

STOPANSKA BANKA AD - Skopje

**Financial Statements and
Independent Auditors' Report
For the year ended December 31, 2015**

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of STOPANSKA BANKA AD - Skopje (the “Bank”) is responsible for ensuring that the financial statements are prepared for each financial year in accordance with Methodology for recording and valuating the accounting items and for preparing the financial statements and accounting standards applied in the Republic of Macedonia, which give a true and fair view of the state of affairs and results of the Bank for the year.

After making enquiries, the Management of the Bank has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management of the Bank continues to adopt the going concern basis in preparing the financial statements. In preparing those financial statements, the responsibilities of the Management of the Bank include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management of the Bank is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with accounting standards applied in the Republic of Macedonia. Management of the Bank is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos

Mrs. Milica Chaparovska - Jovanovska

Chief Executive Officer
Chairman of the Board of Directors

Chief Retail Officer
Member of the Board of Directors

Mr. Toni Stojanovski

Mr. Theodoulos Skordis

Chief Risk Officer,
Member of the Board of Directors

Chief Corporate Officer
Member of the Board of Directors

INCOME STATEMENT
for the period from January 1, 2015 to December 31, 2015
(In thousands of Denars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Interest income		4,501,309	4,672,715
Interest expense		(1,130,620)	(1,542,181)
Net interest income	6	3,370,689	3,130,534
Fee and commission income		1,033,688	1,053,074
Fee and commission expense		(98,587)	(89,562)
Net fee and commission income	7	935,101	963,512
Trading income, net	8	13,307	41,874
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	71,670	79,910
Other operating income	11	249,441	209,363
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(510,231)	(631,950)
Impairment losses on non-financial assets, net	13	(73,256)	(111,524)
Personnel expenses	14	(796,253)	(757,658)
Depreciation and amortization	15	(108,845)	(111,740)
Other operating expenses	16	(1,009,685)	(1,122,137)
Share in the loss of associated companies	24	-	-
Profit before tax		2,141,938	1,690,184
Income tax	17	(225,239)	(177,841)
Net profit for the year		1,916,699	1,512,343
Earnings per share	41		
Basic earnings per share (in MKD)		109,77	86,61
Diluted earnings per share (in MKD)		109,77	86,61

The accompanying notes from page 11 to 126
are an integral part of these financial statements.

The financial statements were approved by the Banks's Board of Directors on January 26, 2016 and
adopted by the Bank's Supervisory Board on January 28, 2016.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos
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Chairman of the Board of Directors

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Member of the Board of Directors

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Mr. Theodoulos Skordis

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Member of the Board of Directors

STATEMENT OF COMPREHENSIVE INCOME
for the period from January 1, 2015 to December 31, 2015
(In thousands of Denars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Profit / (loss) for the financial year		1,916,699	1,512,343
Other profit/ (losses) in periods not shown in the Income Statement (before taxation)			
Revaluation reserve for assets available-for- sale			
- unrealized net- changes in fair value of assets available-for sale		150	(1.016)
- realized net-profit/(losses) from assets available for sale, reclassified in the Income Statement		-	-
Revaluation reserve for assets taken on the basis of outstanding claims			
- revaluation reserve at the date of acquisition of the asset		-	-
- reduction in the revaluation reserve reclassified in the Income Statement		-	-
Reserves for cash flow risk protection instruments			
- unrealized net- changes in fair value of cash flow risk protection instruments		-	-
- realized net-profit/(losses) from cash flow risk protection instruments, reclassified in the Income Statement		-	-
Reserve for instruments to protect against the risk of net investments in foreign operations		-	-
Reserve of foreign exchange differences from investment in foreign operations		-	-
Share in other gains / (losses) of affiliated companies not shown in the Income Statement	24	-	-
Other gains / (losses) not shown in the Income Statement		-	35
Income tax from other gains / (losses) not shown in the Income Statement	17	-	-
Total other gains / (losses) in the periods not shown in the Income Statement		150	(981)
Comprehensive income /(loss) for the financial year		<u>1,916,849</u>	<u>1,511,362</u>

The accompanying notes from page 12 to 126
are an integral part of these financial statements.

The financial statements were approved by the Bank's Board of Directors on 26 January, 2016 and adopted by the Bank's Supervisory Board on January 28, 2016.

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Mr. Theodoulos Skordis
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Member of the Board of Directors

BALANCE SHEET
As at December 31, 2015
(In thousands of Denars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
ASSETS			
Cash and cash equivalents	18	16,896,236	18,459,379
Trading financial assets	19	329,981	293,003
Financial assets at fair value through Income Statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	172,202	251,665
Loans to customers	22.2	55,575,859	51,408,295
Investments in securities	23	10,488,640	11,765,150
Investments in associates	24	-	-
Income tax receivable (current)	30.1	-	-
Other receivables	25	131,909	141,786
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	289,023	415,236
Intangible assets	28	86,710	86,824
Property and equipment	29	915,070	879,744
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
Total assets		<u>84,885,630</u>	<u>83,701,082</u>
LIABILITIES			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through Income Statement determined as such at initial recognition	33	-	-
Derivative obligations held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	731,949	293,181
Deposits from customers	34.2	67,103,738	65,906,558
Issued debt securities	35	-	-
Borrowings	36	745,600	854,848
Subordinated debt	37	-	2,775,970
Special reserve and provisions	38	167,918	185,160
Income tax payable (current)	30.1	76,451	172,665
Deferred tax liabilities	30.2	-	-
Other liabilities	39	1,942,140	1,311,715
Liabilities directly related to disposal group of assets	31	-	-
Total liabilities		<u>70,767,796</u>	<u>71,500,097</u>

BALANCE SHEET (continued)
As at December 31, 2015
(In thousands of Denars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
EQUITY AND RESERVES			
Subscribed capital	40	3,511,242	3,511,242
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves	40	(25,525)	(25,675)
Other reserves	40	831,373	831,373
Retained earnings		9,800,744	7,884,045
Total equity and reserves		<u>14,117,834</u>	<u>12,200,985</u>
Total liabilities and equity and reserves		<u>84,885,630</u>	<u>83,701,082</u>
Contingent liabilities	42	11,587,216	11,571,496
Contingent assets	42	-	-

The accompanying notes from page 12 to 126
are an integral part of these financial statements.

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Member of the Board of Directors

STOPANSKA BANKA AD - SKOPJE

STATEMENT OF CHANGES IN EQUITY AND RESERVES
for the period from January 1, 2015 to December 31, 2015

(In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on outstandings claims	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2013 / January 1, 2014	3,511,242	-	-	-	(24,694)	-	-	-	-	830,290	-	1,083	2,605,403	3,766,299	-	10,689,623
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit /(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	1,512,343	-	-	1,512,343
Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	(1,016)	-	-	-	-	-	-	-	-	-	-	(1,016)
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	35	-	-	-	-	-	-	-	-	-	35
Total unrealized profit /(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive profit /(loss) for the financial year	-	-	-	-	(1,016)	35	-	-	-	-	-	-	1,512,343	-	-	1,511,362
Transactions with shareholders, recognized in the equity and reserves																
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On December 31, 2014	3,511,242	-	-	-	(25,710)	35	-	-	-	830,290	-	1,083	4,117,746	3,766,299	-	12,200,985

STOPANSKA BANKA AD - SKOPJE

**STATEMENT OF CHANGES IN EQUITY AND RESERVES
for the period from January 1, 2015 to December 31, 2015**

(In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	Revaluation reserve for assets taken on outstandings claims	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2014/ January 1, 2015	<u>3,511,242</u>	-	-	-	<u>(25,710)</u>	<u>35</u>	-	-	-	<u>830,290</u>	-	<u>1,083</u>	<u>4,117,746</u>	<u>3,766,299</u>	-	<u>12,200,985</u>
Comprehensive income/(loss) for the financial year																
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	1,916,699	-	-	1,916,699
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	150	-	-	-	-	-	-	-	-	-	-	150
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized profit/(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive profit/(loss) for the financial year	-	-	-	-	150	-	-	-	-	-	-	-	1,916,699	-	-	1,916,849
Transactions with shareholders, recognized in the equity and reserves																
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	(2,159,353)	2,159,353	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	(2,159,353)	2,159,353	-	-
On December 31, 2015	<u>3,511,242</u>	-	-	-	<u>(25,560)</u>	<u>35</u>	-	-	-	<u>830,290</u>	-	<u>1,083</u>	<u>3,875,092</u>	<u>5,925,652</u>	-	<u>14,117,834</u>

The accompanying notes from page 12 to 126 are an integral part of these financial statements.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

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Member of the Board of Directors

STATEMENT OF CASH FLOW
for the period from January 1, 2015 to December 31, 2015
(In thousands of Denars)

	Note	2015	2014
Cash flows (used in)/ generated from operating activities			
Profit before taxation		2,141,938	1,690,184
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	27,545	26,732
- property and equipment	15/29	81,300	85,008
Capital gain on sale of:			
- intangible assets		-	-
- property and equipment	11	-	(1,817)
- assets acquired through foreclosures	11	(39,496)	(6,902)
Capital loss on sale of:			
- intangible assets		-	-
- property and equipment		-	-
- assets acquired through foreclosures	16	-	-
Interest income	6	(4,501,308)	(4,672,715)
Interest expense	6	1,130,620	1,542,182
Net trading expense / (income)	8	(13,307)	(41,874)
Impairment losses of financial assets, on a net basis			
- Additional impairment losses	12	899,756	993,271
- Release of impairment losses	12	(389,525)	(361,320)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	73,256	111,524
- Release of impairment loss		-	-
Special reserves:			
- additional provisions	38	49,554	62,590
- release of provisions	38	(67,796)	(57,636)
Dividend income		(4,500)	(4,974)
Share in profit/(loss) of associates		-	-
Other rectifications – gains from sale of available for sale assets	11	(5,880)	14,816
Interest received		4,509,382	4,652,905
Interest paid		(1,129,866)	(1,525,646)
Operating profit before changes in operating assets		2,762,673	2,506,328
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		(36,978)	(59,939)
Derivative assets held for risk management		-	-
Due from banks and financial institutions		79,463	58,989
Loans to customers		(4,677,795)	(3,993,249)
Pledged assets		-	-
Assets acquired through foreclosure proceedings		126,213	8,838
Reserve requirements in foreign currency		-	-
Obligatory deposit with NBRM in accordance with special legislative		(16,700)	73,007
Other receivables		9,877	71,950
Deferred tax assets		-	-
Non-current assets held for sale and disposal group		-	-
<i>Increase/(decrease) of operating liabilities:</i>			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks and financial institutions		438,768	103,417
Deposits from customers		1,197,180	2,738,181
Other liabilities		630,425	363,646
Liabilities directly related to group of assets for disposal		-	-
Net cash flows (used in)/ generated from operating activities before tax		513,126	1,871,168
(Paid)/Received on income tax		(321,516)	(5,657)
Net cash flows (used in)/ generated from operating activities		191,610	1,865,511

STATEMENT OF CASH FLOW (continued)
for the period from January 1, 2015 to December 31, 2015
(In thousands of Denars)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Cash flows from investing activities			
(Investments in securities)		(7,515,934)	(10,366,729)
Inflows from sale of investments in securities		8,830,126	10,600,996
(Outflows for investments in subsidiaries and affiliates)		-	-
Inflows from sale of investments in subsidiaries and affiliates			
(Acquisition of intangible assets)		(27,431)	(41,191)
Inflows from sale of intangible assets		-	-
(Acquisition of property and equipment)		(146,160)	(81,674)
Inflows from sale of property and equipment		390	18,549
(Outflows for non-current assets held for sale)		-	-
Inflows from non-current assets held for sale		-	-
(Other outflows from investing activities)		-	-
Other inflows from investing activities		(33,760)	4,973
Net cash flows from investing activities		1,107,231	134,924
Cash flows from financing activities			
(Repayment of issued debt securities)		-	-
Inflows from issued debt securities		-	-
(Repayment of loan payables)		(313,360)	(383,114)
Increase in loan payables		203,911	292,610
(Repayment of issued subordinated debt)		(2,766,663)	-
Inflows from issued subordinated debt		-	-
Inflows from issued shares/equity instruments within the period		-	-
(Acquisition of treasury shares)		-	-
Disposal of treasury shares		-	-
(Paid dividends)		(3,799)	(4,396)
(Other outflows from financing activities)		-	-
Other inflows from financing activities		-	-
Net cash flows from financing activities		(2,879,911)	(94,900)
Effects from allowance for impairment of cash and cash equivalents		-	-
Effects from foreign exchange gains/losses of cash and cash equivalents		-	-
Net-increase/(decrease) of cash and cash equivalents		(1,581,070)	1,905,535
Cash and cash equivalents as at January 1		15,616,092	13,710,557
Cash and cash equivalents as at December 31		14,035,022	15,616,092

The accompanying notes from page 12 to 126
are an integral part of these financial statements.

