Grant Thornton

Financial Statements and Independent Auditors' Report

Universal Investment Bank AD, Skopje

31 December 2014

Contents

Independent Auditors' Report

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To the Shareholders of

Universal Investment Bank AD, Skopje

We have audited the accompanying financial statements of Universal Investment Bank AD, Skopje (the "Bank") which comprise the Statement of financial position as at 31 December 2014 and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 3 to 52.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 audit opinion.

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

As disclosed in Note 17 to the accompanying financial statements, as at 31 December 2014, the Bank investments in subsidiaries amounted to Denar 109,556 thousand. The Bank owns 100% of the owner's capital of the domestic legal entity. Until the date of issuing of this report, no consolidated financial statements and statutory accounts have been issued by the Bank.

Our opinion is not qualified in respect of this matter.

Skopje,
18 March 2015

Grant Thornton Doo

Director
Ruza Filipceva

Certified Auditor
Suzana Stavrik

Statement of comprehensive income

			(In 000 MKD) For the year ending 31 December
	Notes	2014	2013
Interest income		673,543	704,742
Interest (expense)		(184,042)	(273,195)
Net interest income	5	**489,501**	**431,547**
Fee and commission income		255,143	237,492
Fee and commission (expense)		(123,288)	(110,368)
Net fee and commission income	6	**131,855**	**127,124**
Net foreign exchange gains		21,811	23,650
Other operating income	7	17,314	16,343
Operating income		**660,481**	**598,664**
Additional / (Release of) impairment provision on financial assets, net	8	(5,394)	30,246
Personnel expenses	9	(221,237)	(224,139)
Amortization and depreciation	18,19	(61,734)	(63,461)
Other operating expenses	10	(281,677)	(275,652)
Operating (expenses)		**(570,042)**	**(533,006)**
Profit before tax		**90,439**	**65,658**
Income tax (expense)	11	(9,580)	(673)
Net profit for the year		**80,859**	**64,985**
Other comprehensive income			
Other comprehensive income for the year		-	2,680
Total comprehensive income for the year		**80,859**	**67,665**
Earnings per share			
Basic and diluted earnings per share (in Denars)	12	148	122

Statement of financial position

	Notes	2014	2013
		(In 000 MKD) As at 31 December	
Assets			
Cash and cash equivalents	13	2,474,241	2,313,450
Loans and advances to customers	14	7,262,235	6,673,220
Investment securities	15	696,601	897,884
Foreclosed assets	16	111,302	245,374
Investment in subsidiaries	17	109,556	-
Intangible assets	18	119,267	135,476
Property and equipment	19	486,040	484,771
Current tax assets		-	7,461
Other receivables	20	59,056	73,462
Total assets		**11,318,298**	**10,831,098**
Liabilities			
Due to banks	21	73,963	19,473
Due to customers	22	9,565,185	9,287,581
Borrowings	23	347,866	301,309
Provisions and special reserve	24	4,128	1,198
Current tax liabilities		677	-
Deferred tax liabilities		1,442	-
Other liabilities	25	96,625	74,472
Total liabilities		**10,089,886**	**9,684,033**
Equity and reserves			
Share capital	26	545,987	545,987
Share premium		510,387	510,387
Reserves		85,395	23,090
Retained earnings		86,643	67,601
Total equity and reserves		**1,228,412**	**1,147,065**
Total liabilities, equity and reserves		**11,318,298**	**10,831,098**
Commitments and contingencies	27	984,968	354,297

These financial statements have been authorized by the Bank's Supervisory Board on 16 March 2015.

Signed on behalf of the Board of Directors by:

SKOPJE

Kosta Mitrovski	**Svetozar Popov**	**Delcho Krastev**
Chairman of the Managing Board, Executive Director	Member of the Managing Board, Executive Director	Member of the Managing Board, Executive Director

Statement of changes in equity

(In 000 MKD)	Share capital	Share premium	Revaluation reserves	Other reserves	Retained earnings / Accumulated (losses)	Total equity
At 01 January 2013	**545,987**	**510,387**	**(2,615)**	**60,168**	**(34,527)**	**1,079,400**
Transactions with owners						
Distribution of reserves for coverage of losses prom prior years	-	-	-	(37,143)	37,143	-
Total transactions with owners	-	-	-	*(37,143)*	*37,143*	-
Profit for the year	-	-	-	-	64,985	64,985
Other comprehensive income						
Revaluation reserve for foreclosed assets	-	-	2,680	-	-	2,680
Other comprehensive income	-	-	*2,680*	-	-	*2,680*
Total comprehensive income	-	-	*2,680*	-	*64,985*	*67,665*
At 31 December 2013	**545,987**	**510,387**	**65**	**23,025**	**67,601**	**1,147,065**
At 01 January 2014	**545,987**	**510,387**	**65**	**23,025**	**67,601**	**1,147,065**
Corrections of revaluation reserves for foreclosed assets	**-**	**-**	(2,680)	**-**	**-**	(2,680)
Correction of retained earnings for release of impairment provision on financial assets from foreclosed assets	**-**	**-**	**-**	**-**	3,168	3,168
At 01 January 2014- restated	**545,987**	**510,387**	**(2,615)**	**23,025**	**70,769**	**1,147,553**
Transactions with owners						
Distribution of reserves for coverage of losses prom prior years	-	-	-	64,985	(64,985)	-
Total transactions with owners	-	-	-	*64,985*	*(64,985)*	-
Profit for the year	-	-	-	-	80,859	80,859
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	**80,859**	**80,859**
At 31 December 2014	**545,987**	**510,387**	**(2,615)**	**88,010**	**86,643**	**1,228,412**

Statement of cash flows

	Notes	2014	2013
			(In 000 MKD)
		Year ended 31 December	
	Notes	2014	2013
Operating activities			
Profit before taxation		90,439	65,658
Adjustment for:			
Amortization and depreciation		61,734	63,461
Additional / (Release of) impairment provision on financial assets, net		5,394	(30,246)
Impairment losses on foreclosed assets		40,731	1,283
Additional / (Release of) impairment provision and special reserve, net		2,937	(632)
Dividend income		(1,164)	(952)
(Gain) / loss from foreclosed assets sold		-	813
(Gain) from intangible assets sold		(1,232)	(22)
Interest income		(673,543)	(704,742)
Interest expense		184,042	273,195
Other corrections		12,658	3,577
(Loss) before changes in operating assets and liabilities		**(278,004)**	(328,607)
Changes in operating assets and liabilities			
Loans and advances to banks		-	638,945
Obligatory reserves in foreign currency		11,979	2,132
Loans and advances to customers		(603,375)	(26,933)
Foreclosed assets		(15,727)	(1,642)
Other receivables		(36,344)	52,724
Due to banks		54,490	(205,105)
Due to customers		309,652	43,006
Other liabilities		23,588	(3,760)
Profit/ (Loss) after changes in operating assets and liabilities		**(533,741)**	170,760
Proceeds from interest		643,875	676,064
Interests (paid)		(216,062)	(306,705)
Income tax (paid)		-	(1,353)
Net cash (used in) / from operating activities		**(105,928)**	**538,766**
Investment activities			
(Purchase) of property, plant and equipment and intangible assets, net		(45,562)	(12,241)
Sale of investment securities, net		230,813	156,640
Other inflows from investment activities		34	952
Net cash from investments activities		**185,285**	**145,351**
Financial activities			
Proceeds from borrowings		193,972	139,542
(Repayment of) borrowings		(147,286)	(121,249)
(Repayment of) subordinated liabilities		-	(246,684)
Net cash from / (used in) financial activities		**46,686**	**(228,391)**
Net change in cash and cash equivalents		**126,043**	**455,726**
Cash and cash equivalents, beginning of the year		1,888,378	1,432,652
Cash and cash equivalents, end of the year	**13**	**2,014,421**	**1,888,378**

Notes to the Financial Statements

1 General information

Universal Investment Bank, Skopje (hereinafter “the Bank”) is a Shareholding Company incorporated in the Republic of Macedonia. The address of its registered head office is: “St. Maksim Gorki” 6, 1000 Skopje, Republic of Macedonia.

