporation	-	-	-	-	-	-	-
- Other profits/(losses) in the period not recognized in profit or loss	-	-	-	-	-	-	-
Financial instruments purchased in the period	-	-	-	-	-	-	-
Financial instruments sold in the period	-	-	-	-	-	-	-
Financial instruments issued in the period	-	-	-	-	-	-	-
Financial instruments paid for in the period	-	-	-	-	-	-	-
Reclassified financial instruments to/(from) Level 3	-	-	-	-	-	-	-
Reclassified in loans and advances	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	-	-	-	-	-
<b>Total profit/(loss) recognized in profit and loss for financial assets and liabilities held until 31 December 2014</b>	-	-	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 6 Net interest income / (expense)

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

	<i>In Denar thousand</i>	
	2014	2013
<b>Interest income</b>		
Cash and cash equivalents	5,143	4,475
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	967	523
Loans and advances to other customers	126,536	108,080
Investment in securities	7,694	3,457
Other receivables	-	-
(Allowance for impairment of interest income, net)	(1,971)	(4,549)
Collected interest previously written off	12,528	10,509
<b>Total interest income</b>	<b>150,897</b>	<b>122,495</b>
<b>Interest expense</b>		
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-
Derivative liabilities held for risk management	-	-
Due to banks	94	332
Due to customers	66,844	53,678
Issued debt securities	-	-
Borrowings	16	41
Subordinated liabilities	1,648	1,975
Other liabilities	-	-
<b>Total interest expenses</b>	<b>68,602</b>	<b>56,026</b>
<b>Net interest income</b>	<b>82,295</b>	<b>66,469</b>

### B. Sector analysis of interest income and expenses according to sector

	<i>In Denar thousand</i>	
	2014	2013
<b>Interest income</b>		
Non-financial companies	99,879	80,881
Government	7,694	3,457
Non-profit institutions that serve households	-	-
Banks	6,110	4,998
Other financial institutions (non-banking)	2,549	2,526
Households	24,108	24,673
Non-residents	-	-
(Allowance for impairment of interest income, net)	(1,971)	(4,549)
Collected interest previously written off	12,528	10,509
<b>Total interest income</b>	<b>150,897</b>	<b>122,495</b>
<b>Interest expense</b>		
Non-financial companies	2,593	5,170
Government	-	-
Non-profit institutions that serve households	1,197	671
Banks	110	373
Other financial companies (non-banking)	17,121	9,943
Households	44,324	36,087
Non-residents	3,257	3,782
<b>Total income expense</b>	<b>68,602</b>	<b>56,026</b>
<b>Net interest income/(expense)</b>	<b>82,295</b>	<b>66,469</b>



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 7 Net fee and commission income / (expense)

### A. Structure of fee and commission income and expense according to the type of financial instruments

	<i>In Denar thousand</i>	
	2014	2013
<b>Fee and commission income</b>		
Loans	10,989	8,965
Payment's operations		
- in the country	8,293	7,037
- abroad	3,688	3,271
Letter of credit and guarantees	7,424	5,911
Brokerage operations	-	-
Asset management	-	-
Fiduciary activities	-	-
Issuing securities	-	-
Other:	-	-
- Credit cards operations	4,397	4,284
- Other	-	-
<b>Total fee and commission income</b>	<b>34,791</b>	<b>29,468</b>
<b>Fee and commission expense</b>		
Loans	12	24
Payment operations		
- in the country	2,710	2,541
- abroad	1,798	1,773
Letter of credit and guarantees	-	-
Brokerage operations	-	-
Asset management	-	-
Fiduciary activities	-	-
Issuing securities	-	-
Other:		
- interbank activities	1,537	1,661
- Credit cards operations	3,900	2,516
- Other	351	170
<b>Total fee and commission expense</b>	<b>10,308</b>	<b>8,685</b>
<b>Net fee and commission income/(expense)</b>	<b>24,483</b>	<b>20,783</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Net fee and commission income / (expense) (continued)

*B. Sector analysis of fees and commission income and revenue per sector*

	<i>In Denar thousand</i>	
	2014	2013
<b>Fee and commission income</b>		
Non-financial companies	27,459	22,856
Government	-	-
Non-profit institutions that serve households	128	46
Banks	-	-
Other financial companies (non-banking)	1,194	1,185
Households	5,229	4,902
Non-residents	781	479
<b>Total fee and commission income</b>	<b>34,791</b>	<b>29,468</b>
<b>Fee and commission expense</b>		
Non-financial companies	1,912	2,096
Government	-	-
Non-profit institutions that serve households	-	-
Banks	3,021	3,042
Other financial institutions (non-banking)	1,923	1,802
Households	-	-
Non-residents	3,452	1,745
<b>Total fee and commission expense</b>	<b>10,308</b>	<b>8,685</b>
<b>Net fee and commission income</b>	<b>24,483</b>	<b>20,783</b>

**8 Net trading income/ (expense)**

	<i>In Denar thousand</i>	
	2014	2013
<b>Assets for trading</b>		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of equity instruments, net		
- realised	-	-
- unrealised	-	-
Income from dividends from trading assets	-	-
Income from interest of trading assets	-	-
<b>Liabilities for trading</b>		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of trading deposits, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of remaining financial liabilities for trading, net		
- realised	-	-
- unrealised	-	-
Interest expense of financial liabilities held for trade	-	-
<i>Profit/(loss) from fair value change of derivatives held for trading, net</i>		
- realised	-	-
- unrealised	-	-
<b>Net income from trading</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 9 Net income from other financial instruments carried at fair value

	2014	<i>In Denar thousand</i> 2013
<b>Financial assets carried at fair value through profit and loss at their initial recognition</b>		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of equity instruments, net		
- realised	-	-
- unrealised	-	-
income from dividends from financial assets at fair value through profit and loss	-	-
Profit/(loss) from the changes in fair value of loans and receivables at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
<b>Financial liabilities carried at fair value through profit and loss at their initial recognition</b>		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of deposits at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of borrowings at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of other financial liabilities at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
<i>Profit/(loss) from fair value changes of derivatives held for risk management at fair value through profit and loss, net</i>		
- realised	-	-
- unrealised	-	-
<b>Net income from other financial instruments carried at fair value</b>	<b>-</b>	<b>-</b>

## 10 Foreign exchange gains/ (losses), net

	2014	<i>In Denar thousand</i> 2013
Realized foreign exchange gains / (losses), net	6,121	6,045
Unrealized foreign exchange gains / (losses), net		
- foreign exchange differences of allowance for impairment of financial assets, net	243	19
- foreign exchange differences on off-balance exposure, net	-	-
- other foreign exchange differences, net	83	(975)
<b>Net foreign exchange gains/(losses)</b>	<b>6,447</b>	<b>5,089</b>

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

## 11 Other operating income

	<i>In Denar thousand</i>	
	2014	2013
Profit from the sale of assets available – for – sale	-	-
Dividends from equity instruments available – for – sale	64	55
Net income from investment in subsidiaries and associates	-	-
Capital gain from the sale of:		
- property and equipment	76	1
- intangible assets	-	-
- foreclosed assets	2,236	38
- non – current assets held for sale and group for disposal	-	-
Income from rent	-	-
Income from litigations	-	-
Collected receivables previously written off	-	3
Release of special reserve and provisions for:		
- off – balance sheet credit exposure	653	621
- contingent commitments based on litigations	-	-
- pensions and other employee benefits	-	-
- restructuring	-	-
- adverse contracts	-	-
- other provisions	-	-
Other:		
- Income from previous years	1,194	411
- Income from non-residents	-	2,005
- Income from Court Decisions	-	1,090
- Income upon court report	-	908
- Other income	1,033	223
<b>Total other operating income</b>	<b>5,256</b>	<b>5,355</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 12 Impairment loss of financial assets, net

<i>In Denar thousand</i>	Loans and advances to banks	Loans and advances to other customers	Investment in finan. assets available-for-sale	Investment in finan. assets held to maturity	Cash and cash equivalents	Fees and commission receivables	Other receivables	Total
<b>2014</b>								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	-	127,866	441	-	545	1,134	482	130,468
(Release of allowance for impairment)	-	(84,199)	-	-	(972)	(1,330)	(3,011)	(89,512)
	-	<b>43,667</b>	<b>441</b>	-	<b>(427)</b>	<b>(196)</b>	<b>(2,529)</b>	<b>40,956</b>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	-	-	-	-	-	-	-
(Release of allowance for impairment)	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<b>Total allowance for impairment of financial assets, net</b>	-	<b>43,667</b>	<b>441</b>	-	<b>(427)</b>	<b>(196)</b>	<b>(2,529)</b>	<b>40,956</b>
<b>2013</b>								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	-	98,925	216	-	508	851	99	100,599
(Release of allowance for impairment)	-	(63,465)	-	-	(81)	(593)	(665)	(64,804)
	-	<b>35,460</b>	<b>216</b>	-	<b>427</b>	<b>258</b>	<b>(566)</b>	<b>35,795</b>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	-	-	-	-	-	-	-
(Release of allowance for impairment)	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
<b>Total allowance for impairment of financial assets, net</b>	-	<b>35,460</b>	<b>216</b>	-	<b>427</b>	<b>258</b>	<b>(566)</b>	<b>35,795</b>