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Chief Corporate Officer
Member of the Board of Directors

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

1. INTRODUCTION

a) General Information

Stopanska Banka AD - Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 64 branches (2014: 65 branches).

The Bank is registered as a universal type of commercial bank in accordance with Macedonian laws. The principal activities of the Bank are as follows:

- accept deposits and other repayable sources of funds,
- lend in the country, including factoring and financing commercial transactions,
- lend abroad, including factoring and financing commercial transactions,
- issuance and administration of means of payment (payment cards, checks, traveller's checks, bills of exchange),
- financial leasing,
- currency exchange operations,
- domestic and international payment operations, including purchase and sale of foreign currency,
- fast money transfer,
- issuance of payment guarantees, backing guarantees and other forms of collateral,
- lease of safe deposit boxes, depositories and depots,
- trade in instruments on the money market (bill of exchange, checks, deposit certificates),
- trade in foreign assets, including trade in precious metals,
- trade in securities,
- trade in financial derivatives,
- asset and securities portfolio management for clients and/or investment advising for clients,
- provides custodian services for investment and pension funds,
- purchase and sale, underwriting or placement of securities issue,
- custody of clients' securities,
- giving advices to legal entities in relation to the structure of capital, business strategy or other related issues, or providing services related to merging or acquisition of legal entities,
- sale of insurance policies,
- intermediation in concluding credit and loan agreements,
- process and analyze information on the legal entities' creditworthiness,
- economic and financial consulting, and
- other financial services specified by law allowed to be performed exclusively by a bank.

The Bank is controlled by National Bank of Greece, headquartered in Greece, which owns 94.64% (2014:94.64%) of the capital of the Bank and represents its ultimate parent company.

The shares of the Bank quote at the Official market of the Macedonian Stock Exchange, subsegment Mandatory Listing, and the code under which they are quoted is:

<u>Code of the security</u>	<u>ISIN number</u>
STB (common share)	MKSTBS101014
STBP (preferred share)	MKSTBS120014

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****a) General Information (continued)**

The financial statements of the Bank for the year ended December 31, 2015 were approved by the Bank's Board of Directors on January 26, 2016 and adopted by the Bank's Supervisory Board on January 28, 2016.

b) Basis of preparation of the financial statements**Accounting standards for preparation of the financial statements**

The financial statements of the Bank have been prepared in accordance with the Company Law, Law on Banks, the bylaws issued by the National Bank of Republic of Macedonia (hereinafter referred to as "NBRM"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter referred to as "Methodology") ("Official Gazette of RM" no. 169/10 110/13) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no.169/10 166/13), as prescribed by the NBRM, applicable since December 31, 2011.

Presentation of financial statements

The accompanying financial statements of the Bank have been presented in accordance with the prescribed form and contents of the balance sheet schemes prescribed in the Decision on the types and contents of banks' financial statements ("Official Gazette of RM"no. 169/2010, 152/2011, 54/2012 and 166/2013), (hereinafter referred to as "Decision"), which in certain aspects differ from the presentation of certain positions in the financial statements in accordance with the requirements of the International Accounting Standard (IAS) 1 - Presentation of financial statements. Specifically, certain reclassifications in certain aspects were made in order to present the financial statements in form required by the Decision, and which potentially differ in significant with respect to IAS 1 in the following:

- The Presentation of "Investment property" in accordance with IAS 40, with net carrying amount as at December 31, 2015 of Denar 66,688 thousand (2014: Denar 77,002 thousand) has not been made and is included in Property and equipment and Assets acquired in foreclosures in the amount of Denar 33,385 thousand and Denar 33,302 thousand, respectively (2014: Denar 34,792 thousand and Denar 42,210 thousand, respectively).

The Bank management estimates the effects of the changes in IAS, new IFRS and their interpretations on the financial statements as well as the requirements for the form and contents of certain balance sheet schemes under the Decision and the valuations of assets, liabilities, revenues and expenses under the Methodology requirements. As a result, the Bank management does not express explicit and unconditional statement on the compliance of the financial statements both with IAS and IFRS, applied during the period presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****b) Basis of preparation of the financial statements(continued)****Presentation of financial statements (continued)**

These financial statements have been prepared under the historical cost principle, except for the valuation of investment in financial assets available for sale which have been stated at fair value, as well as other financial assets and financial liabilities which have been stated at fair value through the profit and loss under the going concern assumption.

The presentation of the financial statements in conformity with the accounting standards applied in the Republic of Macedonia requires the Bank management to make the best possible estimates and reasonable assumptions that affects the presented values of assets and liabilities, as well as the revenues and expenses arising within the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for estimation of the carrying amounts of assets and liabilities for which no other data is available. Actual results may differ from these estimates.

The presented financial statements are expressed in thousands of Macedonian Denars. The Denar represents functional and reporting currency of the Bank for reporting purposes to NBRM.

The estimates and assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if it affects only that period, or in the period of estimation and future periods if the revised estimation affects both current and future periods.

Information regarding the significant areas of estimation uncertainty and critical estimates in applying the accounting policies with the most significant impact on the amounts disclosed in the financial statements are described in Note 1.d) to the financial statements.

The Bank's financial statements are prepared in accordance with the accounting policies disclosed in Note 1.c) to the financial statements.

The accompanying financial statements are the Bank's stand-alone financial statements.

c) Significant accounting policies**Interest income and expense**

Interest income and expense are recognized in the Profit and loss for all interest-bearing instruments on an accrual basis, measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)**

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

Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis over the period of service rendering. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized using the effective interest rate method.

Dividend income

Dividend income is recognized when the right to receive payment is established for all shareholders who participate in the income distribution.

Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at exchange rates set by the NBRM at dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the end of reporting period using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the profit and loss in the period in which they occur.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the end of reporting period.

Financial assets

Financial assets are classified into the following specified categories: securities held-for-trading, available-for-sale financial assets, held-to-maturity financial assets, and loans to banks and customers. The classification depends on the nature and the purposes of the financial assets and is determined at the time of initial recognition. Financial assets are recognized and derecognized on the trade date where the purchase or sale of an investment is under a contract which terms require delivery of the investment within the agreed timeframe.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Securities held-for-trading**

Securities held-for-trading, which comprise bonds issued in local currency by the Ministry of Finance and equity securities issued by banks, are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at cost and subsequently measured at fair value as determined by their market price.

All the respective realized and unrealized gains and losses are included in the net trading income. Interest, if realized during the held-for-trading securities, is recorded as interest income. The sale of securities held-for-trading is recognized on the trading date, which is the date when the Bank is obliged to buy or sell the asset.

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. This portfolio comprises quoted and unquoted equity investments in shares of banks and other financial institutions and enterprises, where the Bank does not exercise control.

Available-for-sale financial assets are initially recognized at cost, and subsequently re-measured at fair value based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments.

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is sold or impaired at which time the cumulative unrealized gain or loss previously recognized in equity should be recognized in net profit or loss for the period. However, interest calculated using the effective interest rate method, as well as contingent impairment losses and foreign exchange gains and losses are recognized in the profit and loss.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. If the Bank determines to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. These securities are measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Loans originated by the Bank**

Loans originated by the Bank include loans where cash is provided directly to the customer. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost by using the effective interest rate method. Interest on loans originated by the Bank is included in interest income and is recognized on an accrual basis. Loans to customers and financial institutions are stated at their net amount reduced by allowance for impairment.

Impairment of financial assets

The Bank assesses at each end of reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost, is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss. Impairment losses recognized in the profit and loss on equity instruments are not reversed through the profit and loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale 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 through the profit and loss.

The amount of the impairment loss for financial assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Impairment losses on loans and advances

Allowances for impairment and uncollectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to increase the credit limit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items it is presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Impairment losses on loans and advances (continued)

The allowances for impairment and uncollectability of loans and advances and for other active on-balance sheet and off-balance sheet items, are determined in accordance with the regulations prescribed by the NBRM ruling on each end of reporting period, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet items into groups on the basis of the degree (size) of the risk and assess the amount of potential impairment losses which are calculated by applying objective and subjective metrics, as of December 31, 2015 and December 31, 2014 by applying the following percentages:

<u>Risk category</u>	<u>Percentage</u>
A	0%-5%
B	5%-20%
C	20%-45%
D	45%-70%
E	70%-100%

The allowances for impairment and uncollectability are determined on the basis of the degree (size) of the risk of uncollectability or specific country risk on the basis of the following principles:

- Separate loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and uncollectability are measured and determined for the difference between the carrying value of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by effective loan interest rate.
- If there is objective proof of uncollectability in the loan portfolio that may not be identified on a specific basis, the allowances for impairment and uncollectability are determined at level of risk for the overall loan portfolio. These losses are determined at historical principle for the loan classification of customers and express the current economic environment of the customers.
- Losses on impairment and uncollectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing, since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and uncollectability are reviewed and tested at least once a quarter, and any further changes in the amount and timing of expected future cash flows in comparison with previous assessments result in changes in allowances for losses on impairment and uncollectability recorded as credit or debit of impairment losses in the profit and loss.
- The loan which is believed that is impossible to be collected is written off against the relevant allowance for losses on impairment and uncollectability. Further collections are recorded as reduction of losses on impairment and uncollectability in the profit and loss.
- In case of loans granted to borrowers in countries with increased risk of difficulties for servicing external debt, the political and economic circumstances are assessed and additional allowances for sovereign risk are allocated.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Derecognition of financial assets**

The Bank derecognizes financial assets when the rights to receive cash from the financial asset have expired or have been transferred to another entity, thus transferring as well substantially all the risks and rewards of ownership of the assets.

Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities are classified as deposits from banks, financial institutions and customers, loans payable, other payables and derivative financial instruments.

Deposits from banks and other financial institutions and clients

These financial liabilities are initially recognized at fair value net of transaction costs incurred, and they are subsequently measured at amortized cost.

Loans payable

Loans payable are initially recognized at fair value net of transaction costs incurred. Subsequent measurement is at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss over the period of the loan using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Other payables

Other payables are stated at their nominal amounts.

Derivative financial instruments

The derivative financial instruments include contractual agreements subject to exchange rate fluctuations and are initially and subsequently valued at fair value. These contracts are not qualified for hedging accounting in accordance with the specific criteria of IAS 39 – “Financial instruments: recognition and measurement” and are accordingly treated as derivative instruments held for trading, i.e. gains and losses are recognized in net trading income.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or have expired.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the profit and loss as an expense as incurred. Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates are as follows:

Buildings	2.5% -5%
Furniture and equipment	10% - 25%

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss.