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

In 2014 the Bank invested in a 100% owned subsidiary, UNI Imoti dooel Skopje.

The Bank’s shares are quoted on the Macedonian Stock Exchange, at segment mandatory listing for companies with special reporting obligations. The quotation code is the following:

Code of shares	ISIN
UNI (ordinary share)	MKBLBA101011

The total number of employees in the Bank as at 31 December 2014 and 2013 is 386 employees.

2 Accounting policies

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

2.1 Basis for preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) that were issued by the International Accounting Standards Board (IASB). Financial statements have been prepared in accordance with the concept of historical cost convention, except for securities available for sale that are measured at fair value. The basis for measuring each kind of asset, liability, income and expense are disclosed further within this Note.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank’s Management to exercise judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The financial statements are separate financial statements and do not include the financial statements of the subsidiary.

The financial statements have been prepared as at and for the years ended 31 December 2014 and 2013. The financial statements are presented in Macedonian Denar (“MKD”), which is the Bank’s functional currency. Current and comparative data stated in these financial statements are expressed in Denar thousands. Where necessary, comparative figures have been adjusted to conform to the changes in presentation for the current year.

2.2 Changes in accounting policies and disclosures

a) New and revised standards that are effective for annual periods beginning on or after 1 January 2014

Certain new IFRSs became effective for the financial statements of the Bank in 2014. Listed below are those new or amended standards or interpretations which are or could be relevant to the National Bank's operations and the nature of their impact on the Bank's accounting policies.

IFRIC 21 "Levies" provides guidance on the accounting records of the liabilities to pay the levy, as identified by the legislation, except for income tax (as regulated in IAS 12). IFRIC 21 clarifies that the liability to pay a levy is recognized at the time of occurrence of the event/activity that gives rise to the liability to pay the levy, as identified in the legislation. This activity could arise on a specific date within an accounting period (then the entire obligation is recognized on that date) or progressively during the period (than the obligation is recognized progressively during the period). The same recognition principles apply in the annual and interim financial statements. IFRIC 21 has no material effect on the annual financial statements for the presented periods.

The amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarify the application of certain offsetting criteria in IAS 32, including:

- the right of set-off should be able to be applied by any entity in the normal course of business, as well as in the case of illiquidity, bankruptcy or liquidation; and the right of set-off should not depend on a future event,
- features that gross settlement mechanisms should have so as to meet the criteria for net settlement according to IAS 32.

These amendments do not have material impact on the annual financial statements for the presented periods.

The Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognized or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal, including:

- additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made
- the discount rates used if fair value less costs of disposal is measured using a present value technique.

The amendments are applied retrospectively in accordance with their transitional provisions. These amendments do not have material impact on the Bank's financial statements.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective, and have not been adopted early by the Bank. Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

Changes in accounting policies and disclosures (continued)

IFRS 9 "Financial Instruments" (IFRS 9) (2014) -The IASB recently released IFRS 9 "Financial Instruments" (2014), representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018. The Stock Exchange has yet to assess the impact of this new standard on the financial statements.

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. National Bank has yet to assess the impact of this new standard on the financial statements.

Amendments to IFRS 11 Joint Arrangements

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The amendments are effective for reporting periods beginning on or after 1 January 2016.

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

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

	2014	**2013**
	MKD	MKD
1 EUR	61.4814	61.5113
1 USD	50.5604	44.6284

2.4 Off-setting

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

2.5 Interest income and expenses

Interest income and expense are recognized in profit or loss using the effective interest rate 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 profit or loss include:

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

2.6 Fees and commission income and expenses

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.

2.7 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.

2.8 Lease payments

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.

2.9 Current and deferred income tax

Current tax expense at 10% rate is paid to profit 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 base is reduced for the amount of income from dividends realized through participation in the capital of another taxpayer - resident of the Republic Macedonia, stipulating they are subject to tax expense by the taxpayer who pay the dividend. Taxpayers that will pay dividends and other distributions from the retained earnings created in the period from 2009 to 2013 will also have the obligation to calculate and pay tax for those distributions.

For the previous comparative period tax expense at 10% rate is paid to non – recognized expenses for tax purposes adjusted for tax credit and less declared revenue, as well as profit allocated for dividends to legal entities – non-residents and to individuals. Undistributed profit (retained earnings) is exempt from taxation.

Deferred tax expense is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rates that are currently valid are used in determination of deferred tax expense. Deferred tax expense is charged or credited in the profits and losses except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The Bank has not recognized any deferred tax assets or liabilities as at 31 December 2013, as there are no temporary differences existing at that date.

2.10 Financial assets and liabilities

Recognition

Regular purchases and sales of financial assets and liabilities 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 adjusted for (for an item not subsequently measured at fair value through profit or loss), transaction costs that are directly attributable to its acquisition or issue.

Classification

The Bank classifies its financial assets into the following categories: loans and receivables, held to maturity and available for sale (see accounting policies 2.12, 2.13 and 2.14).

The Bank's financial liabilities include deposits, borrowings and other liabilities (see accounting policy 2.21).

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the Statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

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

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

Measurement at amortized cost

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.

Financial assets and liabilities (continued)

Fair value measurement

Fair value can be assessed differently, depending on whether or not the asset or liability is traded in an active market.

Active market: Fair value

A financial asset is considered to be traded in an active market if the published prices are readily and regularly available from the Stock Exchange, dealers, brokers, over the counter, industry groups or regulatory agencies and those prices represent the current and regular market transactions on normal, commercial basis. The appropriate quoted market price for an asset held or a liability that is to be issued is usually the current market (buying) price; for an asset that is about to be acquired or a liability held it is the current selling price.

Absence of an active market: Valuation techniques

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique in the following order:

- 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 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 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 measurement purpose

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.

2.11 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.

The Bank analyses impairment evidence on loans, receivables and securities on individual basis. All individually significant loans and receivables are analyzed on an individual basis.

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. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

2.12 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 statement of financial position.

2.13 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.

2.14 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.

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 measured 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 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.

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. Available-for-sale investments are carried at fair value.

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

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

2.15 Investments in subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are recorded in these financial statements at cost.

2.16 Foreclosed assets

Foreclosed assets include property and equipment through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in assets acquired through foreclosure proceedings. These assets are initially measured at the lower of the appraised value, less estimated costs to sell, charged to the Bank and the cost of the foreclosed asset. The appraised value is determined by local certified appraiser on the date of foreclosure. The cost is the value stated in an enactment passed by a competent body from where the legal grounds for acquiring the right of the ownership arises.

After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount and fair value less estimated costs to sell and accumulated impairments, or at least 20% of the net value.

2.17 Property and equipment

Recognition and measurement

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

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 lives, they are accounted for as separate items (major components) of property and equipment.

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.

Property and equipment (continued)

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. No depreciation is charged for construction in progress. Depreciation rates, based on the estimated useful lives for the current and comparative period are as follows:

	2014	2013
Buildings	2,5%	2,5%
Equipment	14,3-25%	14,3-25%

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

2.18 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. No amortization is charged for assets under development. The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

	2014	2013
Software	10%	10%
Rights and licenses	10%	10%

2.19 Impairment of non-financial assets

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

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

2.20 Leased assets – lessee

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

Other leases are classified as operating leases and, except for the leased assets, they are not recognized in the Bank's Statement of financial position.