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

**13 Impairment loss of non – financial assets, net**

<i>In Denar thousand</i>	Property and equipment	Intangible assets	Foreclosed assets	Non - current assets held for sale and group for disposal	Other non-financial assets	Uncontrolled participation	Total
<b>2014</b>							
Additional impairment loss	-	-	1,855	171	-	-	2,026
(Release of impairment loss)	-	-	-	-	(5,121)	-	(5,121)
<b>Total impairment loss of non-financial assets, net</b>	-	-	<b>1,855</b>	<b>171</b>	<b>(5,121)</b>	-	<b>(3,095)</b>
<b>2013</b>							
Additional impairment loss	-	-	3,044	-	-	-	3,044
(Release of impairment loss)	-	-	(7,814)	-	-	-	(7,814)
<b>Total impairment loss of non-financial assets, net</b>	-	-	<b>(4,770)</b>	-	-	-	<b>(4,770)</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

#### 14 Personnel expenses

	<i>In Denar thousand</i>	
	2014	2013
<b>Short - term employee benefits</b>		
- Salaries	34,037	34,387
- Mandatory contribution for social and health insurance	12,356	12,300
- Short - term paid leave of absence	296	75
- Expenses for temporary employment	-	-
- Interest in profit and rewards	-	-
- Non-monetary benefits	-	-
	<b>46,689</b>	<b>46,762</b>
<b>Benefits after termination of employment</b>		
- Contribution to pension plans for defined contributions	-	-
- Benefits at retirement	98	-
- Increasing the obligation for pension plans and defined benefits	-	-
- Increasing the obligation for other long-term benefits	-	-
- Other benefits after the termination of employment	-	-
	98	-
<b>Benefits due to termination of employment</b>		
Employee payments based on shares, settled with equity instruments	-	-
Employee share-based payments, settled in cash	-	-
Other:		
- Compensation on the basis of collective agreement	810	121
	<b>810</b>	<b>121</b>
<b>Total personnel expenses</b>	<b>47,597</b>	<b>48,883</b>

#### 15 Depreciation and amortization

	<i>In Denar thousand</i>	
	2014	2013
<b>Amortization of intangible assets</b>		
Internally developed software	-	-
Software purchased from external suppliers	3,924	3,528
Other internally developed intangible assets	1,661	1,660
Other non-material assets	371	359
Investment in intangible assets under lease	230	229
	<b>6,186</b>	<b>5,776</b>
<b>Depreciation of property and equipment</b>		
Buildings	-	-
Transport vehicles	899	964
Furniture and office equipment	2,508	3,468
Other equipment	750	820
Other items of property and equipment	58	58
Investment in property and equipment under lease	4,090	4,433
	<b>8,305</b>	<b>9,743</b>
<b>Total depreciation and amortization</b>	<b>14,491</b>	<b>15,519</b>

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

## 16 Other operating expenses

	2014	<i>In Denar thousand</i> 2013
Loss from sale of assets available – for – sale	-	-
Expenses for software licensing	-	-
Insurance premiums on deposits	6,269	5,711
Insurance premiums on property and employees	1,061	1,050
Materials and services	20,157	21,279
Administrative and marketing expenses	2,175	2,101
Other taxes and contributions	918	1,124
Expenses for rent	15,324	14,567
Expenses for litigation	-	-
Special reserve for off-balance exposure, net	-	-
Provisions for pensions and other employee benefits, net	-	-
Provisions for contingent commitments based on litigations, net	-	-
Other provisions, net	-	-
Loss from the sale of:		
- property and equipment	-	-
- intangible assets	-	-
- foreclosed assets	102	-
- non - current assets held for sale and group for disposal	-	-
Expenses for membership fees	-	-
Other expenses from previous years	-	-
Expenses from foreign currency exchange operations	-	-
Other:		
- business trips	2,100	2,100
- expenses for taxes and court decisions	14	17
- tax of non-deductible expenses	-	300
- Other	453	300
<b>Total other operating expenses</b>	<b>48,573</b>	<b>48,549</b>



Notes to the financial statements (continued)  
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(All amounts expressed in Denar thousands, unless otherwise stated)

## 17 Income tax

### A. Expenses/income for current and deferred income tax

	<i>In Denar thousand</i>	
	2014	2013
<b>Current income tax</b>		
Expenses / (income) for current income tax for the year	-	-
Adjustments for previous years	-	-
Benefits for previously unrecognized tax losses, tax balance or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	-	-
<b>Deferred income tax</b>		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previously unrecognized tax losses	-	-
Changes in the tax rate	-	-
Introducing new taxes	-	-
Benefits from previously unrecognized tax losses, balance or temporary differences from previous years	-	-
Other	-	-
	-	-
<b>Total income tax expenses / (returns)</b>	-	-
<b>Current income tax</b>		
Recognized in the Income statement	-	-
Recognized in equity and reserves	-	-
	-	-
<b>Deferred income tax</b>		
Recognized in the Income statement	-	-
Recognized in equity and reserves	-	-
	-	-
<b>Total income tax expenses/ (returns)</b>	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

**Income tax (continued)****B. Reconciliation of the effective average tax rate with the variable tax rate**

	BO % 2014	In Denar thousand	BO % 2013	In Denar thousand
Profit/(loss) before taxation	-	(30,041)	-	(44,280)
Income tax in accordance with the applicable tax rate	-	-	-	-
Effect from various tax rates in other countries	-	-	-	-
Adjustment for previous years and changes in the tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expenses unrecognized for tax purposes	11.50%	3,455	0.00%	134
Tax exempted income	-	-	-	-
Tax exemptions unrecognized in the Income statement	-	-	-	-
Recognition of previously unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax balance or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	-	-	-	-
<b>Total expenses/(return) of income tax</b>	-	-	-	-
<b>Average effective tax rate</b>	<b>0.00%</b>	-	<b>0.00%</b>	-

**C. Income tax for other profit/ (losses) during the period, not shown in profit and loss**

	2014 (expense)/inc ome tax return	Less income tax	2013 Before taxa- tion
<i>In Denar thousand</i>	Before taxation		
Revaluation reserve for assets available-for-sale	-	-	-
Reserve for protection against risk of cash flows	-	-	-
Reserve for instruments for the protection against risk of net investments in foreign operations	-	-	-
Reserve for Foreign exchange differences from investments in foreign operations	-	-	-
Share in other profit/(loss) of associates not recognized in profit or loss	-	-	-
Other profit/(loss) not recognized in profit or loss	-	-	-
<b>Other profit/(loss) from the period not recognized in profit or loss</b>	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 18 Cash and cash equivalents

	<i>In Denar thousand</i>	
	2014	2013
Cash in hand	29,410	31,472
Current account and deposits with the NBRM, except for obligatory foreign currency reserves	299,389	122,015
Current accounts and deposits with foreign banks	116,676	72,170
Current accounts and deposits with domestic banks	15,645	17,837
Treasury bills traded on the secondary market	226,736	88,888
Government bills traded on the secondary market	-	-
Term deposits with a maturity period less than, or equal to three months	65,000	66,956
Other short - term highly liquid assets	-	-
Interest receivables	-	-
(allowance for impairment loss)	-	(427)
<b><i>Included in cash and cash equivalents for the purpose of the Statement of cash flows</i></b>	<b>752,856</b>	<b>399,338</b>
Obligatory foreign currency reserves	41,884	35,023
Restricted deposits	-	-
(Allowance for impairment)	-	-
<b>Total</b>	<b>794,740</b>	<b>433,934</b>

	<i>In Denar thousand</i>	
	2014	2013
<b>Movement of allowance for impairment</b>		
As of 01 January	427	-
Allowance for impairment for the year		
- additional allowance for impairment	545	508
- (release from allowance for impairment)	(972)	(81)
(Foreclosed assets)	-	-
Effect of exchange rate difference	-	-
(Written-off receivables)	-	-
<b>As of 31 December</b>	<b>-</b>	<b>427</b>

According to the Decision on reserve requirement, Bank's reserve prescribed ratio equals 8% (2013: 8%) for liabilities in domestic currency, 20% (2013: 20%) for liabilities in domestic currency with FX clause and 15% (2013: 15%) for liabilities in foreign currency. The basis for the reserve requirement is determined as an average of the Bank's liabilities for each calendar day of the preceding month. The reserve requirement maintenance period is from 11th in the current month until 10th in the following month.

Bank obligatory reserve in foreign currency is allocated on special foreign currency accounts of the NBRM abroad and meets the Euro at a fixed level.

The interest rate on the obligatory reserve in Denar during 2014 amounted to 0% pa (2013: 1% pa). The interest rate on the obligatory reserve in foreign currency during 2014 amounted to 0% (2013: 0.1% pa).