The Bank annually reviews its property and equipment for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Intangible assets

Intangible assets are assets acquired separately and are recorded at cost less accumulated amortization and accumulated impairment losses, if such exists. Intangible assets include computer software acquired apart from hardware. Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The Bank annually reviews the carrying amounts of its intangible assets and assesses whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, it is written down to the recoverable amount.

The Bank's management regularly reviews the carrying amounts of its tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognized as an expense in the current period. The reversal of an impairment loss is immediately recognized as income immediately.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Assets acquired through foreclosure proceedings**

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in foreclosed assets. Initially, these assets are measured at the initial carrying amount i.e. lower value than cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified appraiser on the date of asset foreclosure. For all assets undertaken after April 6, 2013 the Bank recorded at initial recognition and impairment of at least 20% of the lower of cost and estimated value of the foreclosed asset. If the impairment of loan that is paid by foreclosing assets is higher than 20% of the initial value of the foreclosed asset, the difference is recognized in the revaluation reserves of the Bank.

After initial recognition, foreclosed assets, at least annually are reviewed for impairment and are measured at the lower of 80% of the previous carrying value and the estimated value less estimated costs to sell. Impairments are recognized in the income statement of the Bank.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and nostro accounts, which represent demand deposits and placements with other banks and financial institutions, account balances with the NBRM, and other financial assets such as treasury and other eligible bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

Managed funds

The Bank provides fiduciary and trust services to legal entities and citizens, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customers. The Bank receives fee income for providing these services. Managed funds are not assets of the Bank and are not recognized in the financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Employment benefits**

Health, pension and social insurance contributions from gross and net wages and salaries are being paid by the Bank during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay its employees a termination severance upon retirement in the amount of two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the end of reporting period less the fair value of previously recognized assets (there are currently no previous assets recognized), together with adjustments for unrecognized actuarial gains or losses less past service costs which are not recognized yet. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method.

Income tax

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Leases

The Bank rents and leases out assets as operating lease. Rental income and expenditures from investment property is recognized in the profit and loss on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates**

The most significant areas, for which judgments, estimates and assumptions are required, are:

Fair value of financial instruments

The fair value of the financial instruments that are not quoted in active markets is determined by using internal valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by qualified personnel independent of the area that created the model. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar instruments, and with actual values when realized, in order to further validate and standardize models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, and market conditions and liquidity. The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

There is no sufficient market experience, stability and liquidity in the Republic of Macedonia for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are at present not readily available.

The Management assesses the overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a provision. In the opinion of management, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions.

Allowance for loan losses

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates (continued)****Useful lifetime of tangible and intangible assets**

The Bank management determines estimated useful lives and related depreciation and amortization charges for its tangible and intangible assets. The appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the underlying assumptions, such as anticipated technological developments and changes in the broad economic and industry factors.

Actuarial assumptions in respect of defined benefit plan

The eventual expenses that may occur in the Bank, depend on actual future experience and in particular change in discount rate and increase in salaries. Other factors will also change the overall liability in this matter such as the number of employees leaving service before the retirement and the number of new employees.

e) Change of accounting policies, accounting estimates and correction of errors

Except as stated in Note 1.b), there are no changes in the accounting policies, accounting estimates or correction of errors in these financial statements. As mentioned in Note 1.b) in the section Presentation of financial statements, certain Notes in the accompanying financial statements are presented in compliance with the presentation method by the Decision.

f) Compliance with legislation

The accompanying financial statements are compliance with the regulations prescribed by the Central Bank which is in force on each date of the balance sheet.

During 2015, the Central Bank conducted several field controls:

- For the compliance with the regulations of the Bank in terms of regulation in the area of foreign exchange operations, i.e. implementation of the decision to introduce special safeguards be implemented from June 28, 2015 and the provisions of the Foreign Exchange Act;
- To manage credit, liquidity and operational risk and system security;
- For the compliance with the regulations of the Bank (which includes in the area of foreign exchange operations, domestic payment, money transfer etc.).
- Control of the two branches of the Bank (Bitola and Ohrid)

As of December 31, 2015, Minutes of the controls carried out have not yet been submitted to the Bank

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

1. INTRODUCTION (continued)

g) Risk management disclosure

Qualitative and quantitative information in respect of the separate types of risks are provided in Notes 2 and 3.

h) Events after the Balance Sheet date

The Bank has no significant events after the balance sheet date for which an adjustment in the financial statements will be made.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. Therefore, the Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems in order to reflect the changes in markets, products and the best practices.

The Bank's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, Board of Directors, Executive and Senior Management, as well as between the Bank and NBG Group, its clients and all other related parties. Within the Bank, risk management activities broadly take place at the following levels:

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk strategy, ascertaining the Bank's risk definitions, profile and aspirations, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors, Executive and Senior Management. These include the approval of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as other critical support functions, fall into this category.
- Operational (business line) level which involves management of risks at the point of direct performance of the Bank's activities. The relevant activities are performed by individuals who undertake risk on behalf of the organization. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant policies, procedures and guidelines defined by the management.

The most important types of risk are credit risk, liquidity risk, operational risk and market risk.

2.1 Credit risk

Credit risk is the most important risk for the Bank's business defined as current or future risk on the financial result and capital arising from a customer's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, L/G and L/C).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)**2.1 Credit risk (continued)****2.1.1 Credit risk measurement, limits and mitigation policies**

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and impairment for potential losses, commitments and contingencies and it is mainly based on reports and analysis prepared by relevant organization units of the Bank. The Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The Bank has internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of corporative clients to which the Bank is exposed to is reviewed at least on semi-annual basis. The Bank has implemented a system of early warning signals for the purpose of identifying timely possible downward trends in the client's creditworthiness and for mitigating the credit risk.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt and equity securities;
- Pledges over movables such as automobiles and equipment and other;

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits regarding an individual borrower, related parties, exposure to Bank internal persons, and large exposures, exposures by business sectors as well as other internal limits are set in the Risk Strategy, as well as in the Policies and Procedures regulating the credit risk management. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

2.1.2 Impairment and provisioning policies

The impairment losses are identified losses of the Bank credit portfolio that incurred until the end of reporting period and for which there is objective evidence of impairment. The Bank calculates the impairment provision after making the classification of credit exposure in the appropriate risk category.

The classification is made according to the following criteria:

- client's creditworthiness;
- client's regularity in settling the liabilities, and
- collateral quality.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)**2.1 Credit risk (continued)****2.1.2 Impairment and provisioning policies(continued)**

According to the Bank policies, impairment and provisioning are defined on individual base.

Impairment provision of individually assessed items on individual base are determined by evaluation of generated loss on the end of reporting period, which represents difference between the carrying and current value of projected future cash flows. Effective interest rate is used at discounting the future cash flows that include also the collateral value.

All non-performing loans also are covered by the impairment on an individual basis.

Calculated impairment provision moves within the following limits:

- 0-5% of credit risk exposure classified into A risk category
- 5-20% of credit risk exposure classified into B risk category
- 20-45% of credit risk exposure classified into C risk category
- 45-70% of credit risk exposure classified into D risk category
- 70-100% of credit risk exposure classified into E risk category

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	
I. Carrying amount of exposures for which an allowance for impairment/special reserve has been allocated																			
<i>Carrying amount of separate significant exposures before the allowance for impairment and special reserve on an individual basis</i>																			
A risk category	172,408	251,871	48,366,402	44,410,643	10,481,802	11,626,037	-	132,275	8,299,900	10,037,959	4,633	4,200	11,082	5,303	5,649,144	8,846,373	72,985,371	75,314,661	
B risk category	-	-	2,373,085	2,073,533	7,642	7,642	-	-	-	-	485	1,309	-	9,089	141,855	113,052	2,523,067	2,204,625	
C risk category	-	-	1,761,888	2,245,962	-	-	-	-	-	-	826	2,193	1,532	-	10,915	40,361	1,775,161	2,288,516	
D risk category	-	-	202,971	316,937	-	-	-	-	3,160	1,359	2,620	3,260	24	32,283	-	-	208,775	353,839	
E risk category	23,673	22,320	5,767,112	5,393,218	281,078	275,288	-	-	-	-	48,769	42,794	32,328	-	89,146	80,277	6,242,106	5,813,897	
	<u>196,081</u>	<u>274,191</u>	<u>58,471,458</u>	<u>54,440,293</u>	<u>10,770,522</u>	<u>11,908,967</u>	<u>-</u>	<u>132,275</u>	<u>8,303,060</u>	<u>10,039,318</u>	<u>57,333</u>	<u>53,756</u>	<u>44,966</u>	<u>46,675</u>	<u>5,891,060</u>	<u>9,080,063</u>	<u>83,734,480</u>	<u>85,975,538</u>	
(Allowance for impairment and special reserve on an individual basis)	(23,879)	(22,526)	(6,418,930)	(6,106,330)	(281,882)	(276,092)	-	-	(1,425)	(613)	(50,209)	(44,902)	(32,318)	(36,826)	(107,375)	(106,970)	(6,916,018)	(6,594,259)	
Carrying amount of separate significant exposures less the allowance for impairment and special reserve on an individual basis	<u>172,202</u>	<u>251,665</u>	<u>52,052,528</u>	<u>48,333,963</u>	<u>10,488,640</u>	<u>11,632,875</u>	<u>-</u>	<u>132,275</u>	<u>8,301,635</u>	<u>10,038,705</u>	<u>7,124</u>	<u>8,854</u>	<u>12,648</u>	<u>9,849</u>	<u>5,783,685</u>	<u>8,973,093</u>	<u>76,818,462</u>	<u>79,381,279</u>	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	
	<i>Carrying amount of exposures assessed on a group basis before the allowance for impairment and the special reserve on a group basis</i>																		
- separate insignificant exposures (small loans portfolio)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- separate significant exposures not impaired on a separate basis	-	-	3,554,129	3,110,256	-	-	-	-	-	-	1,348	267	-	-	5,815,108	2,605,249	9,370,585	5,715,772	
(Allowance for impairment and special reserve on a group basis)	-	-	(30,798)	(35,924)	-	-	-	-	-	-	-	-	-	-	(11,577)	(6,846)	(42,375)	(42,770)	
Carrying amount of exposures assessed on a group basis less the allowance for impairment and special reserve on a group basis	-	-	3,523,331	3,074,332	-	-	-	-	-	-	1,348	267	-	-	5,803,531	2,598,403	9,328,210	5,673,002	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
II. Carrying amount of exposures for which there has been no allowance for impairment/special reserve allocated																		
mature receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Maturity structure of mature receivables for which no allowance for impairment has been allocated up to 30 days</i>																		
Carrying amount of mature receivables for which no allowance for impairment has been allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-mature receivables																		
Restructured receiv.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount of non-mature receivable for which no allowance for impairment has been allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014
	Total carrying amount of receivables with credit risk before the allowance for impairment and the special reserve	196,081	274,191	62,025,587	57,550,549	10,770,522	11,908,967	-	132,275	8,303,060	10,039,318	58,681	54,023	44,966	46,675	11,706,168	11,685,312	93,105,065
(Total allowance for impairment and special reserve)	(23,879)	(22,526)	(6,449,728)	(6,142,254)	(281,882)	(276,092)	-	-	(1,425)	(613)	(50,209)	(44,902)	(32,318)	(36,826)	(118,952)	(113,816)	(6,958,393)	(6,637,029)
Total carrying amount of receivables with credit risk less the allowance for impairment and special reserve	172,202	251,665	55,575,859	51,408,295	10,488,640	11,632,875	-	132,275	8,301,635	10,038,705	8,472	9,121	12,648	9,849	11,587,216	11,571,496	86,146,672	85,054,281