2.21 Deposits, borrowings and other liabilities

Deposits, borrowings 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.

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

Deposits, borrowings and other liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

2.22 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.

2.23 Employee benefits

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.

Short-term benefits

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

Employee benefits (continued)

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.

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. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

2.24 Share capital and reserves

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.

Repurchase of share capital

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.

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 and changes if fair value of available for sale financial assets.

Dividends

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

2.25 Earnings per share

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

2.26 Segment reporting

A segment is a component of the Bank that can be distinguished and engaged in either the provision of products or services (operating/business segment) or the provision of products and services for certain economic areas (geographic segment) and is subjected to risks and rewards different from other segments. The Bank reports by primary operating segments.

2.27 Events after the reporting date

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

3 Financial risk management

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

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

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

Risk management framework

The Managing Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Managing Board has established the Asset and Liability Committee ("ALCO"), Credit Committee and Risk Management Committee established by the Supervisory Board which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All committees report regularly to the Managing Board and Supervisory Board respectively.

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

The Bank's Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and the Bank`s compliance with the requirements of the NBRM related to risk management. In addition, the Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3.1 Credit risk

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

Credit risk (continued)

Management of credit risk

The Managing Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to EUR 500 thousand. All credit exposures over EUR 500 thousand must be approved by the Supervisory Board. Separate Bank's Credit departments (Department for Corporate Loans, Department for Retail loans and Credit Card Department) in close cooperation with the Risk Management Department are responsible for oversight of the Bank's credit risk, including:

- *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).

- *Banks's credit risk grading* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of six grades reflecting various degrees of risk of default and the availability of collateral.

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

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

Regular audits of Credit departments' processes are performed by the Internal Audit.

Credit risk (continued)

Analysis of maximum exposure to credit risk before collateral held

in Denar thousand	Cash and cash equivalents		Loans and advances to customers		Securities available for sale		Securities held to maturity		Other receivables		Commitments and contingencies		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Neither, past due nor impaired	1,404,581	1,037,762	260,961	256,035	69	118,861	682,201	767,032	4,086	7,413	1,669	20,298	2,353,567	2,207,401
Past due, but not impaired:														
- Up to 30 days	-	-	850	2,508	-	-	-	-	-	-	-	-	850	2,508
- Up to 90 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Over 90 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individually impaired	**-**	**-**	**7,319,796**	**6,734,713**	**15,703**	**13,363**	-	**-**	**51,084**	**58,209**	**987,427**	**335,197**	**8,374,010**	**7,141,482**
Net carrying value before provision for impairment	**-**	**-**	**7,319,796**	**6,734,713**	**15,703**	**13,363**	-	**-**	**51,084**	**58,209**	**987,427**	**335,197**	**8,374,010**	**7,141,482**
(Provision for impairment)	-	-	(319,372)	(320,036)	(1,372)	(1,372)	-	-	(24,310)	(22,584)	(4,128)	(1,198)	(349,182)	(345,190)
Net carrying value less provision for impairment	**1,404,581**	**1,037,762**	**7,262,235**	**6,673,220**	**14,400**	**130,852**	**682,201**	**767,032**	**30,860**	**43,038**	**984,968**	**354,297**	**10,379,245**	**9,006,201**

Credit risk (continued)

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

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Allowances for impairment

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

The Bank calculates impairment and makes a special reserve within five internal rating grades.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired loans and advances to customers by internal rating grades:

in Denar thousand

2014	Loans and advances to customers	
	Gross	Impairment provision
Risk category A	6,501,546	(13,118)
Risk category B	426,227	(24,811)
Risk category C	86,151	(22,403)
Risk category D	76,902	(40,972)
Risk category E	228,970	(218,068)
	7,319,796	**(319,372)**
2013		
Risk category A	5,992,695	(12,337)
Risk category B	358,459	(26,936)
Risk category C	79,860	(21,549)
Risk category D	54,552	(28,674)
Risk category E	249,147	(230,540)
	6,734,713	**(320,036)**

Write-off policy

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

Credit risk (continued)

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage, movable property, and other registered securities over assets, cash deposits, lien over shares, guarantees, administrative blockage and other forms of collateral. Estimates of fair value are based on the value of collateral assessed at the time of lending.

According to the Credit policy, depending on pledged collateral the Bank has the following types of loans:

- Mortgage loans;
- Loans with lien of movable property;
- Lombard loans with pledged shares;
- Loans with pledged shares;
- Loans with guaranties from third parties;
- Loans with administrative blockage;
- Loans covered by cash deposit;
- Other types of loans, including rights of tangible and intangible assets with determined price.

Value of collateral (fair value) estimated for the purposes of protection against credit risk

in Denar thousand

2014	Loans and receivables from customers	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment			
First-class security instruments			
- cash deposits (in a depot and/or limited to bank account)	246,419	88,751	335,170
-bank guarantees	-	-	-
-corporate guarantees	-	-	-
Property and equipment under pledge	10,758,135	744,037	11,502,172
Other types of security	-	-	-
	11,004,554	**832,788**	**11,837,342**

in Denar thousand 2013	Loans and receivables from customers	Cash and cash equivalents	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment				
First-class security instruments				
- cash deposits (in a depot and/or limited to bank account)	314,529	5	59,691	374,225
-bank guarantees	-	-	-	-
-corporate guarantees	-	-	-	-
Property and equipment under pledge	10,671,286	-	466,405	11,137,691
Other types of security	2,897,465	-	194,261	3,091,726
	13,883,280	**5**	**720,357**	**14,603,642**

Credit risk (continued)

Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as at 31 December 2014 and 2013:

in Denar thousand	Cash and cash equivalents		Loans and advances to customers		Securities available for sale		Securities held to maturity		Other receivables		Commitments and contingencies		Total assets	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Republic of Macedonia	807,010	316,901	7,153,820	6,588,779	14,400	130,852	682,201	767,032	30,512	42,665	983,489	335,459	9,671,432	8,181,688
EU members	535,364	610,235	108,415	84,441	-	-	-	-	297	301	1,479	18,838	645,555	713,815
OECD member countries (without European countries members od OECD)	22,901	41,987	-	-	-	-	-	-	51	72	-	-	22,952	42,059
Other European countries	39,306	68,639	-	-	-	-	-	-	-	-	-	-	39,306	68,639
Other countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1,404,581	**1,037,762**	**7,262,235**	**6,673,220**	**14,400**	**130,852**	**682,201**	**767,032**	**30,860**	**43,038**	**984,968**	**354,297**	**10,379,245**	**9,006,201**

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as at 31 December 2014 and 2013:

In Denar thousand	Loans and advances to customers		Securities available for sale		Securities held to maturity		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total assets	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Non residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishery	145,274	117,291	-	-	-	-	-	-	225	256	4,288	-	149,787	117,547
Mining	14,792	1,514	-	-	-	-	-	-	6	4	179	-	14,977	1,518
Food industry	263,980	259,885	-	-	-	-	-	-	1,371	4,905	6,099	4,252	271,450	269,042
Textile industry clothing and footwear manufacturing	114,002	91,373	-	-	-	-	-	-	2,996	2,543	50,084	50,902	167,082	144,818
Chemical industry, production of building materials, production and processing of fuel, pharmaceutical industry	83,615	92,744	-	-	-	-	-	-	217	1,388	4,148	999	87,980	95,131

Notes to the financial statements (continued)
Financial risk management (continued)