Treasury bills issued by the National Bank with a maturity of 35 days (2013: 35 days) and interest rates totaling 3.25% per annum (2013: of 3.25% per annum).

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 19 Trading assets

### A. Trading assets structure according to type of financial instrument

	<i>In Denar thousand</i>	
	2014	2013
<i>Trading Securities</i>		
Debt securities for trading		
- Treasury bills for trading	-	-
- Government bills for trading	-	-
- Other instruments on the money market	-	-
- Bonds issued by the Government	-	-
- Corporative bonds	-	-
- Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments for trading</i>		
- Owned instruments issued by banks	-	-
- Other owned instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Derivatives for trading</i>		
- Contracts dependent on the change of interest rate	-	-
- Contracts dependent on the change of exchange rate	-	-
- Contracts dependent on the change of price of securities	-	-
- Other contracts that meet the criteria of IAS 39	-	-
	-	-
<b>Total assets for trading</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

*Trading assets (continued)*

**B. Reclassified trading assets**

**B1. Balance of the reclassified trading assets**

<i>In Denar thousand</i>	reclassified amount (at the date of reclassification)	2014		2013	
		carrying value as at 31.12.2014	fair value as at 31.12.2014	carrying value as at 31.12.2013	fair value as at 31.12.2013
<b>Trading assets reclassified in 2014 in:</b>					
- available-for-sale financial assets	-	-	-	-	-
- loans and advances to banks	-	-	-	-	-
- loans and advances to customers	-	-	-	-	-
	-	-	-	-	-
<b>Trading assets reclassified in 2013 in:</b>					
- available-for-sale financial assets	-	-	-	-	-
- loans and advances to banks	-	-	-	-	-
- loans and advances to customers	-	-	-	-	-
	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

*Trading assets (continued)*

**B. Reclassified trading assets (continued)**

**B2. Profit/ (loss) from reclassified trading assets**

<i>In Denar thousand</i>	Reclassified during 2014		Income statement 2014	Reclassified during 2013		Income statement 2013	Other profit/(loss) 2013
	Income statement 2014	Other profit/(loss) 2014		Other profit/(loss) 2014	Income statement 2013		
<b>Period preceding reclassification</b>							
Trading assets reclassified in available- for- sale financial assets	-	-	-	-	-	-	-
- Trade income, net	-	-	-	-	-	-	-
Trading assets reclassified in loans and advances to banks	-	-	-	-	-	-	-
- Trade income, net	-	-	-	-	-	-	-
Trading assets reclassified in loans and advances to customers	-	-	-	-	-	-	-
<b>Period following reclassification</b>							
Trading assets reclassified in available- for- sale financial assets	-	-	-	-	-	-	-
- interest income	-	-	-	-	-	-	-
- impairment provision for financial assets, net	-	-	-	-	-	-	-
- changes in fair value, net	-	-	-	-	-	-	-
Trading assets reclassified in loans and advances to banks	-	-	-	-	-	-	-
- interest income	-	-	-	-	-	-	-
- impairment provision for financial assets, net	-	-	-	-	-	-	-
Trading assets reclassified to loans and advances to customers	-	-	-	-	-	-	-
- interest income	-	-	-	-	-	-	-
- impairment provision for financial assets, net	-	-	-	-	-	-	-

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

*Trading assets (continued)**B. Reclassified trading assets (continued)**B3. Profit/ (loss) that would have been recognized in profit and loss, had the assets not have been reclassified*

	<i>In Denar thousand</i>	Reclassified during 2013	
		Income statement 2014	Income statement 2013
Trading assets reclassified in available- for- sale financial assets		Reclassified during 2014	
- trade income, net		Income statement 2014	
Trading assets reclassified in loans and advances to banks			
- trade income, net			
Trading assets reclassified in loans and advances to customers			
- trade income, net			

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

## 20 Financial assets at fair value through profit and loss at initial recognition

	<i>In Denar thousand</i>	
	2014	2013
<i>Debt securities</i>		
- Treasury bills	-	-
- Government bills	-	-
- Other instruments on the money market	-	-
- Bonds issued by the government	-	-
- Corporative bonds	-	-
- Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
- Equity instruments issued by banks	-	-
- Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Loans and advances to banks	-	-
Loans and advances to other customers	-	-
<b>Total financial assets at fair value through profit and loss, at initial recognition</b>	<b>-</b>	<b>-</b>



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 21 Derivative assets and liabilities held for risk management

	<i>In Denar thousand</i>			
	Derivative assets	2014 (Derivative liabilities)	Derivative assets	2013 (Derivative liabilities)
<b>A. Derivatives for risk protection /Derivatives held for risk management</b>				
<i>A.1 According to type of variability</i>				
<b>Derivatives held for risk management</b>				
Contracts dependent on the change of interest rate	-	-	-	-
Contracts dependent on the change of exchange rate	-	-	-	-
Contracts dependent on the change of price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
<b>Total derivatives held for risk management</b>	-	-	-	-
<i>A.2 According to risk protection</i>				
Fair value risk protection	-	-	-	-
Cash flow risk protection	-	-	-	-
Risk protection of net investment in foreign operations	-	-	-	-
<b>Total derivatives held for risk management</b>	-	-	-	-
<b>B. Embedded derivatives</b>				
Contracts dependent on the change of interest rate	-	-	-	-
Contracts dependent on the change of exchange rate	-	-	-	-
Contracts dependent on the change of price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
<b>Total embedded derivatives</b>	-	-	-	-
<b>Total derivatives held for risk management</b>	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 22 Loans and advances

### 22.1 Loans and advances to banks

	2014		<i>In Denar thousand</i>	
	Short – term	Long – term	Short – term	Long – term
Loans to banks				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Term deposits, maturity over three months				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Repo				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Other receivables				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Interest receivables	11	-	-	-
Current maturity	-	-	-	-
<b>Total loans and advances to banks before allowance for impairment</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>
(Allowance for impairment)	-	-	-	-
<b>Total loans and receivable to banks less allowance for impairment</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>

	<i>In Denar thousand</i>	
	2014	2013
<b>Movements of allowance for impairment</b>		
As of 01 January	-	-
Allowance for impairment for the year		
- additional allowance for impairment	-	-
- (release of allowance for impairment)	-	-
(Foreclosed assets)	-	-
Effect of exchange rate differences	-	-
(Written – off receivables)	-	-
<b>As of 31 December</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Loans and advances (continued)

**22.2 Loans and advances to customers***A. Structure of loans and advances to customers by type of debtor*

	2014		<i>In Denar thousand</i>	
	Short – term	Long – term	Short – term	Long – term
Non-financial companies				
- principal receivables	505,185	719,173	300,798	622,132
- interest receivables	16,279	-	9,385	-
Government				
- principal receivables	-	-	-	-
- interest receivables	-	-	-	-
Non-profit institutions that serve households				
- principal receivables	2,453	-	2,857	-
- interest receivables	-	-	-	-
Financial companies, apart from banks				
- principal receivables	14,887	29,636	-	26,390
- interest receivables	456	-	202	-
Households				
- principal receivables				
housing loans	-	26,130	-	18,972
consumer loans	49,763	119,771	24,688	134,542
car loans	-	-	-	-
mortgages	-	-	-	-
credit cards	58,872	-	57,987	-
other loans	5,007	9,134	15,329	8,812
interest receivables	1,690	-	1,497	-
<i>Non – residents, apart from banks</i>				
- principal receivables	-	-	-	-
- interest receivables	-	-	-	-
Current maturity	178,568	(178,568)	162,888	(162,888)
<b>Total loans and advances to other customers before allowance for impairment</b>	<b>833,160</b>	<b>725,276</b>	<b>575,631</b>	<b>647,960</b>
(Allowance for impairment)	(89,063)	(17,638)	(66,831)	(13,020)
<b>Total loans and advances to other customers less allowance for impairment</b>	<b>744,097</b>	<b>707,638</b>	<b>508,800</b>	<b>634,940</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Loans and advances (continued)  
Loans and advances to customers (continued)  
A. Structure of loans and advances to customers by type of debtor (continued)

	<i>In Denar thousand</i>	
	2014	2013
<b>Movements of allowance for impairment, individual basis</b>		
As of 01 January	79,851	46,001
Allowance for impairment for the year		
- additional allowance for impairment	127,866	98,925
- (release of allowance for impairment)	(84,199)	(63,176)
(Foreclosed assets)	(15,191)	(289)
Effect of exchange rate differences	(227)	(5)
(Written-off receivables)	(1,399)	(1,605)
<b>As of 31 December</b>	<b>106,701</b>	<b>79,851</b>
<b>Movements of allowance for impairment, group basis</b>		
As of 01 January	-	-
allowance for impairment for the year		
- additional allowance for impairment	-	-
- (release of allowance for impairment)	-	-
(Foreclosed assets)	-	-
Effect of exchange rate differences	-	-
(Written – off receivables)	-	-
<b>As of 31 December</b>	<b>-</b>	<b>-</b>
<b>Total allowance for impairment of loans and advances to customers</b>	<b>106,701</b>	<b>79,851</b>

B. Structure of loans and advances to customers per type of collateral

	<i>In Denar thousand</i>	
	2014	2013
(Current carrying value of loans and advances)		
<i>First class instruments for guarantee</i>		
- Cash deposits (in depot and/or limited bank accounts)	128,779	53,252
- Government securities	51,321	3,845
- Government unconditional guarantees	-	-
- Bank guarantees	-	-
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (apart from banking and insurance companies)	60,824	16,744
Guarantees from individuals	-	-
<i>Mortgage</i>		
- Property for own use (flats, houses)	280,702	389,755
- Property for operating activities	245,971	108,437
Movable property pledge	62,302	105,461
Other types of guarantees	568,258	450,092
Unsecured	53,578	16,154
<b>Total loans and advances to customers less allowance for impairment</b>	<b>1,451,735</b>	<b>1,143,740</b>

As of 31 December 2014, nonperforming loans included in loans and advances to customers amounted to 126,691 thousand Denar (2013: 96,029 thousand Denar). Unrecognized interest and other related costs on these loans amounted to 16,277 thousand Denar (2013: 13,132 thousand Denar).