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) for mitigating of credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014
<i>Value of collateral of the credit exposure assessed for impairment on an individual basis</i>																
First-class collateral instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	1,425,622	1,403,104	-	-	-	-	-	-	-	-	102,962	156,184	1,528,584	1,559,288
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	1,847,841	1,844,442	-	-	-	-	-	-	-	-	-	-	1,847,841	1,844,442
bank guarantees	-	-	-	59,971	-	-	-	-	-	-	-	-	67,481	29,499	67,481	89,470
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	7,770,004	5,811,405	-	-	-	-	-	-	-	-	808,857	1,179,303	8,578,861	6,990,708
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	33,663,177	33,135,214	-	-	-	-	-	-	-	-	154,835	586,683	33,818,012	33,721,897
commercial property	-	-	23,569,837	22,657,601	-	-	-	-	-	-	-	-	1,085,290	1,517,760	24,655,127	24,175,361
Pledge over movables	-	-	14,724,110	14,449,486	-	-	-	-	-	-	-	-	4,499,005	5,090,808	19,223,115	19,540,294
Other types of security	-	-	1,754,488	1,765,561	-	-	-	-	-	-	-	-	119,919	77,319	1,874,407	1,842,880
Total value of collateral of credit exposure assessed for impairment on an individual basis	-	-	84,755,079	81,126,784	-	-	-	-	-	-	-	-	6,838,349	8,637,556	91,593,428	89,764,340

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) for mitigating of credit risk(continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
<i>Value of collateral of the credit exposure assessed for impairment on a group basis</i>																
First-class collateral instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
commercial property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledge over movables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other types of security	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total value of collateral of credit exposure assessed for impairment on a group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by industries and activities

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014
	Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, Forestry and Fishing	-	-	639,823	872,482	-	-	-	-	-	-	9	15	-	167	134,014	8,573	773,846	881,237
Mining and quarrying	-	-	123,984	68,868	-	-	-	-	-	-	-	4	-	13	61,390	62,684	185,374	131,569
Food industry	-	-	2,035,846	2,009,318	-	-	-	-	-	-	24	74	87	385	100,495	97,364	2,136,452	2,107,141
Textile industry and clothing and footwear production	-	-	1,139,921	694,140	-	-	-	-	-	-	22	3	3,143	133	63,358	36,692	1,206,444	730,968
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	518,041	1,182,106	-	-	-	-	-	-	-	20	9	226	31,295	137,599	549,345	1,319,951
Production of metals, machinery, tools and equipment	-	-	3,806,773	3,466,954	-	-	-	-	-	-	382	1,242	3,986	664	380,426	633,154	4,191,567	4,102,014
Other manufacturing industries	-	-	47,337	100,711	-	-	-	-	-	-	1,499	2,336	-	19	2,739	2,962	51,575	106,028
Electricity, gas, steam and air conditioning supply	-	-	2,228,323	1,837,613	-	-	-	-	-	-	-	-	-	352	48,090	87,338	2,276,413	1,925,303
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	35,468	33,511	-	-	-	-	-	-	-	-	-	6	4,553	302	40,021	33,819
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1,508,192	1,369,831	-	-	-	-	-	-	1,896	37	-	262	1,826,001	2,108,857	3,336,089	3,478,987
Transportation and storage	-	-	6,155,835	5,262,607	1,133	983	-	-	-	-	161	600	158	1,008	638,629	426,997	6,795,916	5,692,195
Facilities for accommodation and food service activities	-	-	1,048,807	855,532	-	-	-	-	-	-	188	224	45	164	190,900	231,982	1,239,940	1,087,902
Information and Communications	-	-	482,432	229,293	-	-	-	-	-	-	19	9	45	44	25,948	2,841	508,444	232,187
Financial and insurance activities	-	-	222,079	223,310	-	-	-	-	-	-	3	3	-	43	3,848	1,970	225,930	225,326
	172,202	251,665	6,244	72,527	76,074	76,074	-	-	1,089,925	2,663,650	-	53	3,084	14	111,863	89,866	1,459,392	3,153,849

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	Current year	previous year	current year	previous year
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Activities related to real estate	-	-	445,327	444,541	-	-	-	-	-	-	-	-	15	85	105,968	120,120	551,310	564,746
Professional, scientific and technical activities	-	-	315,615	228,521	-	-	-	-	-	-	62	398	70	44	132,787	187,397	448,534	416,360
Administrative and support service activities	-	-	-	48,610	-	-	-	-	-	-	-	20	-	9	-	12,081	-	60,720
Public administration and defence, compulsory social security	-	-	-	-	10,411,433	11,555,818	-	132,275	7,211,710	7,375,055	-	1	-	1	-	-	17,623,143	19,063,150
Education	-	-	63,378	98,306	-	-	-	-	-	-	35	-	-	19	20,975	19,072	84,388	117,397
Activities of Health and Social Care	-	-	30,813	36,264	-	-	-	-	-	-	11	-	-	7	3,452	1,899	34,276	38,170
Arts, entertainment and recreation	-	-	52,043	61,306	-	-	-	-	-	-	-	-	-	12	39,894	36,081	91,937	97,399
Other service activities	-	-	11,381	15,636	-	-	-	-	-	-	1,300	1,232	-	3	3,634	3,141	16,315	20,012
Activities of households as employers; activities of households that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extraterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	34,658,197	32,196,308	-	-	-	-	-	-	2,861	2,850	2,006	6,169	7,656,957	7,262,524	42,320,021	39,467,851
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	172,202	251,665	55,575,859	51,408,295	10,488,640	11,632,875	-	132,275	8,301,635	10,038,705	8,472	9,121	12,648	9,849	11,587,216	11,571,496	86,146,672	85,054,281

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by geographical location

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014	current year 2015	previous year 2014
<i>Geographical location</i>																		
Republic of Macedonia	-	-	55,575,859	51,408,295	10,488,640	11,632,875	-	132,275	5,230,240	7,391,455	8,472	9,121	12,648	9,849	11,587,216	11,523,483	82,903,075	82,107,353
EU member countries	172,202	251,665	-	-	-	-	-	-	3,071,395	2,647,250	-	-	-	-	-	-	3,243,597	2,898,915
Europe (other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (more than 10% of total credit risk exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,013	-	48,013
Total	172,202	251,665	55,575,859	51,408,295	10,488,640	11,632,875	-	132,275	8,301,635	10,038,705	8,472	9,121	12,648	9,849	11,587,216	11,571,496	86,146,672	85,054,281

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**2. RISK MANAGEMENT (continued)****2.2 Liquidity risk**

Liquidity risk represents a risk of Bank's inability to provide sufficient monetary assets to settle its short-term liabilities when they come due, i.e. a risk that the necessary liquid assets will be provided at much higher cost.

2.2.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

- Application of operating standards related to the Bank's liquidity risk, including appropriate policies, procedures and resources for controlling and limiting the liquidity risk.
- Maintenance of stock of liquid assets appropriate for the cash flow profile of the Bank which can be readily converted into cash without incurring undue capital losses.
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources.
- Preparing contingency plans of the Bank for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost.
- Monitoring liquidity risk limits and ratios, taking into account the Bank's risk appetite and profile, as well as the regulatory requirements for prescribed minimum level of liquidity rates.

The process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to fund the cash outflows. During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

Monitoring of the Bank's liquidity is performed by the Treasury Division. The Treasury Division reconciles all inflows and/or outflows in all currencies along with money orders, checks, bank transfers and account transfers.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

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

In thousands of Denars							
December 31, 2015	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	16,896,236	-	-	-	-	-	16,896,236
Trading assets	329,981	-	-	-	-	-	329,981
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	217	-	-	-	-	171,985	172,202
Loans to customers	4,010,168	4,298,153	16,880,352	5,260,683	11,054,520	14,071,983	55,575,859
Investment securities	99,879	2,691,541	6,756,687	863,296	-	77,237	10,488,640
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-
Other receivables	131,909	-	-	-	-	-	131,909
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	21,468,390	6,989,694	23,637,039	6,123,979	11,054,520	14,321,205	83,594,827
FINANCIAL LIABILITIES							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	731,949	-	-	-	-	-	731,949
Deposits from customers	27,263,260	6,746,320	25,175,164	5,746,955	2,026,321	145,718	67,103,738
Loans payable	64,796	-	132,892	186,589	178,387	182,936	745,600
Subordinated debt	-	-	-	-	-	-	-
Income tax liabilities (current)	76,451	-	-	-	-	-	76,451
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,851,162	-	-	-	-	90,978	1,942,140
Total financial liabilities	29,987,618	6,746,320	25,308,056	5,933,544	2,204,708	419,632	70,599,878
Off balance items							
Off balance assets	-	6,655	1,737	-	-	-	8,392
Off balance liabilities	8,291,596	394,467	1,344,510	772,703	716,936	185,956	11,706,168
Net liquidity gap	(16,810,824)	(144,438)	(3,013,790)	(582,268)	8,132,876	13,715,617	1,297,173

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

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

							In thousands of Denars
December 31, 2014							
	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	18,359,622	99,757	-	-	-	-	18,459,379
Trading assets	285,518	-	7,485	-	-	-	293,003
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	11,249	30,944	55,197	-	-	154,275	251,665
Loans to customers	3,314,841	4,231,877	17,277,067	4,505,026	9,911,449	12,168,035	51,408,295
Investment securities	132,275	1,889,403	6,546,975	3,119,409	-	77,088	11,765,150
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-
Other receivables	141,786	-	-	-	-	-	141,786
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	22,245,291	6,251,981	23,886,724	7,624,435	9,911,449	12,399,398	82,319,278
FINANCIAL LIABILITIES							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	293,181	-	-	-	-	-	293,181
Deposits from customers	25,132,716	6,904,195	23,173,449	8,185,829	2,222,690	287,679	65,906,558
Loans payable	83,219	-	155,115	163,052	277,095	176,367	854,848
Subordinated debt	-	9,307	-	1,229,628	1,537,035	-	2,775,970
Income tax liabilities (current)	172,665	-	-	-	-	-	172,665
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,220,737	-	-	-	-	90,978	1,311,715
Total financial liabilities	26,902,518	6,913,502	23,328,564	9,578,509	4,036,820	555,024	71,314,937
Off balance items							
Off balance assets	593	66,887	2,877	-	-	-	70,357
Off balance liabilities	7,761,293	730,051	944,393	504,017	1,247,897	497,661	11,685,312
Net liquidity gap	(12,417,927)	(1,324,685)	(383,356)	(2,458,091)	4,626,732	11,346,713	(610,614)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**2. RISK MANAGEMENT (continued)****2.2 Liquidity risk (continued)****2.2.1 Liquidity risk management process (continued)****Analysis according to the maturity of financial assets and liabilities (remaining maturity) (continued)**

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2015 and 2014, except for loans and receivables from other clients and unutilized limits – potential credit exposure where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, allowed overdrafts etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet receivables under these products, i.e. the amount of utilization of funds under the approved limits.

2.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, interest rate, and equity products, all of which are exposed to market movements and changes in the level of volatility of market rates or prices (such as interest rates, credit spreads, foreign exchange rates and equity prices).

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2015 and 2014.

Risk from changes in interest rates

The Bank is exposed to effects arising from movements at level of interest rates in the market that affect its financial position and cash flows. Taking into consideration the fact that the trading portfolio of the Bank is inconsiderable and refers mainly to government securities, the interest rate risk exposure is assessed from the aspect of Bank's portfolio of activities. The risk from change in interest rates in the Banking Book is the current or possible risk for profit (net interest income) and/or capital that arises from negative movements in interest rates, which affect the positions in the Bank's portfolio of activities. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholders value. Nonetheless, excessive risk from change in interest rates may represent a significant threat to the profit and capital base of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

Risk from changes in interest rates (continued)

The Bank has established a framework for managing this risk in order to minimize the effects of negative changes in future interest rates by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk from changes in interest rates in Banks portfolio.

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2015 and 2014.