In Denar thousand	Loans and advances to customers		Securities available for sale		Securities held to maturity		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total assets	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Production of metals, machinery, tools and equipment	76,202	114,835	-	-	-	-	-	-	114	73	15,230	9,171	91,546	124,079
Other manufacturing Industry	101,099	85,252	-	-	-	-	-	-	125	327	9,572	2,028	110,796	87,607
Supply of electricity, gas, steam and air conditioning	14,733	33	-	-	-	-	-	-	64	61	91	-	14,888	94
Water supply, waste water disposal, waste management and environment sanitation	17,583	20,094	-	-	-	-	-	-	47	37	244	-	17,874	20,131
Construction	386,320	407,213	-	-	-	-	-	-	13,423	15,237	290,734	89,720	690,477	512,170
Wholesale and retail trade, repair of motor vehicles and motor-cycles	873,266	741,566	-	-	-	-	-	-	1,221	1,121	147,847	63,963	1,022,334	806,650
Transport and storage	107,635	116,013	-	-	-	-	-	-	242	277	47,577	81,825	155,454	198,115
Facilities for lodging and food service activities	97,034	117,614	-	-	-	-	-	-	207	186	8,916	3,197	106,157	120,997
Information and communication	66,959	76,935	-	-	-	-	-	-	786	395	35,497	8,900	103,242	86,230
Financial and insurance activities	189,988	148,595	14,331	11,991	682,201	767,032	1,404,581	1,037,762	225	820	232	19,311	2,291,558	1,985,511
Activities related to real estate	15,396	43	-	-	-	-	-	-	10	9	257	-	15,663	52
Technical and scientific activities	36,129	37,127	69	118,861	-	-	-	-	1,300	1,154	11,942	8,938	49,440	166,080
Administrative and auxiliary service activities	30,928	45,723	-	-	-	-	-	-	146	1,817	1,809	7,989	32,883	55,529
Public administration and defense, compulsory social insurance	-	40	-	-	-	-	-	-	15	15	-	-	15	55
Education	2,512	2,241	-	-	-	-	-	-	363	280	332	-	3,207	2,521
Health and social care activities	23,622	26,227	-	-	-	-	-	-	86	386	1,018	279	24,726	26,892
Art, entertainment, recreation	514	1,486	-	-	-	-	-	-	40	35	4	-	558	1,521
Other service activities	6,252	6,794	-		-	-	-	-	551	354	951	729	7,754	7,877
Individuals	4,594,400	4,162,582	-		-	-	-	-	7,080	11,358	347,917	2.094	4,949,397	4,176,034
Total	**7,262,235**	**6,673,220**	**14,400**	**130,852**	**682,201**	**767,032**	**1,404,581**	**1,037,762**	**30,860**	**43,038**	**984,968**	**354,297**	**10,379,245**	**9,006,201**

3.2 Liquidity risk

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

Management of liquidity risk

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

Treasury and Dealing 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. Treasury and Dealing Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Bank.

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

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding, required meeting business goals and targets set in terms of the overall Bank strategy.

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

Liquidity risk represents the risk for the Bank of becoming incapable of providing sufficient funds for settlement of its short-term liabilities when such liabilities fall due, or to provide such funds at much higher costs.

The Bank is exposed to daily withdrawals of funds from its available cash sources of current accounts, matured deposits, approved loans and other withdrawals.

The tables below analyses the Bank's liabilities and off balance sheet items, grouped according to their maturity based on the remaining period from the reporting date to the contracted maturity date at 31 December 2014 and 2013. The amounts are presented on a gross basis, i.e. not taking into account the amounts of accumulated amortization, impairment provision and allocated special reserve.

Liquidity risk (continued)

in Denar thousand

31 December 2014	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Financial liabilities						
Due to banks	73,963	-	-	-	-	73,963
Due to customers	3,946,555	1,100,038	3,259,728	1,235,060	23,804	9,565,185
Borrowings	35,237	1,223	86,393	199,209	25,804	347,866
Other liabilities	79,888	419	48	42	14,716	95,113
	4,135,643	**1,101,680**	**3,346,169**	**1,434,311**	**64,324**	**10,082,127**
Off balance sheet items						
Guarantees	21,852	53,354	201,107	239,275	617	516,205
Letter of credits	9,171	7,392	514	-	-	17,077
Other	57,404	77,035	295,262	26,113	-	455,814
	88,427	**137,781**	**496,883**	**265,388**	**617**	**989,096**

in Denar thousand

31 December 2013	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to banks	19,473	-	-	-	-	19,473
Due to customers	3,455,340	1,325,149	3,401,673	1,100,650	4,769	9,287,581
Borrowings	27,598	1,372	76,490	183,234	12,615	301,309
Other liabilities	56,843	1,024	43	1,206	14,112	73,228
	3,559,254	**1,327,545**	**3,478,206**	**1,285,090**	**31,496**	**9,681,591**
Off balance sheet items						
Guarantees	**5,971**	**72,003**	**169,065**	**76,589**	**2,154**	325,782
Letter of credits	**16,855**	**9,423**	**3,435**			29,713
	22,826	**81,426**	**172,500**	**76,589**	**2,154**	**355,495**

3.3 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.

Market risks (continued)
Interest rate risk (continued)

The table below analyses the Bank's interest rate gap position as at 31 December 2014 and 31 December 2013. The interest bearing assets/ liabilities are grouped according to the remaining period until the next change in interest rates.

Analysis of interest rate gap position (excluding portfolio held for trading and derivatives, if any)

in Denar thousand

As at 31 December 2014	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	**Total**
Assets						
Cash and cash equivalents	1,404,557	-	-	-	-	1,404,557
Loans and advances to customers	335,622	391,439	2,151,423	3,918,364	367,268	7,164,116
Investment securities	682,201	-	69	-	-	682,270
Other receivables	-	-	-	-	-	-
	2,422,380	**391,439**	**2,151,492**	**3,918,364**	**367,268**	**9,250,943**
Liabilities						
Due to banks	73,210	-	-	750	-	73,960
Due to customers	3,009,125	-	4,920,151	1,519,822	-	9,449,098
Borrowings	34,438	1,223	86,393	199,209	25,804	347,067
Other liabilities	-	-	-	-	-	-
	3,116,773	**1,223**	**5,006,544**	**1,719,781**	**25,804**	**9,870,125**
Net interest rate gap position	**(694,393)**	**390,216**	**(2,855,052)**	**2,198,583**	**341,464**	**(619,182)**
As at 31 December 2013						
Assets						
Cash and cash equivalents	2,058,419	-	-	-	-	2,058,419
Loans and advances to customers	376,649	397,570	2,090,813	3,472,989	257,024	6,595,045
Investment securities	767,032		118,861	-	-	885,893
Other receivables	-	-	-	-	-	-
	3,202,100	**397,570**	**2,209,674**	**3,472,989**	**257,024**	**9,539,357**
Liabilities						
Due to banks	18,719	-	-	750	-	19,469
Due to customers	2,421,402	-	5,460,303	1,257,741	-	9,139,446
Borrowings	40,629	1,372	75,289	173,985	9,264	300,539
Other liabilities	-	-	-	-	-	-
	2,480,750	**1,372**	**5,535,592**	**1,432,476**	**9,264**	**9,459,454**
Net interest rate gap position	**721,350**	**396,198**	**(3,325,918)**	**2,040,513**	**247,760**	**79,903**

Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2014, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2014 would respectively decrease/increase by approximately Denar (12,384) thousand (2013: Denar 1,598 thousand).