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 23 Investment in securities

### 23.1 Investment in financial assets available– for– sale

#### A. Structure of investments in financial assets available for sale by type of financial instrument

	2014	In Denar thousand 2013
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	119,080	111,861
Other instruments on the money market	-	-
Government issued bonds	115,391	3,641
Corporative bonds	-	-
Other debt instruments	-	-
	<b>234,471</b>	<b>115,502</b>
Quoted	115,391	3,641
Unquoted	119,080	111,861
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Equity owned instruments	10,884	9,930
	<b>10,884</b>	<b>9,930</b>
Quoted	10,884	9,930
Unquoted	-	-
<b>Total investment in financial instruments available – for – sale before allowance for impairment</b>	<b>245,355</b>	<b>125,432</b>
(Allowance for impairment)	(8,215)	(7,774)
<b>Total investment in financial instruments available – for – sale less allowance for impairment</b>	<b>237,140</b>	<b>117,658</b>

	2014	In Denar thousand 2013
<b>Movements of allowance for impairment</b>		
As of 01 January	7,774	7,559
Allowance for impairment for the year		
- additional allowance for impairment	441	216
- (release of allowance for impairment)	-	-
(Foreclosed assets)	-	-
Foreign exchange differences	-	(1)
(Written – off receivables)	-	-
<b>As of 31 December</b>	<b>8,215</b>	<b>7,774</b>

As of 31 December 2014, bonds for denationalisation issued by the Ministry of Finance in the Republic of Macedonia consists of:

- Government bonds from the fifth issue, issued in 2006, with a maturity of 10 years and an annual interest rate of 2% (2013: 2%), which, as of 31 December 2014 amounted to 1,590 thousand Denar (2013: 2,277 thousands Denar);
- Government bonds of sixth issue, issued in 2007, with a maturity of 10 years and an annual interest rate of 2% (2013: 2%), which, as of 31 December 2014 amounted to 95 thousand Denar (2013: 121 thousands Denar);

**Notes to the financial statements (continued)**  
**As of and for the year ended 31 December 2014**  
**(All amounts expressed in Denar thousands, unless otherwise stated)**

**Investments in securities (continued)**

**Investments in financial assets available-for-sale (continued)**

- Government bonds from the seventh emission, issued in 2008, with a maturity of 10 years and an annual interest rate of 2% (2013: 2%), which as of 31 December 2014 amounted to 1,003 thousand Denar (2013: 1,185 thousands Denar );
  
- Government bonds issued in 2014 with a maturity of 2 years and an annual interest rate of 3%, which as of 31 December 2014 amounted to 57.020 thousands Denar.
  
- Government bonds issued in 2014 with maturity 30 May 2018 and annual interest rate of 4.9%, which as of 31 December 2014 amounted to 55,000 thousands Denar..

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

Investments in securities (continued)  
 Investments in financial assets available-for-sale (continued)

*B. Reclassified assets available-for-sale*

*B1. Balance of reclassified assets available-for-sale*

<i>In Denar thousand</i>	Reclassified amount (at the date of reclassification)	2014 Carrying value as at 31.12.2014	Fair value as at 31.12.2014	2013 Carrying value as at 31.12.2013	Fair value as at 31.12.2013
<b>Assets available- for- sale reclassified in 2014 in:</b>					
- loans and advances to banks	-	-	-	-	-
- loans and advances to customers	-	-	-	-	-
	-	-	-	-	-
<b>Assets available- for- sale reclassified in 2013 in:</b>					
- loans and advances to banks	-	-	-	-	-
- loans and advances to customers	-	-	-	-	-
	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
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Investments in securities (continued)  
Investments in financial assets available-for-sale (continued)  
*B. Reclassified assets available-for-sale (continued)*  
*B2. Profits and losses from reclassified assets available- for-sale*

<i>In Denar thousand</i>	Income statement (current year)	Other profit/(loss) (current year)	Income statement (previous year)	Other profit/(loss) (previous year)
<b>Period preceding reclassification</b>				
Assets available-for-sale reclassified in loans and advances to banks	-	-	-	-
- interest income	-	-	-	-
- financial assets impairment provision, net	-	-	-	-
- changes in fair value, net,	-	-	-	-
Assets available-for-sale reclassified in loans and advances to customers	-	-	-	-
- interest income	-	-	-	-
- financial assets impairment provision, net	-	-	-	-
- changes in fair value, net,	-	-	-	-
	-	-	-	-
<b>Period following reclassification</b>				
Assets available-for-sale reclassified in loans and advances to banks	-	-	-	-
- interest income	-	-	-	-
- financial assets impairment provision, net,	-	-	-	-
- amount posted to General Ledger from revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and advances to customers	-	-	-	-
- interest income	-	-	-	-
- financial assets impairment provision, net	-	-	-	-
- amount posted to General Ledger from revaluation reserves	-	-	-	-



## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

## Investments in securities (continued)

## Investments in financial assets available-for-sale (continued)

*B. Reclassified assets available-for-sale (continued)**B3. Profits and losses that would have been recognized, had the assets not have been reclassified*

	<i>In Denar thousand</i>	Income statement (current year)	Other profit/(loss) (current year)	Income statement (previous year)	Other profit/(loss) (previous year)
Assets available-for-sale reclassified to loans and advances to banks		-	-	-	-
- interest income		-	-	-	-
- impairment provision for financial assets, net		-	-	-	-
Assets available-for-sale reclassified to loans and advances to customers		-	-	-	-
- interest income		-	-	-	-
- impairment provision for financial assets, net		-	-	-	-
- changes in fair value, net		-	-	-	-
Assets available-for-sale reclassified to loans and advances to banks		-	-	-	-

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

Investments in securities (continued)

**23.2 Investment in financial assets held-to-maturity**

	2014	<i>In Denar thousand</i> 2013
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments on the money market	-	-
Government issued bonds	-	-
Corporative bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<b>Total investments in financial instruments held-to-maturity before allowance for impairment</b>	-	-
(Allowance for impairment)	-	-
<b>Total investment in financial instruments held-to-maturity less allowance for impairment</b>	-	-

	2014	<i>In Denar thousand</i> 2013
<b>Movements of allowance for impairment</b>		
As of 01 January	-	-
Allowance for impairment for the year		
- additional allowance for impairment	-	-
- (release of allowance for impairment)	-	-
(Foreclosed assets)	-	-
Foreign exchange differences	-	-
(Written-off receivables)	-	-
<b>As of 31 December</b>	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 24 Investment in subsidiaries and associates

### A. Percentage of the Bank's interest in subsidiaries and associates

Name of subsidiaries and associates	Country	Percentage of interest in ownership		Percentage of right to vote	
		2014	2013	2014	2013
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

### B. Financial information of associates – 100%

Name of associates	Total assets	Total liabilities	Total equity and reserves	In Denar thousand	
				Income	Profit/(loss) for the financial year
2014					
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2013					
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

## 25 Other receivables

	In Denar thousand	
	2014	2013
Trade receivables	12,366	15,350
Prepaid expenses	2,025	843
Deferred income	-	-
Fees and commission receivables	2,700	2,705
Receivables from the employees	-	-
Advances for intangible assets	-	-
Advances for property and equipment	-	-
Other receivables:		
- stock of materials	2,146	1,615
- numismatics	148	148
- receivables for payments on behalf of customers	940	409
- Credit Cards Operations	7,425	7,344
- Anticipative Interest	745	1,315
- Other	1	20
<b>Total other receivables before allowance for impairment</b>	<b>28,496</b>	<b>29,749</b>
(allowance for impairment)	(12,858)	(15,961)
<b>Total other receivables less allowance for impairment</b>	<b>15,638</b>	<b>13,788</b>