Operational risk

The operational risk is defined as risk of loss that arises from inappropriate or unsuccessful internal processes and systems, human factor or external events. The Bank has established an operational risk management framework based on Strategy and Policy and methodology for managing this risk. It ensures, within the various processes in the Bank, that there are identified risks originating from these processes, that they are measured and that there is an undertake of corrective actions in order to avoid potential negative effect over the financial result and capital position of the Bank.

2.3.1. Sensitivity Analysis of assets and liabilities on change in market risk

A. Sensitivity Analysis on the changes of market risk on assets and liabilities

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
December 31, 2015				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2015)		10,335,475	60,769,413	17,01%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	248,127	10,583,602	61,017,540	17,35%
Denar to appreciate by 10% in relation of all other F/X	(248,127)	10,087,348	60,521,287	16,67%
Denar to depreciate by 20% in relation of all other F/X	496,253	10,831,728	61,265,666	17,68%
Denar to appreciate by 20% in relation of all other F/X	(496,253)	9,839,222	60,273,160	16,32%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	2,281	10,337,756	60,769,413	17,01%
Decreasing of interest rates by 200 b.p.	(2,281)	10,333,194	60,769,413	17,00%
Increasing of interest rates by 400 b.p.	4,562	10,340,037	60,769,413	17,02%
Decreasing of interest rates by 400 b.p.	(4,562)	10,330,913	60,769,413	17,00%
Cumulative				

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk (continued)

A. Sensitivity Analysis on the changes of market risk on assets and liabilities(continued)

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
December 31, 2014				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2014)	-	9,344,389	57,129,143	16,36%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	196,804	9,541,193	57,326,406	16,64%
Denar to appreciate by 10% in relation of all other F/X	(196,804)	9,147,584	56,931,880	16,07%
Denar to depreciate by 20% in relation of all other F/X	393,608	9,737,997	57,523,669	16,93%
Denar to appreciate by 20% in relation of all other F/X	(393,608)	8,950,780	56,734,617	15,78%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	(13,914)	9,330,474	57,129,143	16,33%
Decreasing of interest rates by 200 b.p.	13,914	9,358,303	57,129,143	16,38%
Increasing of interest rates by 400 b.p.	(27,828)	9,316,560	57,129,143	16,31%
Decreasing of interest rates by 400 b.p.	27,828	9,372,217	57,129,143	16,41%
Cumulative	-	-	-	-

The Bank has established a frame for establishing stress test on the basis of which stress testing is made at least once a year in order to analyze the sensitivity of the Bank to a set of extreme but realistic shocks, which also takes into consideration analysis of the assets and liabilities sensitivity to changes in the foreign exchange rate and in the interest rates from aspect of the banking activities portfolio. In due course, the scenarios which take into consideration the risk from the change of the foreign exchange rate estimate the effect of the possible appreciation and depreciation of the Denar foreign exchange rate in relation to other currencies, and at all other factors unchanged, the effect is observable through the realized foreign exchange gain/loss. On the other hand, the purpose of the stress test analysis of the interest rate risk in the bank's portfolio of activities is to examine the sensitivity of the Bank balance sheets to the interest rate changes, by examining the influence of interest shocks in the assumed scenarios on the net interest income.

In both sensitivity analyses, the change in capital adequacy is estimated through the effect of scenarios over the amount of own funds (if assuming that the profit is zero), and by that also over the capital adequacy of the Bank.

The table presents analysis of assets and liabilities sensitivity to market risk changes as at 31 December 2015 and 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk(continued)

B. Analysis of value exposed to market risk in trading portfolio

	2015				In thousands of Denars 2014			
	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)
Amount exposed to risk at interest- bearing instruments	-	-	-	-	-	-	-	-
Amount exposed to risk at instruments in foreign currency	-	-	-	-	-	-	-	-
Amount exposed to risk at equity instruments	-	-	-	-	-	-	-	-
Amount (effects on netting)	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

The Bank does not make analysis of the risk exposed value according to the above disclosure in Table B due to the fact that the Bank does not determine capital required for covering the market risks for the trading portfolio according to the “Decision on the methodology for determining the capital adequacy”, and consequently the table referred to in this Note is not filled in.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets)

A Interest rate sensitivity analysis

	Currency	2015	2014
NET WEIGHTED POSITION FOR CURRENCY EUR (FKS+VKS+PKS)	EUR	100,569	22,747
NET WEIGHTED POSITION FOR CURRENCY MKD (FKS+VKS+PKS)	MKD	284,139	43,321
NET WEIGHTED POSITION FOR CURRENCY MKDcIEUR (FKS+VKS+PKS)	MKDcIEUR	620,794	399,097
NET WEIGHTED POSITION FOR other CURRENCIES (FKS+VKS+PKS)	Other	3,439	(3,269)
TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK’S ACTIVITY PORTFOLIO		1,008,941	461,896
OWN FUNDS		10,335,475	9,344,389
TOTAL WEIGHTED VALUE / OWN FUNDS		9,76%	4,94%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

B. Analysis of reconciliation of interest rates

In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
December 31, 2015							
ASSETS							
Cash and cash equivalents	8,288,036	-	-	-	-	-	8,288,036
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	-	-	-	122,012	122,012
Loans and receivables from other customers	2,430,329	4,457,167	39,004,246	2,174,561	3,194,133	4,229,377	55,489,813
Investments in securities	99,879	2,691,541	6,743,178	850,000	-	-	10,384,598
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive financial assets	10,818,244	7,148,708	45,747,424	3,024,561	3,194,133	4,351,389	74,284,459
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	730,711	-	-	-	-	-	730,711
Deposits of other customers	30,315,167	4,196,955	28,286,415	3,480,592	477,622	68,085	66,824,836
Issued debt securities	-	-	-	-	-	-	-
Borrowings	63,363	-	132,892	186,589	178,387	33,537	594,768
Subordinated liabilities and hybrid instruments	-	-	-	-	-	-	-
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	31,109,241	4,196,955	28,419,307	3,667,181	656,009	101,622	68,150,315
Net - balance position							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
Net positions - off-balance sheet position	-	-	-	-	-	-	-
Total net-position	(20,290,997)	2,951,753	17,328,117	(642,620)	2,538,124	4,249,767	6,134,144

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

B. Analysis of reconciliation of interest rates(continued)

In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
December 31, 2014							
ASSETS							
Cash and cash equivalents	9,927,477	99,757	-	-	-	-	10,027,234
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and receivables from banks	10,829	30,944	55,197	-	-	145,434	242,404
Loans and receivables from other customers	21,188,046	2,127,977	21,073,118	1,566,158	2,744,360	2,520,929	51,220,588
Investments in securities	131,914	1,889,404	6,510,885	3,119,409	-	-	11,651,612
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive financial assets	31,258,266	4,148,082	27,639,200	4,685,567	2,744,360	2,666,363	73,141,838
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	293,126	-	-	-	-	-	293,126
Deposits of other customers	30,659,388	4,710,055	25,267,041	4,423,365	425,817	123,577	65,609,243
Issued debt securities	-	-	-	-	-	-	-
Borrowings	80,634	-	155,115	163,052	277,095	26,968	702,864
Subordinated liabilities and hybrid instruments	-	2,766,663	-	-	-	-	2,766,663
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	31,033,148	7,476,718	25,422,156	4,586,417	702,912	150,545	69,371,896
Net - balance position							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
Net positions - off-balance sheet position	-	-	-	-	-	-	-
Total net-position	225,118	(3,328,636)	2,217,044	99,150	2,041,448	2,515,818	3,769,942

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

	In thousands of Denars 31 December 2015				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	10,586,328	3,798,115	975,377	1,536,416	16,896,236
Trading assets	-	2,379	327,602	-	329,981
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	4,638	165,276	2,288	172,202
Placement with and loans to customers	30,847,881	23,563,870	1,164,108	-	55,575,859
Investments in securities	9,624,292	864,348	-	-	10,488,640
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	-	-	-	-	-
Other receivables	127,888	3,716	181	124	131,909
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	<u>51,186,389</u>	<u>28,237,066</u>	<u>2,632,544</u>	<u>1,538,828</u>	<u>83,594,827</u>
MONETARY LIABILITIES					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	-	596,321	113,851	21,777	731,949
Deposits from customers	39,256,869	24,251,757	2,088,554	1,506,558	67,103,738
Issued Debt Securities	-	-	-	-	-
Borrowings	166,241	579,359	-	-	745,600
Subordinated debt	-	-	-	-	-
Income tax payable (current)	76,451	-	-	-	76,451
Deferred tax liabilities	-	-	-	-	-
Other liabilities	1,180,938	351,917	409,226	59	1,942,140
Total monetary liabilities	<u>40,680,499</u>	<u>25,779,354</u>	<u>2,611,631</u>	<u>1,528,394</u>	<u>70,599,878</u>
Net – position	<u>10,505,890</u>	<u>2,457,712</u>	<u>20,913</u>	<u>10,434</u>	<u>12,994,949</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk (continued)

	In thousands of Denars 31 December 2014				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	12,615,462	3,956,933	538,645	1,348,339	18,459,379
Trading assets	-	9,053	283,950	-	293,003
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	98,573	150,535	2,557	251,665
Placement with and loans to customers	25,642,337	24,576,191	1,189,767	-	51,408,295
Investments in securities	10,436,354	1,328,796	-	-	11,765,150
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	-	-	-	-	-
Other receivables	120,188	21,029	436	133	141,786
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	<u>48,814,341</u>	<u>29,990,575</u>	<u>2,163,333</u>	<u>1,351,029</u>	<u>82,319,278</u>
MONETARY LIABILITIES					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	-	11,786	257,080	24,315	293,181
Deposits from customers	38,455,610	24,271,400	1,869,879	1,309,669	65,906,558
Issued Debt Securities	-	-	-	-	-
Borrowings	172,181	682,667	-	-	854,848
Subordinated debt	-	2,775,970	-	-	2,775,970
Income tax payable (current)	172,729	-	-	-	172,729
Deferred tax liabilities	-	-	-	-	-
Other liabilities	965,974	342,107	3,575	59	1,311,715
Total monetary liabilities	<u>39,766,494</u>	<u>28,083,930</u>	<u>2,130,534</u>	<u>1,334,043</u>	<u>71,315,001</u>
Net – position	<u>9,047,847</u>	<u>1,906,645</u>	<u>(9,410)</u>	<u>84,955</u>	<u>11,030,037</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**3. CAPITAL ADEQUACY****Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' presented in the balance sheet, are:

- to comply with the capital requirements set by NBRM;
- to safeguard the Bank's ability to continue as a going concern so that it can continue providing returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support further successful activity.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the directives set by the regulator, for supervisory purposes. The required information is sent to NBRM on a quarterly basis.

The Bank's regulatory capital (own funds) is divided into two tiers:

- Tier 1 capital: share capital, retained earnings limited for distribution among shareholders and reserves created by retained earnings. The Bank's uncovered loss from previous years, the current loss, purchased equity shares, intangible assets, difference between the amount of required and the conducted impairment/ special reserve and unrealized loss from equity instruments available for sale are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan, cumulative preferred shares and premium from cumulative preferred shares sold, revaluation reserves of 80% from unrealized loss from revaluation of equity and debt instruments available for sale, measures according to the objective value, hybrid capital instruments.

Investments in banks, financial institutions, insurance companies and reinsurance companies are deducted from Tier 1 and Tier 2 capital to determine the regulatory capital.

The Bank is calculating capital adequacy ratio based on the National Bank of the Republic of Macedonia Decision on the methodology for determining the capital adequacy, in which the manner for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk is prescribed.

The calculation of the capital required for covering the credit risk is based on the so called standardized approach according to Basel II. The Bank is obliged to distribute the on-balance sheet and off-balance sheet claims in appropriate categories of exposure and to provide them with a risk weight depending on the credit quality degree of the debtor or the claim. Capital to cover the operational risk is also calculated according standardized approach. The calculation of the capital for currency risk is to the net amount of aggregate foreign currency position taking into consideration the impairment. The Bank is not obliged to determine and dispose of the capital required for covering the market risks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

3. CAPITAL ADEQUACY (continued)

Own assets

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2015 and 2014.