Market risks (continued)

Foreign currency risk

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

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2014 and 2013:

in Denar thousand	MKD	EUR	USD	Other currencies	Total
As at 31 December 2014					
Assets					
Cash and cash equivalents	1,321,681	819,063	140,868	192,629	2,474,241
Loans and advances to customers	3,074,510	4,075,369	112,356	-	7,262,235
Investment securities	696,601	-	-	-	696,601
Other receivables	24,254	4,407	2,173	26	30,860
Total Assets	**5,117,046**	**4,898,839**	**255,397**	**192,655**	**10,463,937**
Liabilities					
Due to banks	2,062	57,163	14,738	-	73,963
Due to customers	4,775,258	4,379,702	232,173	178,052	9,565,185
Borrowings	-	347,866	-	-	347,866
Other liabilities	45,300	39,532	8,146	2,135	95,113
Total Liabilities	**4,822,620**	**4,824,263**	**255,057**	**180,187**	**10,082,127**
Net foreign currency position	**294,426**	**74,576**	**340**	**12,468**	**381,810**
As at 31 December 2013					
Total Assets	4,899,269	4,559,595	304,540	164,188	9,927,592
Total Liabilities	4,738,391	4,491,350	303,444	148,406	9,681,591
Net foreign currency position	**160,878**	**68,245**	**1,096**	**15,782**	**246,001**

The following table shows the sensitivity of the Bank of an increase of the Denar compared to foreign currencies. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or the other equity which appears in case the Denar increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousands).

in Denar thousand	Change in 2014	Change in 2013	Profit or loss 2014	Profit or loss 2013
EUR	1%	1%	746	682
USD	5%	5%	17	55
Other currencies	1%	1%	623	789

3.4 Operating risk

Operating risk is present in all activities, processes and organizational structures that are part of the business activities of the Bank.

An active management with operational risk requires identification of all operational risks on which the Bank is exposed and taking of adequate measures for their optimization. The Bank's departments and branches in cooperation with the Risk Management Department prepare lists with operational activities on a monthly basis.

All the operational activities are subject to registration in the centralized Register for the operational activities.

The Bank's operations are constantly subject to other risks which are defined as operating risks. These risks relate to deficiencies or errors in the operation of internal processes, systems or to human errors or are due to external events.

3.5 Segment reporting

Operating segments

The Bank has two operational segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services and are managed separately based on the Bank's management structure. The Supervisory Board reviews at least monthly the Management report that obtains information regarding the business. The following summary describes the operations in the Bank's reportable segments:

- Corporate Banking (legal entities) – Includes the following: different loans' products for corporate clients, issuing business credit cards, payment operations in the country and abroad for residential and non-residential legal entities, operations on foreign exchange market, inter-banking borrowings, brokerage services, trade with securities issued by the State etc.

- Retail Banking (individuals) – Includes the following activities: different types of loans for individuals, issuing debit and credit cards, payment operations in the country and abroad for residential and non-residential individuals, brokerage services, safe renting, operations on foreign exchange market etc.

Also, the Bank has activities regarding services of POS terminal network and ATMs that were not specified in the above mentioned activities.

Segment reporting (continued)
Operating segments (continued)

in Denar thousand	Retail banking		Corporate banking		Non-allocated		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Income and expenses								
Net interest income/(expenses)	232,911	149,223	256,590	282,324	-	-	489,501	431,547
Net fee and commission income	84,805	79,177	47,050	47,947	-	-	131,855	127,124
Other operating income	20,006	16,350	19,119	23,643	-	-	39,125	39,993
Release of imp.prov. /Impairment (losses), net	33,446	12,380	(38,840)	17,712	-	154	(5,394)	30,246
Depreciation and amortization	(31,566)	(25,945)	(30,168)	(37,516)		-	(61,734)	(63,461)
Impairment losses on non-financial assets, net	(20,827)	(525)	(19,904)	(758)	-	-	(40,731)	(1,283)
Investment costs for property and equipment	(16,194)	(13,037)	(15,477)	(18,852)	-	-	(31,671)	(31,889)
Other expenses	(220,132)	(190,767)	(210,380)	(275,852)		-	(430,512)	(466,619)
Profit before tax per segment	**82,449**	**26,856**	**7,990**	**38,648**	**-**	**154**	**90,439**	**65,658**
Income tax							(9,580)	(673)
Profit for the year							**80,859**	**64,985**
Total assets per segment	4,601,296	4,169,317	5,332,217	4,928,298	-	-	9,933,513	9,097,615
Non-allocated assets per segment	-	-	-	-	1,384,785	1,733,483	1,384,785	1,733,483
Total assets	**4,601,296**	**4,169,317**	**5,332,217**	**4,928,298**	**1,384,785**	**1,733,483**	**11,318,298**	**10,831,098**
Total liabilities per segment	7,119,647	7,315,252	2,960,913	2,334,132	-	-	10,080,560	9,649,384
Non-allocated liabilities per segment	-	-	-	-	9,326	34,649	9,326	34,649
Total liabilities	**7,119,647**	**7,315,252**	**2,960,913**	**2,334,132**	**9,326**	**34,649**	**10,089,886**	**9,684,033**

Geographic segments

in Denar thousand	Republic of Macedonia	EU member countries	Other countries	Non-allocated	**Total**
2014					
Total income	690,165	(34,388)	(137)	4,841	**660,481**
Total assets	10,592,513	660,731	65,054	-	**11,318,298**
2013					
Total income	626,792	(28,579)	446	5	**598,664**
Total assets	9,998,395	721,632	110,706	365	**10,831,098**

3.6 Fair value estimation

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

Financial instruments measured at fair value

The Bank groups assets and liabilities into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The financial assets and liabilities measured at fair value in the Statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2014	Level 1	Level 2	Level 3	**Total**
Assets				
Securities available for sale	14,400	-	-	14,400

31 December 2013	Level 1	Level 2	Level 3	**Total**
Assets				
Securities available for sale	130,852	-	-	130,852

Financial instruments not measured at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented in the Statement of Financial Position at their fair value.

	31 December 2014		31 December 2013	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	2,474,241	2,474,241	2,313,450	2,313,450
Loans and advances to customers	7,262,235	7,262,235	6,673,220	6,673,220
Investment securities	682,201	682,201	767,032	767,032
Other receivables	30,860	30,860	43,038	43,038
Financial liabilities				
Due to banks	73,963	73,963	19,473	19,473
Due to customers	9,565,185	9,565,185	9,287,581	9,287,581
Borrowings	347,866	347,866	301,309	301,309
Other liabilities	95,113	95,113	73,228	73,228

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. The fair value approximates their carrying value.

Investment securities

Investment securities include short term interest bearing assets held to maturity. Their fair value approximates their carrying value.

Other financial assets

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

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The fair value of the term deposits with variable interest rates approximates their carrying values as at the Statement of Financial Position date.

Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

Other liabilities

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

3.7 Financial instruments by categories

Net carrying amounts of the financial assets and liabilities of the Bank recognized at the date of the Statement of financial position for the presented periods are classified as follows:

31 December 2014
Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	2,474,241	-	-	2,474,241
Loans and advances to customers	-	7,262,235	-	-	7,262,235
Investment securities	682,201	-	14,400	-	696,601
Other receivables	-	30,860	-	-	30,860
	682,201	**9,767,336**	**14,400**	**-**	**10,463,937**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	73,963	73,963
Due to customers	9,565,185	9,565,185
Borrowings	347,866	347,866
Other liabilities	95,113	95,113
	10,082,127	**10,082,127**

31 December 2013
Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	2,313,450	-	-	2,313,450
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	-	6,673,220	-	-	6,673,220
Investment securities	767,032	-	130,852	-	897,884
Other receivables	-	43,038	-	-	43,038
	767,032	**9,029,708**	**130,852**	**-**	**9,927,592**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	19,473	19,473
Due to customers	9,287,581	9,287,581
Borrowings	301,309	301,309
Other liabilities	73,228	73,228
	9,681,591	**9,681,591**

3.8 Capital management

Regulatory capital

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

In implementing capital adequacy requirements, the Bank maintains a prescribed ratio of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets, sum of capital requirements for currency risk and sum of capital requirements for operating risk.