	In Denar thousand	
	2014	2013
<b>Movements of provision for impairment</b>		
Balance at 01 January	15,961	16,233
Allowance for impairment for the year		
- additional allowance for impairment	1,616	950
- (release of allowance for impairment)	(4,341)	(1,258)
(Foreclosed assets)	(362)	-
Effect of exchange rate differences	(16)	52
(Written-off receivables)	-	(16)
<b>As of 31 December</b>	<b>12,858</b>	<b>15,961</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 26 Pledged assets

	2014	2013
Debt securities	-	-
Equity instruments	-	-
<b>Total pledged assets</b>	<b>-</b>	<b>-</b>

## 27 Foreclosed assets

	Land	Buildings	Equipment	Residential facilities and apartments	Other	Total
<b>Cost</b>						
At 01 January 2013	-	64,866	5,215	6,599	-	76,680
Foreclosed during the year	-	-	579	-	-	579
(Sold during the year)	-	(8,640)	-	-	-	(8,640)
(Transfer to own assets)	-	(49,331)	-	-	-	(49,331)
<b>At 31 December 2013</b>	<b>-</b>	<b>6,895</b>	<b>5,794</b>	<b>6,599</b>	<b>-</b>	<b>19,288</b>
At 1 January 2014	-	6,895	5,794	6,599	-	19,288
Foreclosed during the year	-	12,867	1,794	13,557	729	28,947
(Sold during the year)	-	(10,686)	(975)	(3,552)	-	(15,213)
(Transfer to own assets)	-	-	-	-	(369)	(369)
<b>At 31 December 2014</b>	<b>-</b>	<b>9,076</b>	<b>6,613</b>	<b>16,604</b>	<b>360</b>	<b>32,653</b>
<b>Impairment</b>						
At 01 January 2013	-	12,860	1,368	1,319	-	15,547
Impairment loss	-	1,126	978	1,056	-	3,160
(Sold during the year)	-	(1,728)	-	-	-	(1,728)
(Transfer to own assets)	-	(9,866)	-	-	-	(9,866)
<b>At 31 December 2013</b>	<b>-</b>	<b>2,392</b>	<b>2,346</b>	<b>2,375</b>	<b>-</b>	<b>7,113</b>
At 01 January 2014	-	2,392	2,346	2,375	-	7,113
Impairment loss	-	3,240	1,087	4,444	204	8,975
(Sold during the year)	-	(2,137)	(208)	(1,279)	-	(3,624)
(Transfer to own assets)	-	-	-	-	(74)	(74)
<b>At 31 December 2014</b>	<b>-</b>	<b>3,495</b>	<b>3,225</b>	<b>5,540</b>	<b>130</b>	<b>12,390</b>
<b>Current carrying value</b>						
At 01 January 2013	-	52,006	3,847	5,280	-	61,133
<b>At 31 December 2013</b>	<b>-</b>	<b>4,503</b>	<b>3,448</b>	<b>4,224</b>	<b>-</b>	<b>12,175</b>
<b>At 31 December 2014</b>	<b>-</b>	<b>5,581</b>	<b>3,388</b>	<b>11,064</b>	<b>230</b>	<b>20,263</b>

As of 31 December 2014, the Bank's foreclosed assets based on uncollected receivables are with a total current carrying value of 20,263 thousand Denar (2013: 12,175 thousand Denar). Their fair value as of 31 December 2014 amounted to 34,847 thousand Denar (2013: 18,448 thousand Denar).

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

**28 Intangible assets**

As at 31 December 2014 and 2013, intangible assets entirely consist of software purchased from external suppliers and other intangible assets. Changes in the carrying value over the reported period is as follows:

**A. Reconciliation of current accounting value**

	Internally developed software	Acquired software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in intangible assets under lease	Non controlling interest	Total
<b>Cost</b>								
At 01 January 2013	-	26,090	8,303	6,719	-	1,148	-	42,260
Increase through new acquisitions	-	2,544	-	184	-	-	-	2,728
Increase through internal development	-	-	-	-	-	-	-	-
Increase through business combinations	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-	-
(Disposal through business combinations)	-	-	-	-	-	-	-	-
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-
Transfer of non-current assets held for sale	-	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	<b>-</b>	<b>28,634</b>	<b>8,303</b>	<b>6,903</b>	<b>-</b>	<b>1,148</b>	<b>-</b>	<b>44,988</b>
At 01 January 2014	-	28,634	8,303	6,903	-	1,148	-	44,988
Increase through new acquisitions	-	2,253	-	78	-	-	-	2,331
Increase through internal development	-	-	-	-	-	-	-	-
Increase through business combinations	-	-	-	-	-	-	-	-
(Disposal and write off)	-	(3,335)	-	(3,258)	-	-	-	(6,593)
(Disposal through business combinations)	-	-	-	-	-	-	-	-
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-
Transfer of non-current assets held for sale	-	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	<b>-</b>	<b>27,552</b>	<b>8,303</b>	<b>3,723</b>	<b>-</b>	<b>1,148</b>	<b>-</b>	<b>40,726</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Intangible assets (continued)

## A. Reconciliation of current accounting value (continued)

	Internally developed software	Acquired software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in intangible assets under lease	Non controlling interest	Total
<b>Amortization and impairment</b>								
At 01 January 2013	-	10,813	4,938	4,464	-	344	-	20,559
Amortization for the year	-	3,528	1,660	359	-	229	-	5,776
Impairment loss during the year	-	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	<b>-</b>	<b>14,341</b>	<b>6,598</b>	<b>4,823</b>	<b>-</b>	<b>573</b>	<b>-</b>	<b>26,335</b>
At 01 January 2014	-	14,341	6,598	4,823	-	573	-	26,335
Amortization for the year	-	3,924	1,661	371	-	230	-	6,186
Impairment loss during the year	-	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-
(Disposal and write off)	-	(3,335)	-	(3,258)	-	-	-	(6,593)
<b>At 31 December 2014</b>	<b>-</b>	<b>14,930</b>	<b>8,259</b>	<b>1,936</b>	<b>-</b>	<b>803</b>	<b>-</b>	<b>25,928</b>
<b>Current carrying amount</b>								
At 01 January 2013	-	15,277	3,365	2,255	-	804	-	21,701
<b>At 31 December 2013</b>	<b>-</b>	<b>14,293</b>	<b>1,705</b>	<b>2,080</b>	<b>-</b>	<b>575</b>	<b>-</b>	<b>18,653</b>
<b>At 31 December 2014</b>	<b>-</b>	<b>12,622</b>	<b>44</b>	<b>1,787</b>	<b>-</b>	<b>345</b>	<b>-</b>	<b>14,798</b>

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

## Intangible assets (continued)

*B. Accounting value of intangible assets that have ownership limitations and/or are pledged as collateral for the Bank's liabilities*

	Internally developed software	Acquired software from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in intangible assets under lease	Total
Current accounting value as at:							
<b>31 December 2013</b>	-	-	-	-	-	-	-
<b>31 December 2014</b>	-	-	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 29 Property and equipment

### A. Reconciliation of the current carrying amount

	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in progress	Investments in property and equipment assets under lease	Total
<b>Cost</b>									
At 01 January 2013	-	-	3,466	46,507	5,942	927	-	22,314	79,156
Increase	-	-	-	-	-	-	2,378	-	2,378
Increase through business combinations	-	-	-	-	-	-	-	-	-
(Disposal and write off) (Disposal through business combinations)	-	-	(1,137)	-	(239)	-	-	-	(1,376)
(transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	1,649	536	-	-	44,901	193	47,279
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>3,978</b>	<b>47,043</b>	<b>5,703</b>	<b>927</b>	<b>47,279</b>	<b>22,507</b>	<b>127,437</b>
At 01 January 2014	-	-	3,978	47,043	5,703	927	47,279	22,507	127,437
Increase	-	-	-	-	-	-	605	-	605
Increase through business combinations	-	-	-	-	-	-	-	-	-
(Disposal and write off) (Disposal through business combinations)	-	-	(190)	(19,269)	(470)	-	-	(1,431)	(21,360)
(transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	369	126	96	-	(591)	-	-
<b>At 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>4,157</b>	<b>27,900</b>	<b>5,329</b>	<b>927</b>	<b>47,293</b>	<b>21,076</b>	<b>106,682</b>



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Property and equipment (continued)  
A. Reconciliation of the current carrying amount (continued)

	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in preparation	Investments in property and equipment assets under lease	Total
<b>Depreciation and impairment</b>									
At 01 January 2013	-	-	1,870	38,014	3,356	158	-	11,682	55,080
Depreciation for the year	-	-	964	3,468	820	58	-	4,433	9,743
Impairment loss during the year (Release of impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposal and write off) (transfer to non – current assets held for sale)	-	-	(734)	-	(239)	-	-	-	(973)
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	-	-	<b>2,100</b>	<b>41,482</b>	<b>3,937</b>	<b>216</b>	-	<b>16,115</b>	<b>63,850</b>
At 01 January 2014	-	-	2,100	41,482	3,937	216	-	16,115	63,850
Depreciation for the year	-	-	899	2,508	750	58	-	4,090	8,305
Impairment loss during the year (Release of impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposal and write off) (transfer to non – current assets held for sale)	-	-	(162)	(19,269)	(470)	-	-	(1,431)	(21,332)
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	<b>2,837</b>	<b>24,721</b>	<b>4,217</b>	<b>274</b>	-	<b>18,774</b>	<b>50,823</b>
<b>Net carrying amount</b>									
At 01 January 2013	-	-	1,596	8,493	2,586	769	-	10,632	24,076
<b>At 31 December 2013</b>	-	-	<b>1,878</b>	<b>5,561</b>	<b>1,766</b>	<b>711</b>	<b>47,279</b>	<b>6,392</b>	<b>63,587</b>
<b>At 31 December 2014</b>	-	-	<b>1,320</b>	<b>3,179</b>	<b>1,112</b>	<b>653</b>	<b>47,293</b>	<b>2,302</b>	<b>55,859</b>