	In thousands of Denars	
	current	previous
	year	year
	2015	2014
Paid and registered ordinary and non-cumulative preferred shares and their premium	3,511,242	3,511,242
Nominal value	3,511,242	3,511,242
Nominal value of common shares	3,511,242	3,511,242
Nominal value of non-cumulative preferred shares	-	-
Premium	-	-
Premium under ordinary shares	-	-
Premium under non-cumulative preferred shares	-	-
Reserves and retained profit or loss	6,755,942	4,596,589
Reserve fund	830,290	830,290
Retained earnings restricted for distribution to shareholders	5,925,652	3,766,299
Accumulated loss from previous years	-	-
Current profit	-	-
Positions as a result of consolidation	-	-
Minority share	-	-
Reserves under foreign exchange gains/losses	-	-
Other differences	-	-
Deductible items	(23,983)	(23,983)
Loss at the year-end or current loss	-	-
Purchased own shares	-	-
Intangible assets	-	-
Difference between the amount of required and made impairment/special reserves	-	-
Amount of allocated impairment and special reserves as a result of accounting delay	-	-
Unrealized loss from own instruments available for sale	(23,983)	(23,983)
Other deducted items	-	-
Initial capital	10,243,201	8,083,848

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

	In thousands of Denars	
	current year 2015	previous year 2014
Additional capital I		
Paid-in and subscribed cumulative preferred shares and premium under these shares	90,978	90,978
Nominal value	90,978	90,978
Premium	-	-
Revaluation reserves	1,296	1,416
Hybrid capital instruments	-	-
Subordinated instruments	-	1,168,147
Amount of cumulative preferred shares and subordinated instruments that can be part of the additional capital I	90,978	1,259,125
Additional capital I	92,274	1,260,541
Deducted items		
Investments in capital of other banks or financial institutions that are over 10% of the capital of those institutions	-	-
Investments in subordinated and hybrid capital instruments and other instruments of the aforementioned institutions	-	-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of of initial and additional capital	-	-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies	-	-
Amount for exceeding the limits for investments in non-financial institutions	-	-
Positions as a result of consolidation (negative amounts)	-	-
Deductible items	-	-
Initial capital after deductions	10,243,201	8,083,848
Additional capital I after deductible items	92,274	1,260,541
OWN ASSETS	10,335,475	9,344,389

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

Capital adequacy ratio

The table below gives an overview of the Report of the rate of capital adequacy (Form CA) prepared in accordance with the Guidelines for implementation of the Decision on the methodology for determining the capital adequacy according to the applicable prescribed regulations from NBRM as at December 31, 2015 and 2014.

	In thousands of Denars	
	current year 2015	previous year 2014
Credit risk weighted assets		
Credit risk weighted assets by applying standardized approach	4,106,315	3,878,288
Capital required for covering the credit risk	51,328,942	48,478,603
Currency risk weighted assets		
Currency risk weighted assets	2,484,264	1,972,632
Aggregate foreign currency position	-	-
Net position in gold	198,501	157,811
Capital required for covering the currency risk	2,481,264	1,972,632
Operational risk weighted assets		
Capital required for covering the operational risk by applying the basic indicator approach	-	-
Capital required for covering the operational risk by applying the standardized approach	556,737	534,233
Operational risk weighted assets	6,959,207	6,677,908
Other risk weighted assets		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the positional risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity instruments	-	-
Capital required for covering the general risk of investments in equity instruments	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
Other risk weighted assets	-	-
Risk weighted assets	60,769,413	57,129,143
Capital required for covering the risks	4,861,553	4,570,332
Own assets	10,335,475	9,344,389
Capital adequacy ratio	17,01%	16,36%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

4. SEGMENT REPORTING

A. Operating segments

In thousands of Denars
December 31, 2015

	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Investme nt banking</u>	<u>All other significant operating segments</u>	<u>Unalloca ted</u>	<u>Total</u>
Net interest income /(expense)	1,834,293	1,537,203	(377)	(430)	-	3,370,689
Net fees and commissions income / (expense)	453,985	480,763	353	-	-	935,101
Net trading income	-	-	-	-	-	-
Net income from other financial instruments recorded at fair value	-	-	-	13,307	-	13,307
Other operating income	187,095	92,530	196	-	41,290	321,111
Income realized between segments	-	-	-	-	-	-
Total income by segments	<u>2,475,373</u>	<u>2,110,496</u>	<u>172</u>	<u>12,877</u>	<u>41,290</u>	<u>4,640,208</u>
Allowance for impairment of financial assets, on net basis	64,249	(579,505)	-	5,025	-	(510,231)
Impairment loss of non-financial assets, on net-basis	(9,382)	(63,874)	-	-	-	(73,256)
Depreciation	(47,315)	(60,071)	-	(142)	(1,317)	(108,845)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(1,215,905)	(576,067)	-	(1,326)	(12,640)	(1,805,938)
Total expenses by segments	<u>(1,208,353)</u>	<u>(1,279,517)</u>	<u>-</u>	<u>3,557</u>	<u>(13,957)</u>	<u>(2,498,270)</u>
Financial result by segment	1,267,020	830,979	172	16,434	27,333	2,141,938
Income tax	-	-	-	-	-	(225,239)
Profit/(loss) for the financial year	<u>1,267,020</u>	<u>830,979</u>	<u>172</u>	<u>16,434</u>	<u>27,333</u>	<u>1,916,699</u>
Total assets by segment	34,661,719	39,405,290	10,818,621	-	-	84,885,630
Unallocated assets per segment	-	-	-	-	-	-
Total assets						<u>84,885,630</u>
Total liabilities by segment	34,848,316	35,919,480	-	-	-	70,767,796
Unallocated liabilities by segment	-	-	-	-	-	-
Total liabilities						<u>70,767,796</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

4. SEGMENT REPORTING (continued)

A. Operating segments (continued)

	In thousands of Denars December 31, 2014					
	Retail banking	Corporate banking	Investme nt banking	All other significant operating segments	Unalloca ted	Total
Net interest income /(expense)	425,577	2,090,099	614,998	(140)	-	3,130,534
Net fees and commissions income / (expense)	418,858	531,758	1,225	11,671	-	963,512
Net trading income	-	-	-	-	-	-
Net income from other financial instruments recorded at fair value	-	-	41,874	-	-	41,874
Other operating income	176,857	31,808	-	-	80,608	289,273
Income realized between segments	-	-	-	-	-	-
Total income by segments	1,021,292	2,653,665	658,097	11,531	80,608	4,425,193
Allowance for impairment of financial assets, on net basis	67,086	(701,731)	-	2,695	-	(631,950)
Impairment loss of non-financial assets, on net-basis	(45,357)	(42,883)	-	-	(23,284)	(111,524)
Depreciation	(48,576)	(61,669)	-	(142)	(1,353)	(111,740)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	(818,021)	(1,036,588)	-	(2,392)	(22,794)	(1,897,795)
Total expenses by segments	(844,868)	(1,842,871)	-	161	(47,431)	(2,735,009)
Financial result by segment	176,424	810,794	658,097	11,692	33,177	1,690,184
Income tax	-	-	-	-	-	(177,841)
Profit/(loss) for the financial year	176,424	810,794	658,097	11,692	33,177	1,512,343
Total assets by segment	32,198,814	39,444,115	2,058,153	-	-	83,701,082
Unallocated assets per segment	-	-	-	-	-	-
Total assets						83,701,082
Total liabilities by segment	49,607,776	21,892,321	-	-	-	71,500,097
Unallocated liabilities by segment	-	-	-	-	-	-
Total liabilities						71,500,097

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

4. SEGMENT REPORTING (continued)

B. Concentration of total revenue and expenses by customers

	In thousands of Denars					
	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	Total
Current year, 2015						
Customer 1						
Income	1,499	127,503	-	-	-	129,002
(Expenses)	(12,977)	(47,414)	-	-	-	(60,391)
Customer 2						
Income	1,378	99,006	-	-	-	100,384
(Expenses)	(7,686)	(31,061)	-	-	-	(38,747)
Customer 3						
Income	1,299	90,188	-	-	-	91,487
(Expenses)	(7,662)	(30,829)	-	-	-	(38,491)
Customer 4						
Income	1,268	89,939	-	-	-	91,207
(Expenses)	(5,866)	(23,191)	-	-	-	(29,057)
Customer 5						
Income	1,235	42,912	-	-	-	44,147
(Expenses)	(5,202)	(21,483)	-	-	-	(26,685)
Total by segment	(32,714)	295,570	-	-	-	262,856
Previous year, 2014						
Customer 1						
Income	1,459	168,402	-	-	-	169,861
(Expenses)	(8,958)	(73,225)	-	-	-	(82,183)
Customer 2						
Income	1,425	135,323	-	-	-	136,748
(Expenses)	(8,346)	(51,641)	-	-	-	(59,987)
Customer 3						
Income	1,402	127,304	-	-	-	128,706
(Expenses)	(8,328)	(34,351)	-	-	-	(42,679)
Customer 4						
Income	1,346	104,917	-	-	-	106,263
(Expenses)	(6,978)	(28,008)	-	-	-	(34,986)
Customer 5						
Income	1,298	52,793	-	-	-	54,091
(Expenses)	(6,926)	(20,346)	-	-	-	(27,272)
Total by segment	(32,606)	381,168	-	-	-	348,562

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

4. SEGMENT REPORTING(continued)

C. Geographic areas

	In thousands of Denars December 31, 2015						
	Republic of Macedonia	Member countries of European Union	Europe (other)	Member- countries of OECD (without European Member- countries of OECD)	Other	Unallocat ed	Total
Current year, 2015							
Total income	5,642,388	108,407	53,190	65,430	-	-	5,869,415
Total assets	<u>81,602,716</u>	<u>1,567,616</u>	<u>769,148</u>	<u>946,150</u>	-	-	<u>84,885,630</u>
Previous year, 2014							
Total income	5,851,762	138,972	37,192	29,010	-	-	6,056,936
Total assets	<u>80,865,769</u>	<u>1,920,467</u>	<u>513,949</u>	<u>400,897</u>	-	-	<u>83,701,082</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A. Fair value of financial assets and liabilities

	December 31, 2015		In thousands of Denars December 31, 2014	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents	16,896,236	16,896,236	18,459,379	18,459,379
Trading assets	329,981	329,981	293,003	293,003
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	172,202	172,202	251,665	251,665
Placement with, and loans to other customers	55,575,859	55,575,859	51,408,295	51,408,295
Investment securities	10,488,640	10,488,640	11,765,150	11,765,150
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	-	-	-	-
Other receivables	131,909	131,909	141,786	141,786
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	83,594,827	83,594,827	82,319,278	82,319,278
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	731,949	731,949	293,181	293,181
Deposits from other customers	67,103,738	67,103,738	65,906,558	65,906,558
Issued debt securities	-	-	-	-
Borrowings	745,600	745,600	854,848	854,848
Subordinated debt	-	-	2,775,970	2,775,970
Income tax liabilities (current)	76,451	76,451	172,665	172,665
Differed tax liabilities	-	-	-	-
Other liabilities	1,942,140	1,942,140	1,311,715	1,311,715
	70,599,878	70,599,878	71,314,937	71,314,937

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Levels of fair value of financial assets and liabilities, measured at fair value

B.1 Levels of fair value of financial assets and liabilities, measured at fair value