The 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 Statement of financial position and confirmed by a Decision of the Bank's Shareholders’ Assembly or accumulated loss from previous years, 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 shall not 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.

Capital management (continued)

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

As at 31 December 2014 the Bank capital adequacy ratio is in compliance with the prescribed ratio.

Capital allocation

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

4 *Critical accounting estimates and judgments*

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

Allowance for impairment for loans and receivables

Assets carried at amortized costs are evaluated for impairment losses as disclosed in Note 2.11.

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. 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 2.10. 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.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of certain software and IT equipment.

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.

5 Net interest income

Structure of interest income and expenses according to type of financial instruments

	2014	2013
Interest income		
Loans and advances to customers	639,998	649,944
Investment securities	28,925	34,504
Cash and cash equivalents	3,996	10,957
Loans and advances to banks	624	9,337
	673,543	**704,742**
Interest expense		
Due to customers	180,327	252,730
Subordinated liabilities	-	15,882
Borrowings	3,662	3,888
Due to banks	53	695
	184,042	**273,195**
Net interest income	**489,501**	**431,547**

6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities

	2014	2013
Fee and commission income		
Loans and credit cards	82,939	76,603
Payment operations		
- Domestic	98,724	93,002
- International	25,913	26,805
Visa and Mastercard	29,865	24,496
Letters of credit and guarantees	10,988	9,530
Money transfer	6,195	6,619
Other	519	437
	255,143	**237,492**
Fee and commission expenses		
Credit cards	99,262	87,522
Payment operations		
- Domestic	15,006	14,028
- International	8,779	8,229
Other	241	589
	123,288	**110,368**
Net fee and commission income	**131,855**	**127,124**

7 Other operating income

	2014	2013
Rent income	3,687	2,248
Gains form equipment sold	1,508	22
Dividends received	1,164	952
Release of impairment provisions and special reserve, net (Note 24)	-	632
Other income from payment operations	4,070	3,845
SWIFT	2,014	2,036
Other	4,871	6,608
	17,314	**16,343**

8 Additional/ Release of impairment provision on financial assets, net

	2014	2013
(Charge) / recovery for:		
Loans and advances to customers (Note 14)	(1,371)	38,549
Other receivables (Note 20)	(4,023)	(8,303)
	(5,394)	**30,246**

9 Personnel expenses

	2014	2013
Net salaries and contributions	147,306	149,579
Social and health contributions	65,747	66,835
Other employee benefits	8,184	7,725
	221,237	**224,139**

10 Other operating expenses

	2014	2013
Materials and services	95,723	109,834
Rent expenses	60,128	70,229
Deposit insurance premiums	42,003	52,300
Impairment losses on foreclosed assets	40,731	1,283
Administrative and marketing expenses	11,451	16,540
Software license expenses	9,577	10,105
Property and employee insurance premiums	3,679	4,517
Impairment provisions and special reserve, net (Note 24)	2,937	-
Losses from sold foreclosed assets	-	813
Litigation expenses	508	401
Losses from sold equipment	276	-
Other expenses	14,664	9,630
	281,677	**275,652**

11 Income tax expense

	2014	2013
Current income tax expense	8,138	673
Deferred income tax expense	1,442	-
	9,580	**673**

Reconciliation of the income tax expense as per the Statement of comprehensive income for the years ended 31 December 2014 and 2013 is as follows:

	In %	2014	In %	2013
Profit before taxation		90,439		65,658
Income tax calculated at rate of 10% (2013: 10%)	*10.0*	*9,044*		-
Non-deductible expenses for tax purposes	0.7	652	1.0	673
Tax-exempt income	(0.1)	(116)		-
	10.6	**9,580**	**1.0**	**673**

Deferred tax liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Loans	-	-	(1,442)	-	(1,442)	-
	-	**-**	(1,442)	**-**	(1,442)	**-**

Income tax expense (continued)

Movement of temporary differences during the years is as follows:

	Loans and advances to customers
At 01 January 2013	-
Recognized in profit or loss during 2013	-
At 31 December 2013/ 01 January 2014	**-**
Recognized in profit or loss during 2014	1,442
At 31 December 2014	**1,442**

12 Earnings per share

The basic and diluted earnings per share are computed when the net profits for the year (belonging to the common shareholders) is divided with the weighted average number of shares during the year.

	2014	2013
Net-profit attributable to shareholders	80,859	64,985
Net-profit attributable to holders of ordinary shares	80,859	64,985
Issued ordinary shares at 1 January	545,987	530,445
Effect from change of ordinary shares during the year	-	1,448
Weighted average number of shares	545,987	531,893
Basic and diluted earnings per share (in Denars)	**148**	**122**

13 Cash and cash equivalents

	2014	2013
Current accounts and deposits with foreign banks	582,202	720,860
Account and balances with the NBRM, except for obligatory foreign currency reserves	427,620	602,231
Placement with banks with maturity up to 3 months	762,896	309,227
Cash in hand	233,867	253,305
Current accounts and deposits with domestic banks	7,836	2,755
Included in cash and cash equivalents for the purpose of the Statement of cash flows	**2,014,421**	**1,888,378**
Obligatory foreign currency reserves	408,173	420,152
Restricted deposits	51,647	4,920
	2,474,241	**2,313,450**

According to the Decision on obligatory reserve, 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's reserve requirement in foreign currency is allocated on special foreign currency accounts of the NBRM abroad, and it is fulfilled in Euro at a fixed level.

The interest rate on the obligatory reserve in Denars during 2014 was nil (2013: 1% per annum). The interest rate on the obligatory reserve in foreign currency during 2014 was nil (2013: 0.1% per annum).

14 Loans and advances to customers

	2014	2013
Loans and advances to customers at amortized cost	7,262,235	6,673,220
	7,262,235	**6,673,220**

The structure of loans and advances to customers by type of debtor is as follows:

		2014		2013
	Short-term	Long-term	Short-term	Long-term
Corporate customers	839,707	1,694,738	867,516	1,561,690
Public sector	-	-	-	-
Financial institution other than banks	33,198	146,226	27,776	113,704
Retail customers:				
Principal				
Housing	17,551	945,285	33,483	871,005
Consumer	75,865	2,007,353	82,399	1,915,381
Vehicle	275	5,934	1,049	10,466
Credit cards	332,118	-	321,700	-
Other	272,542	1,099,962	265,685	835,695
Nonresident customers	109,234	-	84,556	-
Other	8	1,611	17	1,134
	1,680,498	5,901,109	1,684,181	5,309,075
Current maturity	1,117,489	(1,117,489)	*1,082,419*	*(1,082,419)*
	2,797,987	4,783,620	2,766,600	4,226,656
Less: provision for impairment	(275,457)	(43,915)	(278,854)	(41,182)
	2,522,530	**4,739,705**	**2,487,746**	**4,185,474**

At 31 December 2014 non-performing loans amounted to Denar 349,749 thousand (2013: Denar 355,157 thousands). Unrecognized interest relating to such loans amounted to Denar 46,517 thousand (2013: Denar 52,951 thousand).

As at 31 December 2014 loans and advances to customers in amount of Denar 109,632 thousand (2013: Denar 38,274 thousand) are mortgaged as collateral for borrowings from MBDP (Note 23).