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

**30 Current and deferred tax assets and liabilities**  
**30.1 Current tax assets and current tax liabilities**

	2014	2013
income tax receivables (current)	301	-
income tax liabilities (current)	-	-
	<b>301</b>	<b>-</b>

**30.2 Deferred tax assets and deferred tax liabilities**

*A. Recognized deferred tax assets and deferred tax liabilities*

	2014			2013		
	Deferred tax assets	(Deferred tax liabilities)	Net basis	Deferred tax assets	(Deferred tax liabilities)	Net basis
Derivative liabilities held for risk management	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Deferred tax assets/liabilities recognized in the Income Statement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments in financial assets available – for – sale	-	-	-	-	-	-
Cash flow risk protection	-	-	-	-	-	-
<b>Deferred tax assets/liabilities recognized in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total recognized deferred tax assets/liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

*B. Unrecognized deferred tax liabilities*

	2014	2013
Tax losses	-	-
Tax credits	-	-
<b>Total unrecognized deferred tax assets</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Current and deferred tax assets and liabilities (continued)  
Deferred tax assets and deferred tax liabilities (continued)

*C. Reconciliation of the movement of deferred tax assets and tax liabilities during the year*

	Recognized during the year in:			As of 31 December
	As of 01 January	Income statement	Equity	
<b>2014</b>				
Derivative liabilities held for risk management	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available – for – sale	-	-	-	-
Cash flow risk protection	-	-	-	-
<b>Total recognized deferred tax assets/ liabilities</b>	-	-	-	-
<b>2013</b>				
Derivative liabilities held for risk management	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available – for – sale	-	-	-	-
Cash flow risk protection	-	-	-	-
<b>Total recognized deferred tax assets/ liabilities</b>	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

### 31 Non - current assets held for sale and disposal group

#### A. Non – current assets held for sale

	2014	2013
Intangible assets	-	-
Property and equipment	-	171
<b>Total non – current assets held for sale</b>	<b>-</b>	<b>171</b>

#### B. Disposal group

	2014	2013
Disposal group of assets		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investment in associates	-	-
Income tax receivables	-	-
Other assets	-	-
<b>Total disposal group of assets</b>	<b>-</b>	<b>-</b>
Liabilities directly related to disposal group		
Financial liabilities	-	-
Special reserve	-	-
Income tax liabilities	-	-
Other liabilities	-	-
<b>Total liabilities directly related to the disposal group</b>	<b>-</b>	<b>-</b>

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

	2014	2013
Profit / (loss) recognized from the sale of assets held for sale and disposal group	-	-
	-	-

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

### 32 Trading liabilities

	2014	2013
Due to banks		
- Current accounts, demand deposits and overnight deposits	-	-
- Term deposits	-	-
- Other deposits	-	-
	-	-
Due to customers		
- Current accounts, demand deposits and overnight deposits	-	-
- Term deposits	-	-
- Other deposits	-	-
	-	-
Issued debt securities		
- Money market instruments	-	-
- Deposit certificates	-	-
- Issued bonds	-	-
- Other	-	-
	-	-
Other financial liabilities	-	-
	-	-
Trade derivatives		
Contracts dependent on the interest rate change	-	-
Contracts dependent on the exchange rate change	-	-
Contracts dependent on the price of securities	-	-
Other contracts that meet the criteria of IAS 39	-	-
	-	-
<b>Total trading liabilities</b>	<b>-</b>	<b>-</b>

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

### 33 Financial liabilities designated at fair value through profit and loss at its / their initial recognition

	Current carrying amount	2014 Contractual value, paid at maturity	Current carrying amount	2013 Contractual value, paid at maturity
Due to banks				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
Due to customers				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
Issued debt securities				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
Subordinary liabilities	-	-	-	-
Other financial liabilities	-	-	-	-
<b>Total financial liabilities through profit and loss at its/ their initial recognition</b>	-	-	-	-

Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

### 34 Deposits

#### 34.1 Due to banks

	2014		2013	
	Short - term	Long-term	Short - term	Long-term
Current accounts				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
Demand deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
Term deposits				
- Domestic banks	65,000	-	66,957	-
- Foreign banks	-	-	-	-
Limited deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
Other deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
Interest				
- Domestic banks	3	-	-	-
- Foreign banks	-	-	-	-
Current maturity	-	-	-	-
<b>Total due to banks</b>	<b>65,003</b>	<b>-</b>	<b>66,957</b>	<b>-</b>



Notes to the financial statements (continued)  
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(All amounts expressed in Denar thousands, unless otherwise stated)

## Deposits (continued)

**34.2 Due to customers**

	2014		2013	
	Short - term	Long-term	Short - term	Long-term
Non-financial companies				
- Current accounts	168,634	-	127,714	-
- Demand deposits	18	-	18	-
- Term deposits	80,878	55,306	32,745	32,308
- Limited deposits	-	-	-	1,230
- Other deposits	-	-	-	-
- Interest	1,287	-	1,734	-
	<b>250,817</b>	<b>55,306</b>	<b>162,211</b>	<b>35,538</b>
Government				
- Current accounts	-	-	-	-
- Demand deposits	-	-	-	-
- Term deposits	-	-	-	-
- Limited deposits	-	-	-	-
- Other deposits	-	-	-	-
- Interest	-	-	-	-
	-	-	-	-
Non-profit organizations that serve households				
- Current accounts	13,018	-	10,505	-
- Demand deposits	-	-	-	-
- Term deposits	7,349	16,828	7,000	16,531
- Limited deposits	-	-	-	-
- Other deposits	-	-	-	-
- Interest	1,518	-	668	-
	<b>21,885</b>	<b>16,828</b>	<b>18,173</b>	<b>16,531</b>
Financial companies, apart from banks				
- Current accounts	8,368	-	3,280	-
- Demand deposits	-	-	-	-
- Term deposits	483,451	65,802	213,164	25,000
- Limited deposits	-	-	-	-
- Other deposits	-	-	-	-
- Interest	6,238	-	4,062	-
	<b>498,057</b>	<b>65,802</b>	<b>220,506</b>	<b>25,000</b>
Households				
- Current accounts	89,144	-	47,312	-
- Demand deposits	2	-	2	-
- Term deposits	151,635	926,241	292,003	534,611
- Limited deposits	369	10,112	492	11,959
- Other deposits	-	-	-	-
- Interest	9,176	-	11,018	-
	<b>250,326</b>	<b>936,353</b>	<b>350,827</b>	<b>546,570</b>
Non-residents, apart from banks				
- Current accounts	6,157	-	3,860	-
- Demand deposits	-	-	-	-
- Term deposits	231	25,032	-	25,035
- Limited deposits	-	-	-	-
- Other deposits	-	-	-	-
- Interest	1,149	-	830	-
	<b>7,537</b>	<b>25,032</b>	<b>4,690</b>	<b>25,035</b>
Current maturity	672,295	(672,295)	358,846	(358,846)
<b>Total due to other customers</b>	<b>1,700,917</b>	<b>427,026</b>	<b>1,115,253</b>	<b>289,828</b>

Notes to the financial statements (continued)  
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### 35 Issued debt securities

	2014	2013
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest on issued securities	-	-
<b>Total issued debt securities</b>	<b>-</b>	<b>-</b>

### 36 Borrowings

#### A. The structure of borrowings according to the type of liabilities and the donor's sector

	2014		2013	
	Short - term	Long-term	Short - term	Long-term
<b>Banks</b>				
- Residential	-	-	-	-
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Non-residential	-	-	-	-
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
<b>Non-financial companies</b>				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
<b>Government</b>				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
<b>Non-profit institutions that serve to households</b>				
Borrowings	-	-	-	-
Interest	-	-	-	-
<b>Financial companies, apart from banks</b>				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
<b>Non-residents, apart from banks</b>				
- Non-financial companies	-	-	-	-
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Government	-	-	-	-
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Non-profit institutions that serve to households	-	-	-	-
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Financial companies, apart from banks	-	-	-	-
Borrowings	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Borrowings (continued)

## A. The structure of borrowings according to the type of liabilities and the donor's sector (continued)

Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Financial companies, apart from banks				
Borrowings	-	-	-	-
Interest	-	-	-	-
<b>Current maturity</b>	-	-	-	-
<b>Total borrowings</b>	-	-	-	-