	Note	In thousands of Denars			
		Level 1	Level 2	Level 3	Total
Current year, 2015					
Financial assets measured at fair value					
Trading assets	19	329,981	-	-	329,981
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	53,421	-	13,817	67,238
Total		383,402	-	13,817	397,219
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-
Previous year, 2014					
Financial assets measured at fair value					
Trading assets	19	293,003	-	-	293,003
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	52,681	-	24,407	77,088
Total		345,684	-	24,407	370,091
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Level of fair value of financial assets and liabilities, measured at fair value (continued)

B.2 Transfers between fair value level 1 and 2

	<u>Current year, 2015</u>		<u>Previous year, 2014</u>	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
Financial assets measured at fair value				
Trading assets	-	-	-	-
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in securities, available for sale	-	-	-	-
Total	-	-	-	-
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Total	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Levels of fair value of financial assets and liabilities, measured at fair value (continued)

B.3 Reconciliation of the Movements in Fair Values Measured at Level 3 During the Year

	Assets for trading	Financial assets at fair value through profit and loss account designated as such at initial recognition	Investments in securities available –for-sale	Total assets	Liabilities for trading	In thousands of Denars	
						Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
Balance at January 1, 2014							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not recognized in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2014	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2014	-	-	-	-	-	-	-
Balance at January 1, 2015							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2015	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2015	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015**5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)****B Levels of fair value of financial assets and financial liabilities, measured at fair value (continued)***a) Cash and cash equivalents*

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRM, which mature *shortly*.

b) Held-for-trading financial assets

Fair value as determined by reference to market prices equal to their carrying amount.

c) Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and demand placements with banks is their carrying amount. The smaller portion of the time deposits are fixed interest bearing deposits, the estimated fair value of which is determined based on discounting cash flow using interest rates for similar placements.

d) Placements with and loans to customers

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate (over 95%). The remaining part of the loans with fixed interest rate relates to "teaser loans", for which the fair value is estimated by the Bank based on the discounted cash flow.

e) Investment in securities

The fair value of investments in held-to-maturity financial assets is their carrying amount having regard to the fact that their carrying amount is determined on the basis of discounted cash flows. The fair value of investments in available-for-sale financial assets is determined on the basis of quoted market prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

f) Other receivables

Other receivables approximate their fair value as they will mature *shortly*.

g) Deposits from banks

The fair value of demand and time deposits is their carrying amount.

h) Deposits from other customers

The fair value of demand deposits and time deposits with floating interest rate is their carrying amount. The estimated fair value of the deposits with fixed interest rate is based on discounted cash flows using the interest rate for similar deposits with similar maturity.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B Levels of fair value of financial assets and financial liabilities, measured at fair value (continued)

i) Loans payable (including subordinated debt)

Subordinated debt represents the major part of this position. This loan is with floating interest rate. The remaining part relates to the loans from specific sources for which the market interest rate can not be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

j) Other liabilities

Other liabilities approximate their fair value as they will mature shortly.

6. NET INTEREST INCOME/(EXPENSE)

A. Structure of interest income and expenses by category of financial instruments

	In thousands of Denars	
	Current year 2015	Previous year 2014
Interest income		
Cash and cash equivalents	179,408	232,295
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	18,499	21,525
Placements with and loans to customers	3,857,991	3,830,193
Investments in securities	279,343	388,843
Other receivables	6,689	12,735
(Allowance for impairment of income interest, on net-basis)	(46,518)	(70,342)
Collected previously written-off interest	205,897	257,466
Total interest income	4,501,309	4,672,715
Interest expense		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	2,691	-
Deposits from other customers	1,062,767	1,451,854
Issued debt securities	-	-
Borrowings	8,968	9,960
Subordinated debt	52,552	75,014
Other liabilities	3,642	5,353
Total interest expense	1,130,620	1,542,181
Net interest income / (expense)	3,370,689	3,130,534

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

6. NET INTEREST INCOME/(EXPENSE) (continued)

B. Sector analysis of interest income and expenses by sector

	In thousands of Denars	
	current year 2015	previous year 2014
Interest income		
Non-financial companies	1,181,474	1,181,074
Government	279,512	389,034
Non-profit institutions servicing households	200	290
Banks	18,550	22,055
Other financial companies (non-banking)	183,660	241,698
Households	2,678,527	2,651,440
Non-residents	6	-
(Allowance for impairment of interest income, on net-basis)	(46,518)	(70,342)
Collected previously written-off interest	205,897	257,466
Total interest income	4,501,308	4,672,715
Interest expense		
Non-financial companies	120,208	206,367
Government	2,454	3,966
Non-profit institutions servicing households	5,198	10,888
Banks	9,572	8,198
Other financial companies (non-banking)	28,846	29,561
Households	898,801	1,192,245
Non-residents	65,541	90,956
Total interest expense	1,130,620	1,542,181
Net interest income / (expense)	3,370,688	3,130,534

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

7. NET FEE AND COMMISSION INCOME/(EXPENSE)

A. Structure of fee and commission income and expenses by financial activity

	In thousands of Denars	
	current year 2015	previous year 2014
Fee and commission income		
Financing	116,217	103,811
Payment operations		
domestic	314,702	354,367
international	91,312	87,814
L/Cs and L/Gs	64,186	68,069
Brokerage operations	1,296	1,556
Asset management	386	431
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	367,703	349,708
Deposit operations	1,175	1,233
Renting safe-deposit-boxes	6,825	7,886
Third party accounts collection	9,945	10,727
Other	59,941	67,472
Total fee and commission income	1,033,688	1,053,074
Fee and commission expense		
Financing	-	-
Payment operations		
domestic	71,690	64,654
international	18,918	15,670
L/Cs and L/Gs	-	-
Brokerage operations	118	246
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	7,861	8,992
Total fee and commission expense	98,587	89,562
Net fee and commission income / (expense)	935,101	963,512

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

7. NET FEE AND COMMISSION INCOME/(EXPENSE) (continued)

B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current year 2015	previous year 2014
Fee and commission income		
Non-financial companies	534,450	582,545
Government	4,098	3,291
Non-profit institutions servicing households	126	155
Banks	16,304	19,278
Other financial companies (non-banking)	-	-
Households	454,299	421,317
Non-residents	24,411	26,488
Total fee and commission income	1,033,688	1,053,074
Fee and commission expense		
Non-financial companies	5,646	5,575
Government	-	-
Non-profit institutions servicing households	-	-
Banks	68,529	57,995
Other financial companies (non-banking)	24,412	25,992
Non-residents	-	-
Total fee and commission expense	98,587	89,562
Net fee and commission income / (expense)	935,101	963,512

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

8. NET TRADING INCOME

	In thousands of Denars	
	current year 2015	previous year 2014
<i>Trading assets</i>		
Profit/(loss) from the changes in fair value of debt securities, on net-basis		
realized	6	-
unrealized	(2,655)	(2,795)
Profit/(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	11,531	39,969
Income from dividend from trading assets	1,670	1,462
Income from interest from trading assets	2,755	3,238
<i>Trading liabilities</i>		
Profit/(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit/(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit/(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit/(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	-	-
Net trading income	13,307	41,874

NOTES TO THE FINANCIAL STATEMENTS

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9. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

	In thousands of Denars current year 2015	previous year 2014
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
Net income from other financial instruments carried at fair value	-	-

NOTES TO THE FINANCIAL STATEMENTS

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10. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	In thousands of Denars	
	current year 2015	previous year 2014
Realized net foreign exchange gains/(losses)	94,749	105,670
Non-realized net foreign exchange gains/(losses)	-	-
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	5,790	5,784
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis	-	-
other foreign exchange gains/(losses), on net basis	(28,869)	(31,544)
Net foreign exchange gains/(losses)	71,670	79,910

11. OTHER OPERATING INCOME

	In thousands of Denars	
	current year 2015	previous year 2014
Profit from sales of assets available for sale	196	387
Dividend from equity instruments available for sale	4,500	4,974
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
property and equipment	39,496	8,719
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	4,079	2,005
Income from won court disputes	18,018	13,738
Collected previously written-off receivables	125,951	133,858
Release of special reserves and provisions for:		
off-balance sheet credit exposures	-	-
contingent liabilities based on court disputes	-	-
pensions and other benefits for employees	-	-
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
early withdrawal of deposits of non-residents	39,614	30,307
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	1,924	2,694
other income	15,663	12,681
Total other operating income	249,441	209,363

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

12. IMPAIRMENT LOSSES OF FINANCIAL ASSETS, NET

In thousands of Denars

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total
December 31, 2015								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment,	2,197	850,946	-	-	8,883	8,413	8,587	879,026
(Release of allowance for impairment)	(844)	(339,146)	-	-	(8,070)	(2,921)	(12,859)	(363,840)
	<u>1,353</u>	<u>511,800</u>	<u>-</u>	<u>-</u>	<u>813</u>	<u>5,492</u>	<u>(4,272)</u>	<u>515,186</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment,	-	20,730	-	-	-	-	-	20,730
(Release of allowance for impairment)	-	(25,685)	-	-	-	-	-	(25,685)
	<u>-</u>	<u>(4,955)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,955)</u>
Total allowance for impairment of financial assets, on net-basis	<u>1,353</u>	<u>506,845</u>	<u>-</u>	<u>-</u>	<u>813</u>	<u>5,492</u>	<u>(4,272)</u>	<u>510,231</u>
December 31, 2014								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	22,199	888,430	-	-	23,650	7,768	18,914	960,961
(Release of allowance for impairment)	(26,394)	(260,629)	-	-	(24,220)	(2,467)	(18,797)	(332,507)
	<u>(4,195)</u>	<u>627,801</u>	<u>-</u>	<u>-</u>	<u>(570)</u>	<u>5,301</u>	<u>117</u>	<u>628,454</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	32,309	-	-	-	-	-	32,309
(Release of allowance for impairment)	-	(28,813)	-	-	-	-	-	(28,813)
	<u>-</u>	<u>3,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,496</u>
Total allowance for impairment of financial assets, on net-basis	<u>(4,195)</u>	<u>631,297</u>	<u>-</u>	<u>-</u>	<u>(570)</u>	<u>5,301</u>	<u>117</u>	<u>631,950</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

13. IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET

	In thousands of Denars					Total
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	
December 31, 2015						
Additional impairment loss	-	-	73,256	-	-	73,256
(Release of impairment loss)	-	-		-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	73,256	-	-	73,256
December 31, 2014						
Additional impairment loss	-	-	111,524	-	-	111,524
(Release of impairment loss)	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	111,524	-	-	111,524

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

14. PERSONNEL EXPENSES

	In thousands of Denars	
	current	previous
	year	year
	2015	2014
Short-term personnel benefits		
Salaries	443,468	442,564
Compulsory contributions for social and health insurance	215,933	212,625
Short-term paid leaves	-	-
Costs for temporary employment	18,209	14,155
Share in profit and remuneration	-	36
Non-monetary benefits	-	-
Other personnel benefits	87,211	61,066
	<u>764,821</u>	<u>730,446</u>
Post retirement benefits		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	43	423
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	31,389	26,789
	<u>31,432</u>	<u>27,212</u>
Total personnel expenses	<u>796,253</u>	<u>757,658</u>

The amounts referring to provisions for retirement benefits in the amount of Denar 490 thousand (2014: Denar 833 thousand) are presented in Note 38.

	current	previous
	year	year
	2015	2014
Average number of employees for the period	1,038	1,042
Number of permanent employees at year-end	1,050	1,046
Number of temporary employees at year-end	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

15. DEPRECIATION

	In thousands of Denars	
	current year 2015	previous year 2014
Depreciation of intangible assets		
Internally developed software	-	-
Software acquired from external suppliers	27,545	26,732
Other internally developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>27,545</u>	<u>26,732</u>
Depreciation of property and equipment		
Buildings	30,308	29,968
Means of transport	-	-
Furniture and equipment	40,509	41,225
Other equipment	1,063	1,799
Other items of property and equipment	1,446	1,445
Property and equipment leasehold improvements	7,974	10,571
	<u>81,300</u>	<u>85,008</u>
Total depreciation	<u>108,845</u>	<u>111,740</u>