	2014	2013
Movements of provision for impairment		
Balance at 01 January	320,036	361,712
Charge/ (Release) of provision for impairment, net (Note 8)	1,371	(41,717)
Effect from foreign exchange differences	(134)	41
Write-off	(1,901)	-
Balance as at 31 December	**319,372**	**320,036**

15 Investment securities

	2014	2013
Held-to-maturity investment securities	682,201	767,032
Available-for-sale investment securities	14,400	130,852
	696,601	**897,884**

Held-to-maturity investment securities with fixed interest rate

	2014	2013
Treasury Bills	682,201	767,032
	682,201	**767,032**

Available-for-sale investment securities

	2014	2013
Government bills	69	118,861
Equity securities	14,331	11,991
	14,400	**130,852**

The movement of the impairment provision for investment securities is as follows:

	2014	2013
Movements of provision for impairment		
Balance at 01 January	1,372	1,372
Balance at 31 December	**1,372**	**1,372**

Government bills issued by the Ministry of Finance of RM as at 31 December 2014 with maturity of 364 days (2013: maturity of 6 months) and bear interest from 2.70% (2013: 3.10% to 3.15% p.a.).

As at 31 December 2014, treasury bills issued by the National Bank of the Republic of Macedonia mature within 35 days (2013: 35 days) and bear interest of 3.25% p.a. (2013: 3.25% p.a.).

16 Foreclosed assets

	2014	2013
Land	1,776	775
Buildings	44,915	183,475
Equipment	24,899	31,124
Residential facilities and apartments	37,155	27,443
Other	2,557	2,557
	111,302	**245,374**

As at 31 December 2014, the net carrying value of Bank's foreclosed assets amount to Denar 111,302 thousand (2013: Denar 245,374 thousand). As at 31 December 2014 their fair value less cost to sell is in the amount of Denar 175,077thousand (2013: Denar 355,818 thousand).

In December 2014 the Bank's foreclosed assets in the amount of 109,566 thousands were placed as initial capital in the newly founded legal entity, UNI Imoti dooel Skopje. The subsidiary is 100% in ownership of UNI Bank AD Skopje (Note 17).

17 Investment in subsidiaries

As at 31 December 2014 the Bank's investment in subsidiaries in the amount of 109,556 thousands refers to 100% subsidiary of the Bank, UNI Imoti dooel Skopje. In December 2014 the Bank's foreclosed assets in the amount of 109,556 thousands were placed as initial capital in the newly founded legal entity (Note 16).

		% of ownership		Voting rights %	
Name of the subsidiary	Country	2014	2013	2014	2013
UNI Imoti dooels Skopje	R Macedonia	100	-	100	-

18 Intangible assets

	Software	Rights and licenses	Assets under development	Total
Cost				
At 01 January 2013	**121,998**	**62,268**	**12,176**	**196,442**
Additions during the year	-	1,984	2,969	4,953
Transfers	15,121	-	(15,121)	-
At 31 December 2013 / 01 January 2014	**137,119**	**64,252**	**24**	**201,395**
Additions during the year	1,185	-	-	1,185
Transfers	-	-	-	-
At 31 December 2014	**138,304**	**64,252**	**24**	**202,580**
Accumulated amortization				
At 01 January 2013	**30,242**	**19,155**	**-**	**49,397**
Amortization for the year	11,229	5,293	-	16,522
At 31 December 2013/01 January 2014	**41,471**	**24,448**	-	**65,919**
Amortization for the year	11,985	5,409	-	17,394
At 31 December 2014	**53,456**	**29,857**	-	**83,313**
Net carrying value				
At 01 January 2013	**91,756**	**43,113**	**12,176**	**147,045**
At 31 December 2013	**95,648**	**39,804**	**24**	**135,476**
At 31 December 2014	**84,848**	**34,395**	**24**	**119,267**

19 *Property and equipment*

	Buildings	Equipment	Construction in progress	Total
Cost				
At 01 January 2013	181,739	331,132	268,541	781,412
Additions during the year	543	4,050	2,720	7,313
(Disposals and write offs)	-	(2,996)	-	(2,996)
Transfer	264,313	563	(264,876)	-
At 31 December 2013/01 January 2014	**446,595**	**332,749**	**6,385**	**785,729**
Additions during the year	767	30,147	15,970	46,884
(Disposals and write offs)	(123)	(14,503)	-	(14,626)
Transfers	7,625	4,560	(12,185)	-
At 31 December 2014	**454,864**	**352,953**	**10,170**	**817,987**
Accumulated depreciation				
At 01 January 2013	47,709	209,303	-	257,012
Depreciation for the year	11,148	35,791	-	46,939
(Disposals and write offs)	-	(2,993)	-	(2,993)
At 31 December 2013/01 January 2014	**58,857**	**242,101**	**-**	**300,958**
Depreciation for the year	11,269	33,071	-	44,340
(Disposals and write offs)	-	(13,351)	-	(13,351)
At 31 December 2014	**70,126**	**261,821**	**-**	**331,947**
Net carrying value				
At 01 January 2013	134,030	121,829	268,541	524,400
At 31 December 2013	387,738	90,648	6,385	484,771
At 31 December 2014	**384,738**	**91,132**	**10,170**	**486,040**

At 31 December 2014 and 2013, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property, plant and equipment. As at 31 December 2014 the Bank leases under operating lease terms building with net carrying amount of Denar 5,310 thousand (2013: Denar 5,493 thousand). The leases are cancellable and typically run for a shorter period.

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

20 Other receivables

	2014	2013
Fee and commission receivables	20,971	22,043
Prepaid expenses	19,080	21,783
Credit card receivables	13,994	23,834
Receivables for court cases	6,868	6,376
Advances for intangible assets	4,364	-
Inventories	3,741	7,604
Other receivables from litigations	3,055	3,055
Receivables from leased assets	2,486	-
Money transfer	2,458	5,640
Trade receivables	849	605
Employee receivables	37	55
Other	5,463	5,051
	83,366	**96,046**
Less: provision for impairment	(24,310)	(22,584)
	59,056	**73,462**

	2014	2013
Movements of provision for impairment		
Balance at 01 January	22,584	14,300
Additional provision for impairment / (Release) of provision for impairment, net (Note 8)	4,023	8,303
Foreclosed assets from non-collectable receivables	(146)	(28)
Effect from foreign exchange differences	(2,151)	9
Balance at 31 December	**24,310**	**22,584**

The major part of the prepaid expenses in the amount of Denar 10,787 thousand (2013: Denar 12,708 thousand) relate to the lease of the business premises for the Bank's branches in Strumica. The total rent according the lease agreement was paid in advance in 2000, covering lease period of 20 years.

21 Due to banks

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
Current accounts of domestic banks	4,355	-	2,035	-
Current accounts of foreign banks	24,724	-	4,323	-
Term deposits of domestic banks	30,126	-	-	-
Term deposits of foreign banks	-	-	-	-
Restricted deposits of domestic banks	750	-	750	-
Other deposits	14,008	-	12,365	-
	73,963	**-**	**19,473**	**-**

22 Due to customers

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Current accounts	1,347,973	-	950,091	-
Term deposits	431,210	308	369,882	1,108
Restricted deposits	37,296	38,640	16,869	28,402
Other deposits	13,870	-	14,445	-
	1,830,349	38,948	1,351,287	29,510
State				
Current accounts	892	-	1,550	-
Demand deposits	399	-	399	-
	1,291	-	1,949	-
Not-for-profit institutions				
Current accounts	65,241	-	43,210	-
Term deposits	4,012	-	6,197	-
Restricted deposits	142	1,300	90	1,300
Other deposits	324	-	101	-
	69,719	1,300	49,598	1,300
Financial institutions, other than banks				
Current accounts	34,568	-	42,065	-
Term deposits	184,493	6,148	154,664	42,982
Restricted deposits	10,907	15,400	10,565	15,378
Other deposits	26	-	469	-
	229,994	21,548	207,763	58,360
Citizens				
Current accounts	1,295,271	-	1,170,424	-
Demand deposits	35	-	35	-
Term deposits	3,691,142	1,719,702	4,165,256	1,547,352
Restricted deposits	55,363	245,942	108,583	284,440
Other deposits	13,041	-	10,293	-
	5,054,852	1,965,644	5,454,591	1,831,792
Nonresidents				
Current accounts	230,771	-	181,906	-
Term deposits	86,628	27,051	89,386	23,509
Restricted deposits	-	593	-	440
Other deposits	6,497	-	6,190	-
	323,896	27,644	277,482	23,949
Current maturity	796,220	(796,220)	839,492	(839,492)
	8,306,321	1,258,864	8,182,162	1,105,419