## B. Borrowings liabilities according to donor

	Short - term	2014 Long-term	Short - term	2013 Long-term
<i>Domestic sources:</i>				
-	-	-	-	-
<i>Foreign sources:</i>				
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<b>Current maturity</b>	-	-	-	-
<b>Total Borrowings</b>	-	-	-	-

## 37 Subordinated liabilities

	2014	2013
Subordinated deposit liabilities	-	-
Liabilities based on interest	-	-
Subordinated credit liabilities		
Alfa Finance Holding	49,185	49,209
Alfa Finance Holding	12,297	39,982
Alfa Finance Holding	6,148	-
Alfa Finance Holding	46,111	-
Interest	320	1,174
	<b>114,061</b>	<b>90,365</b>
Subordinated liabilities on issued securities		
Interest	-	-
Preference shares	-	-
<b>Total subordinated liabilities</b>	<b>114,061</b>	<b>90,365</b>

As of 31 December 2014 the Bank has subordinated liabilities in the amount of MKD 114,061 thousand Denar (2013: 90,365 thousand Denar). These liabilities are result from transfer of foreign currency on the basis of agreements for subordinated loans totaling EUR 1,850 thousand Denar. Agreements for subordinated loans are signed with Alfa Finance Holding, Bulgaria in compliance with the local regulations and these funds the Bank may use as additional capital to cover all types of risks. Subordinated loans are approved with interest rate on an annual basis of 2.95% and interest is payable every six months. Principal of loans shall be repaid in a single installment on the last day of maturity, which in all agreements for subordinated loans is 8 years from the date of signature.

**Notes to the financial statements (continued)**  
**As of and for the year ended 31 December 2014**  
**(All amounts expressed in Denar thousands, unless otherwise stated)**

**Subordinated liabilities (continued)**

The subordinated loan in the amount of EUR 800,000 matures on 22 March 2021, the subordinated loan in the amount of EUR 200,000 matures on 30 June 2022, the subordinated loan in the amount of EUR 100,000 matures on 26 September 2022 and the subordinated loan in the amount of EUR 750,000 matures of 22 December 2022.

On 30 December 2013, the Shareholders Assembly adopted a Decision for confirming the Decision of the majority shareholder Alfa Finance Holding for giving up the rights of their receivables from the subordinated loan in the amount of EUR 1,000,000 equivalent of 61,684 thousand and these funds to be used for covering the accumulated losses of the Bank. This decision by the Bank was implemented in February 2014.



Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

### 39 Other liabilities

	2014	2013
Trade payables	1,182	3,122
Received advances	-	-
Fee and commission liabilities	185	132
Accrued expenses	-	-
Deferred income from the previous year	-	-
Short – term liabilities to employees	-	-
Short – term liabilities for employee benefits	-	-
Others		
- Liabilities for taxes and contributions	1,716	265
- Settlement accounts credit cards	124	247
- Settlement accounts on loans	826	2,022
- Founding equity	307	-
- Payments on collection from abroad	2,090	-
- Other	471	215
<b>Total other liabilities</b>	<b>6,901</b>	<b>6,003</b>

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

**40 Share capital**

As at 31 December 2014, total shareholders equity of the Bank amounted to 855,688 thousand Denar (2013: 856,514 thousand Denar), and it consists of 28,742 (2013: 28,742) approved and fully paid ordinary shares. The nominal value per share is 29,800 Denar (2013: 2,800 Denar). Holders of ordinary shares are entitled to receive dividends as declared from time and eligible shareholders for the equivalent of 1 ordinary share (2013: 1 ordinary share). All shares are entitled to a proportional share in the division of bankruptcy or liquidation..

*A. Share capital*

	<i>In Denars</i>		<i>Number of issued shares</i>				<i>Total subscribed capital</i>	
	Nominal value per share		ordinary shares		preference shares not for sale			
	ordinary shares	preference shares not for sale	2014	2013	2014	2013	2014	2013
At 01 January – fully paid	29,800	-	28,742	28,742	-	-	856,514	856,514
Recorded shares during the year	-	-	-	-	-	-	-	-
Realization of share options	-	-	-	-	-	-	-	-
Division / increase of nominal value per share	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
- Alignment of share capital with the Central Registry based on the findings of the expert	-	-	-	-	-	-	(826)	-
<b>At 31 December – fully paid</b>	<b>29,800</b>	<b>-</b>	<b>28,742</b>	<b>28,742</b>	<b>-</b>	<b>-</b>	<b>855,688</b>	<b>856,514</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Share capital (continued)

*B. Dividends***B.1 Issued dividends and paid dividends by the Bank**

	2014	2013
Issued dividends and paid dividends for the year	-	-

	2014	2013
Ordinary share dividend (In Denars)	-	-
Preference share dividend	-	-

**B.2 Issued dividends after the balance sheet date (the dividends liabilities are not shown in the Balance sheet)**

	2014	2013
Issued dividends after 31 December	-	-

	2014	2013
Ordinary share dividend	-	-
Preference share dividend	-	-

**C. Shareholders with more than 5% voting share**

<i>Shareholder's name</i>	<i>In Denar thousand</i>		2014	eo % 2013
	2014 Subscribed capital (Nominal value)	2013 Subscribed capital (Nominal value)		
Alpha Finance Holding, Bulgaria	842,333	827,699	98,43	96,63
<b>Total</b>	<b>842,333</b>	<b>827,699</b>	<b>98.43</b>	<b>96.63</b>

As at 31 December 2014, the Alpha Finance Holding, Bulgaria shareholder has established a pledge of 3,450 ordinary shares of Capital Bank in favor of domestic legal entity.



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

#### 41 Earnings per share

##### A. Basic earnings per share

	2014	2013
Net - profit attributable to holders of ordinary shares		
Net - profit for the year	(30,041)	(44,280)
Dividends for preference shares not for sale	-	-
Changes of Net - Profit attributable to holders of ordinary shares	-	-
<b>Net profit attributable to holders of ordinary shares</b>	<b>(30,041)</b>	<b>(44,280)</b>

	2014	Number of shares 2013
Weighted average number of ordinary shares		
Issued ordinary shares as of 1 January	28,742	28,742
Effects from changes in the number of ordinary shares during the year	-	-
Weighted average number of ordinary shares as of 31 December	28,742	28,742
<b>Basic earnings per share (in Denars)</b>	<b>(1,045)</b>	<b>(1,541)</b>

##### B. Diluted earnings per share

	2014	2013
<i>Net - profit attributable to holders of ordinary shares (diluted)</i>		
Net profit attributable to holders of ordinary shares	(30,041)	(44,280)
Corrections of net profit attributable to holders of ordinary shares for the effects of all issued potential ordinary shares	-	-
<b>Net profit attributable to holders of ordinary shares (diluted)</b>	<b>(30,041)</b>	<b>(44,280)</b>

	2014	Number of shares 2013
<i>Weighted average number of ordinary shares (diluted)</i>		
Issued ordinary shares as of 1 January	28,742	28,742
Effects of issuing potential ordinary shares	-	-
Weighted average number of ordinary shares (diluted) as of 31 December	28,742	28,742
<b>Diluted earnings per share (in Denars)</b>	<b>(1,045)</b>	<b>(1,541)</b>

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## 42 Commitments and contingencies

### 42.1 Commitments

	2014	2013
Payment uncovered guarantees		
- in Denar	60,898	39,206
- in foreign currency	29,907	46,718
- in Denar with foreign clause	161	-
Uncovered performance guarantees		
- in Denar	49,267	11,762
- in foreign currency	24,734	-
- in Denar with foreign clause	6,466	-
Uncovered letter of credit		
- in Denar	-	-
- in foreign currency	-	-
- in Denar with foreign clause	-	-
Unused overdraft for current accounts	2,127	2,021
Unused credit card limits	22,828	21,870
Commitments for crediting and unused credit limits	25,661	23,719
Other uncovered contingent liabilities	-	-
Issued covered collateral	12,258	8,552
Covered letter of credit	-	-
Other contingent liabilities	34,808	46,286
<b>Total commitments and contingencies before the special reserve</b>	<b>269,115</b>	<b>200,134</b>
(Special reserve)	(255)	(908)
<b>Total commitments and contingencies less potential reserve</b>	<b>268,860</b>	<b>199,226</b>

### Contingencies

Major part of contingent liabilities of the Bank relate to off balance sheet accounts of unused credit limits and exposure under guarantees. The amount of 22,828 thousand Denar (2013: 21,870 thousand Denar) represents unused limits on credit cards while the amount of 25,661 thousand Denar (2013: 23,719 thousand Denar) represents unused limit on approved credit exposures to legal entities, exposure under guarantees amounted to 218,499 thousand Denar (2013: 152,524 thousand Denar), out of which 206,241 thousand Denar (2013: 143,972 thousand Denar) are uncovered, and the remaining part of 12,258 thousand Denar (2013: 8,552 thousand Denar) are covered guarantees.