23 Borrowings

Structure of borrowings by type of borrowing and creditor's sector

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
Banks	795	343,770	763	293,188
State	1,248	2,053	992	6,366
Current maturity	120,810	(120,810)	103,705	(103,705)
	122,853	**225,013**	**105,460**	**195,849**

Borrowings by creditors

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
Domestic sources:				
Macedonian Bank for Development Promotion in foreign currency	-	332,249	-	276,348
Macedonian Bank for Development Promotion in domestic currency	795	11,520	763	16,840
Ministry of Finance of RM	1,248	2,054	992	6,366
	2,043	**345,823**	**1,755**	**299,554**
Current maturity	120,810	(120,810)	103,705	(103,705)
	122,853	**225,013**	**105,460**	**195,849**

During 2014, based on already signed Frame contracts with the Macedonian Bank for Development Promotion AD, Skopje ("MBDP"), the Bank has withdrawn funds from the credit line for small and medium enterprises with year of maturity 2014-2020 and interest rate 1- 3% per annum for borrowings in foreign currency and 3.5-5% for borrowings in domestic currency with foreign currency clause (2013 year of maturity 2014-2021 and interest rate 6- 6.5% per annum). In 2014 the Bank has signed new Frame contract with the Macedonian Bank for Development Promotion AD, Skopje for EIB IV credit line with year of maturity 2014-2022 and interest rate 1% per annum The collateral for these Bank's borrowings are pledged loans and advances from the end user of these funds on behalf of MBDP (Note 14).

In addition, at 31 December 2014, the Bank has borrowings in the amount of Denar 3,302 thousand (2013: Denar 7,358 thousand) based on signed borrowing agreement with the Ministry of Finance of the Republic of Macedonia with a year of maturity 2018 and interest rate of 0.5% per annum (2013 year of maturity 2013-2014 and interest rate 4- 5% per annum).

24 Provision and special reserve

	Commitments and contingencies
Balance at 01 January 2013	1,830
(Release) of provision for impairment, net (Note 7)	(632)
Balance at 31 December 2013 (Note 27)	**1,198**
Balance at 01 January 2014	1,198
Additional provision for impairment, net (Note 10)	2,937
Foreign exchange gain	(7)
Balance at 31 December 2014 (Note 27)	**4,128**

25 Other liabilities

	2014	2013
Accrued expenses	32,576	26,788
Non allocated inflows	25,312	18,970
Trade payables	9,064	11,520
Fee and commission	5,144	4,562
Other taxes and contributions	2,106	1,141
Other	22,423	11,491
	96,625	**74,472**

26 Share capital

At 31 December 2014 the authorized share capital comprised ordinary shares 545,987 (2013: 545,987). Ordinary shares have a par value of MKD 1,000 (2013: MKD 1,000). All issued shares are fully paid.

As at 28 November 2013, at a Shareholder's Meeting, the Bank has reached a decision to convert 15,542 priority shares into ordinary shares with a voting right and nominal value of MKD 1,000. The conversion was one preference share to one ordinary share. Subsequently, the number of ordinary shares has increased and as at 31 December 2013 the amount of ordinary shares totals to 545,987.

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

	In Denars Nominal value per share		*Number of issued shares*				Total subscribed capital	
			ordinary shares		preference shares			
	ordinary shares	preference shares not for sale	2014	2013	2014	2013	2014	2013
At 1 January – fully paid	1,000	1,000	545,987	530,445	-	15,542	545,987	545,987
Changes during the year (conversion from preference to ordinary shares)	-	-	-	15,542	-	(15,542)	-	-
At 31 December – fully paid	**1,000**	**1,000**	**545,987**	**545,987**	**-**	**-**	**545,987**	**545,987**

Share capital (continued)

At 31 December 2014 and 2013, the following shareholders have ownership exceeding 5% of the total issued shares with a voting right:

	Share capital in Denar thousand		Voting right	
	2014	2013	2014	2013
Ivaylo Moutaftchiev, Republic of Bulgaria	198,994	198,994	36.45	36.45
Tzeko Minev, Republic of Bulgaria	198,994	198,994	36.45	36.45
	397,988	**397,988**	**72.90**	**72.90**

27 Commitments and contingencies

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

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

	2014	2013
Guarantees		
in MKD	447,142	249,790
in foreign currency	69,063	75,992
Letters of credit in foreign currency	17,077	29,713
Unused overdrafts on current accounts	238,816	-
Unused credit limits non- cancellable	216,998	-
	989,096	**355,495**
Provision for impairment (Note 24)	(4,128)	(1,198)
	984,968	**354,297**

Litigations

At 31 December 2014, legal proceedings raised against the Bank amount in total Denar 3,257 thousand (2013: Denar 1,900 thousand). As at the Statement of financial position date, the Bank did not recognize provision, since professional legal advice show 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 result.

Taxation

The tax authorities may at any time inspect the books and records up to 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Capital commitments

As at the Statement of financial position date, there are no capital commitments that have not been recognized in the financial reports.

28 Fiduciary activities

The Bank manages assets for the benefit of third parties mainly intended for concluding loan agreements with legal entities. These assets are not owned by the Bank and have not been recognized in the Statement of financial position. The Bank is not exposed to credit risk from these placements. As at 31 December 2014, these assets amount to Denar 522,878 thousand (2013: Denar 494,458 thousand).

29 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as at 31 December 2014 and 2013. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as at 31 December 2014 and 2013.

30 Related party transactions

According to the Banking Law, related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares), affiliates and entities under common ownership, control and management with the Bank, or whose activities the Bank has an ability to control.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

As at 31 December 2014 and 2013, the balances and volume of transactions with related entities and Key management personnel are as follows:

	Other related parties		Key management personnel		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current accounts	39,998	51,050	-	-	39,998	51,050
Other assets	29	15	28	(13)	57	2
Loans and other receivables	21	-	32,324	23,653	32,345	23,653
	40,048	**51,065**	**32,352**	**23,640**	**72,400**	**74,705**
Liabilities						
Deposits	117,489	74,649	48,044	46,571	165,533	121,220
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	4,117	2,692	22,189	1	26,306	2,693
	121,606	**77,341**	**70,233**	**46,572**	**191,839**	**123,913**
Income						
Interest income	69	8,185	2,487	1,892	2,556	10,077
Fee and commission income	684	787	109	77	793	864
Other income	115	86	369	419	484	505
	868	**9,058**	**2,965**	**2,388**	**3,833**	**11,446**
Expenses						
Interest expenses	464	24,561	863	2,124	1,327	26,685
Fee and commission expenses	37,191	27,315	-	-	37,191	27,315
Other expenses	15,476	16,419	19,835	18,216	35,311	34,635
Short term benefits	-	-	53,419	53,203	53,419	53,203
	53,131	**68,295**	**74,117**	**73,543**	**127,248**	**141,838**

31 Events after the reporting period

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