As of 31 December 2014 the total amount of the revocable contingent liabilities is 2,661 thousand Denar (2013: 23,719 thousand Denar) and the amount of irrevocable contingent liabilities is 243,199 thousand Denar (2013: 175,507 thousand Denar).

### Litigation procedures

As at 31 December 2014, legal proceedings against the Bank amount to Denar 37,866 thousand in total (2013: Denar 29,705 thousand). The provision as of the balance sheet date has not been recorded because the professional legal advice indicates that there is no possibility of significant losses. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the Management of the Bank believes that no material liabilities are likely to occur.

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

Commitments and contingencies (continued)  
Commitments (continued)

*Taxation*

The Bank's financial statements and accounting records are subject to tax control by the tax authorities in the period for 5 years after the tax report for the financial year is submitted and can cause additional tax liabilities. According to the estimates from the Bank's Management there are no additional conditions that can bring forth potential materially significant liabilities by this account.

*Capital commitments*

There have been no recorded capital liabilities on the reporting date that have not been recognized in the financial statements.

## 42.2 Contingent assets

	2014	2013
<b>Total potential assets</b>	-	-

## 43 Activities on behalf of third parties

	2014			2013		
	Assets	Liabilities	Net-position	Assets	Liabilities	Net-position
<i>Asset administration on behalf and at the expense of third parties</i>						
Deposits in Denar	-	-	-	-	-	-
Deposits in foreign currencies	-	-	-	-	-	-
Loans in Denar	7,568	-	7,568	7,495	-	7,495
Loans in foreign currencies	-	-	-	-	-	-
Other receivables in Denar	-	-	-	-	-	-
Other receivables in foreign currencies	-	-	-	-	-	-
<i>Asset management on behalf and at the expense of third parties</i>						
Deposits in Denar	-	7,568	(7,568)	-	7,495	(7,495)
Deposits in foreign currencies	-	-	-	-	-	-
Loans in Denar	-	-	-	-	-	-
Loans in foreign currencies	-	-	-	-	-	-
Other receivables in Denar	-	-	-	-	-	-
Other receivables in foreign currencies	-	-	-	-	-	-
Bank accounts	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total</b>	<b>7,568</b>	<b>7,568</b>	<b>-</b>	<b>7,495</b>	<b>7,495</b>	<b>-</b>



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Related party transactions (continued)

## A. Balance sheet (continued)

	Parent Company	Sub- sidiaries	Associates	Mana- gement of the Bank	Other related parties	Total
<b>At 31 December 2013</b>						
<b>Assets</b>						
Current accounts	-	-	-	-	-	-
Trading assets	-	-	-	-	-	-
Loans and advances						
- Mortgages	-	-	-	4,844	-	4,844
- Consumer loans	-	-	-	3,206	-	3,206
- Financial leasing receivables	-	-	-	-	-	-
- Factoring and forfeiting receivables	-	-	-	-	-	-
- Other loans and advances	-	-	-	793	20,062	20,855
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	(68)	(201)	(269)
Other assets	-	-	-	-	-	-
<b>Total</b>	-	-	-	<b>8,775</b>	<b>19,861</b>	<b>28,636</b>
<b>Liabilities</b>						
Trading liabilities	-	-	-	-	-	-
Deposits	157	-	-	6,307	5,000	11,464
Issued securities	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Subordinated liabilities	90,366	-	-	-	-	90,366
Other liabilities	-	-	-	-	-	-
<b>Total</b>	<b>90,523</b>	-	-	<b>6,307</b>	<b>5,000</b>	<b>101,830</b>
<b>Commitments</b>						
Issued guarantees	-	-	-	-	-	-
Issued letter of credit	-	-	-	-	-	-
Other commitments	-	-	-	576	3,927	4,503
(Special reserves)	-	-	-	(6)	-	(6)
<b>Total</b>	-	-	-	<b>570</b>	<b>3,927</b>	<b>4,497</b>
<b>Potential assets</b>						
Received guarantees	-	-	-	-	-	-
Other potential assets	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-

Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Related party transactions (continued)

*B. Income and expenses from other related party transactions*

	Parent Company	Sub- sidiaries	Associates	Mana- gement of the Bank	Other related parties	Total
<b>2014</b>						
<b>Income</b>						
Interest income	-	-	-	569	2,724	3,293
Fee and commission income	84	-	-	18	1,266	1,368
Net income from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gain from the sale of non - current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between subjects	-	-	-	-	-	-
<b>Total</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>587</b>	<b>3,990</b>	<b>4,661</b>
<b>Expenses</b>						
Interest expense	1,648	-	-	70	2	1,720
Fee and commission expense	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses from purchase of non - current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, net	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Transfers between subjects	-	-	-	-	-	-
<b>Total</b>	<b>1,648</b>	<b>-</b>	<b>-</b>	<b>70</b>	<b>2</b>	<b>1,720</b>
<b>2013</b>						
<b>Income</b>						
Interest income	-	-	-	560	-	560
Fee and commission income	-	-	-	20	-	20
Net income from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gain from the sale of non - current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between subjects	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>580</b>	<b>-</b>	<b>580</b>
<b>Expenses</b>						
Interest expense	-	-	-	196	-	196
Fee and commission expense	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses from purchase of non - current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, net	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Transfers between subjects	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>196</b>	<b>-</b>	<b>196</b>



Notes to the financial statements (continued)  
 As of and for the year ended 31 December 2014  
 (All amounts expressed in Denar thousands, unless otherwise stated)

## Leases (continued)

*B. Lessee***B.1 Financial lease liabilities**

	Total financial leases receivables	Maturity period for financial lease liabilities		
		up to 1 year	From 1 to 5 years	Over 5 years
At 31 December 2014	-	-	-	-
Current value of minimum lease payments	-	-	-	-
<b>Total</b>	-	-	-	-
At 31 December 2013	-	-	-	-
Current value of minimum lease payments	-	-	-	-
<b>Total</b>	-	-	-	-



Notes to the financial statements (continued)  
As of and for the year ended 31 December 2014  
(All amounts expressed in Denar thousands, unless otherwise stated)

## Leases (continued)

## B. Lessee (continued)

## B.1 Financial lease liabilities (continued)

	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of plant, property and equipment	Total
<i>Value of property under financial lease:</i>							
<b>Cost</b>							
At 1 January 2013	-	-	-	-	-	-	-
- additions	-	-	-	-	-	-	-
- (disposal and write off)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	-	-	-	-	-	-	-
At 1 January 2014	-	-	-	-	-	-	-
- additions	-	-	-	-	-	-	-
- (disposal and write off)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	-	-	-	-	-
<b>Accumulated depreciation and impairment</b>							
At 1 January 2013	-	-	-	-	-	-	-
- depreciation for the year	-	-	-	-	-	-	-
- impairment loss during the year	-	-	-	-	-	-	-
- (release of impairment loss during the year)	-	-	-	-	-	-	-
- (disposal and write offs)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
<b>At 31 December 2013</b>	-	-	-	-	-	-	-
At 1 January 2014	-	-	-	-	-	-	-
- depreciation for the year	-	-	-	-	-	-	-
- impairment loss during the year	-	-	-	-	-	-	-
- (release of impairment loss during the year)	-	-	-	-	-	-	-
- (disposal and write offs)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	-	-	-	-	-

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

## Leases (continued)

## B. Lessee (continued)

## B.1 Financial lease liabilities (continued)

	Land	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of plant, property and equipment	Total
<b>Current accounting value</b>							
At 1 January 2013	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	-	-	-	-	-
<b>At 31 December 2014</b>	-	-	-	-	-	-	-

## B.2 Irrevocable operational leases liabilities

	Total irrevocable leases liabilities	Maturity period for irrevocable operational leases liabilities		
		up to 1 year	From 1 to 5 years	Over 5 years
At 31 December 2014				
Current value of minimum lease payments	57,739	10,836	43,344	3,559
<b>Total</b>	<b>57,739</b>	<b>10,836</b>	<b>43,344</b>	<b>3,559</b>
At 31 December 2013				
Current value of minimum lease payments	68,575	10,836	43,344	14,395
<b>Total</b>	<b>68,575</b>	<b>10,836</b>	<b>43,344</b>	<b>14,395</b>

## Notes to the financial statements (continued)

As of and for the year ended 31 December 2014

(All amounts expressed in Denar thousands, unless otherwise stated)

**46 Share based payments**

	2014	2013
Date of giving option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Share price on the date the option is given	-	-
Variance	-	-
Expected dividend return	-	-
Interest rate	-	-
Fair value on the date the option is given	-	-

	2014		2013	
	Number of share options	Weighted average price of share options	Number of share options	Weighted average price of share options
<b>At 1 January</b>				
Changes during the year:				
- options given to the Supervisory Board members	-	-	-	-
- options given to the Board of Directors members	-	-	-	-
- Other given options	-	-	-	-
- Forfeited options	-	-	-	-
- Realized options	-	-	-	-
- Options with expired deadline	-	-	-	-
<b>At 31 December</b>	-	-	-	-

**47 Events after the reporting date**

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



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