16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current year 2015	previous year 2014
Losses from sale of assets available for sale	-	-
Software licensing expense	-	-
Deposit insurance premia	261,611	294,348
Premia on property and employee insurance	12,172	14,385
Materials and services	518,318	576,042
Administrative and marketing expense	114,346	124,910
Other taxes and contributions	3,209	4,612
Rental expense	58,339	60,983
Court dispute expense	6,486	9,093
Special reserve for off-balance sheet exposure, on a net basis	5,136	2,626
Provisions for pension and other employee benefits, on a net basis	490	833
Provisions for contingent liabilities based on court disputes, on a net basis	6,442	1,869
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	-	-
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	6,927	7,180
other costs	16,209	25,256
Total other operating expenses	<u>1,009,685</u>	<u>1,122,137</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

17. INCOME TAX

A. Expenses/(income) based on current and deferred income tax

	In thousands of Denars	
	current year 2015	previous year 2014
Current income tax		
Expenses/(income) for current income tax for the year	225,239	177,841
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	<u>225,239</u>	<u>177,841</u>
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total income tax expenses/(returns)	<u><u>225,239</u></u>	<u><u>177,841</u></u>

	In thousands of Denars	
	current year 2015	previous year 2015
Current income tax		
Recognized in income statement	225,239	177,841
Recognized in capital and reserves	-	-
	<u>225,239</u>	<u>177,841</u>
Deferred income tax		
Recognized in income statement	-	-
Recognized in capital and reserves	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total income tax expenses/(returns)	<u><u>225,239</u></u>	<u><u>177,841</u></u>

In accordance with the Income Tax Law which is in appliance for the fiscal 2014 and 2015, basis for taxation represents the realized gross profit (difference between the total income and expenditures) increased by certain costs that are not subject to taxation, or decreased by certain income, investments and similar which are not subject to taxation..

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

17. INCOME TAX (continued)

A. Expenses/(income) based on current and deferred income tax (continued)

In accordance with the previous Law on income tax, the accumulated in distributed profit for the period from 2009 to 2013 shall be subject to taxation at the moment of its distribution.

B. Reconciliation of the effective average tax rate with the applicable tax rate

	in %	In thousands of Denars	in%	In thousands of Denars
	current year 2015		previous year 2014	
Profit/(loss) before taxation	100,00	2,141,938	100,00	1,690,184
Income tax as per applicable tax rate	10,00	214,194	10,00	169,018
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0,54	11,495	0,55	9,320
Tax-exempted income	-	-	-	-
Tax exemptions unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	0,02	(450)	0,03	(497)
Total expenses/(return) on income tax	10,52	225,239	10,52	177,841
Average effective tax rate	10,52		10,52	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

17. INCOME TAX (continued)

B Income tax from other gains / (losses) in the period not disclosed in the Income Statement

	In thousands of Denars					
	Current year, 2015			Previous year, 2014		
	Before taxation	Expenditure/ return of income tax	Less Income tax	Before taxation	Expenditure/ return of income tax	Less Income tax
Revaluated reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against the cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk of net investments in foreign operations	-	-	-	-	-	-
Reserve of foreign exchange differences from investments in foreign operations	-	-	-	-	-	-
Share in other gains / (losses) of affiliates companies that are not shown in the Income Statement	-	-	-	-	-	-
Other gains / (losses) not shown in the Income Statement	-	-	-	-	-	-
Total other gains / (losses) in the period that are not shown in the Income Statement	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

18. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	current year 2015	previous year 2014
Cash on hand	1,385,231	1,335,657
Accounts and deposits with NBRM, besides mandatory FCdeposits	4,390,484	4,982,831
Current accounts and transaction deposits with foreign banks	1,838,307	1,477,781
Current accounts and transaction deposits with local banks	2,018	4,931
Treasury bills that may be traded in the secondary market	5,216,358	6,575,298
Government bills that may be traded in the secondary market	-	99,757
Time deposits up to 3 months	1,203,712	1,140,082
Other short-term highly liquid assets	338	368
Receivables based on interest (allowance for impairment loss)	- (1,426)	- (613)
Included in cash and cash equivalents for the needs of the Statement on cash flows	14,035,022	15,616,092
Mandatory FC deposits	2,818,887	2,802,187
Restricted deposits (allowance for impairment loss)	42,327 -	41,100 -
Total	16,896,236	18,459,379

	In thousands of Denars	
	current year 2015	previous year 2014
Movement of allowance for impairment		
On January 1	613	1,183
Allowance for impairment for the year		
Additional allowance for impairment	8,883	23,650
(release from allowance for impairment)	(8,070)	(24,220)
(foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
On December 31	1,426	613

Level of mandatory deposits in foreign currency is determined in the amount of 2.818.887 thousand of Denars (2014: 2,802.187 thousand of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with NBRM. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies are calculated interest amount of 0,1% per annum (2014: 0,1% per annum)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

18. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 4,390,484 thousand of Denars (2014: 4,982,831 thousand of Denars), represent mandatory reserve in Denars. On the mandatory reserves in Denars in 2014 and 2015 are not bear an interest.

Treasury bills that can be traded at the secondary market in the amount of 5,216,358 thousand of Denars (2014: 6,575,298 thousand of Denars) have been purchased from NBRM with maturity period of 35 days. Depending on maturity, interest rates on these bills are 3,25% (2014: 3,25%).

19. TRADING ASSETS

A Structure of trading assets by type of financial instrument

	In thousands of Denars current year 2015	previous year 2014
<i>Trading securities</i>		
<i>Debt securities for trading</i>		
Treasury bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	-	7,485
Corporate bonds	-	-
Other debt instruments	-	-
	-	7,485
Quoted	-	7,485
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	329,981	285,518
Other equity instruments	-	-
	329,981	285,518
Quoted	329,981	285,518
Unquoted	-	-
<i>Trading derivatives</i>		
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	-
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IAS 39 criteria	-	-
Total trading assets	329,981	293,003

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

TRADING ASSETS (continued)

B. Reclassified trading assets

B.1 Balance of the reclassified trading assets

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year, 2015		Previous year, 2014	
		Book amount on 31.12.2015	Fair value on 31.12.2015	Book amount on 31.12.2014	Fair value on 31.12.2014
Trading assets, reclassified in 2015 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2014 (previous year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-

The Bank trades in trading securities in order to generate profit from the short-term fluctuations in their stock price. The Bank is not able to exert significant influence over the companies in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these companies.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2015

19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.2 Profit and loss from reclassified trading assets

	In thousands of Denars					
	Reclassified in 2015 (Current year)		Reclassified in 2014 (previous year)			
	Income Statement 2015 (Current year)	Other profit /(loss) 2015 (Current year)	Income Statement 2015 (Current year)	Other profit /(loss)2015 (Current year)	Income Statement 2014 (Previous year)	Other profit /(loss)2014 (Previous year)
Period before reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Period after reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
- changes in the fair value on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

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19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.3 Profit or loss recognized in the Income Statement if assets have not been reclassified

	In thousands of Denars		
	Reclassified in 2015 (Current year)	Reclassified in 2014 (previous year)	
	Income Statement 2015 (Current year)	Income Statement 2015 (Current year)	Income Statement 2014 (Previous year)
Trading assets, reclassified in financial assets available-for-sale			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from banks			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from other customers			
- Net income from trading	-	-	-

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT, DETERMINED AS SUCH AT INITIAL RECOGNITION

	In thousands of Denars	
	current year 2015	previous year 2014
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
Total financial assets at fair value through the income statement determined as such at initial recognition	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

		<u>current year 2015</u>		<u>In thousands of Denars previous year 2014</u>	
		<u>derivative assets</u>	<u>(derivative liabilities)</u>	<u>derivative assets</u>	<u>(derivative liabilities)</u>
A.	Derivatives for protection against risk/Derivatives held for risk management				
A.1	<i>by type of variable</i>				
	Derivatives held for risk management				
	Agreements dependant on interest rate change	-	-	-	-
	Agreements dependant on exchange rate change	-	-	-	-
	Agreements dependant on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	Total derivatives held for risk management	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
A.2	<i>by type of protection against risk</i>				
	Protection against risk to fair value	-	-	-	-
	Protection against risk to cash flows	-	-	-	-
	Protection against risk to net investment in international operations	-	-	-	-
	Total derivatives held for risk management	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
B	Inherent derivatives				
	Agreements dependant on interest rate change	-	-	-	-
	Agreements dependant on exchange rate change	-	-	-	-
	Agreements dependant on changes in price of securities	-	-	-	-
	Other agreements that meet the IAS 39 criteria	-	-	-	-
	Total inherent derivatives	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total derivatives held for risk management	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

22. LOANS AND PLACEMENTS

22.1 PLACEMENTS WITH AND LOANS TO BANKS

	current year 2015		In thousands of Denars previous year 2014	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	206	-	206	-
foreign banks	32,774	-	31,160	-
Time deposits at maturity period of				
over 3 months				
domestic banks	-	-	-	-
foreign banks	-	162,884	97,870	144,535
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Receivables based on interests	217	-	420	-
Current maturity	-	-	-	-
Total placements with and loans to banks before allowance for impairment	33,197	162,884	129,656	144,535
(Allowance for impairment)	(23,879)	-	(22,526)	-
Total placements with and loans to banks less allowance for impairment	9,318	162,884	107,130	144,535

	In thousands of Denars	
	current year 2015	previous year 2014
Movements of allowance for impairment	22,526	26,721
As at January 1		
Allowance for impairment for the year	2,197	22,199
Additional allowance for impairment	(844)	(26,394)
(Release of allowance for impairment)	-	-
(Foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
As at December 31	23,879	22,526

Part of loans and advances with banks amounting to 20,913 thousand of Denars (2014: 20,945 thousand of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002.(Note 34.1).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

22. LOANS AND PLACEMENTS (continued)

22.1 PLACEMENTS WITH AND LOANS TO BANKS (continued)

Part of facilities with foreign banks are as well the restricted accounts totalling 162,884 thousand of Denars (2014: 145,434 thousand of Denars), which represent deposits with Barclays' Bank, London and Midland bank London, Great Britain, as collateral for VISA and Master credit card transactions. These funds are not available in Bank's daily operations.

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS

A. Structure of placements with and loans to customers by type of debtor

	current year 2015		In thousands of Denars previous year 2014	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	14,357,468	10,743,429	13,397,225	9,756,282
interest receivables	93,821	-	87,558	-
Government				
receivables upon principal	1,488	522	1,153	-
interest receivables	2	-	-	-
Non-profit institutions that serve households				
receivables upon principal	7	1,869	221	2,625
interest receivables	8	-	20	-
Financial companies, besides banks				
receivables upon principal	-	608	29	941
interest receivables	1	-	25	-
Households				
receivables upon principal				
housing loans	299,034	8,600,750	308,438	8,399,187
consumer loans	1,108,813	16,727,116	1,023,538	14,042,593
auto loans	58,451	124,653	64,289	256,052
mortgage loans	-	-	-	-
credit cards	852,846	7,143,158	875,515	7,486,979
other loans	172,240	1,630,438	156,594	1,582,561
interest receivables	107,839	-	108,724	-
Non-residents, besides banks				
receivables upon principal	602	304	-	-
interest receivables	120	-	-	-
Current maturity	5,569,508	(5,569,508)	5,781,773	(5,781,773)
Total placements with and loans to customers before allowance for impairment	22,622,248	39,403,339	21,805,102	35,745,447
(Allowance for impairment)	(105,054)	(6,344,674)	(100,046)	(6,042,208)
Total placements with and loans to customers less allowance for impairment	22,517,194	33,058,665	21,705,056	29,703,239

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

A. Structure of placements with and loans to customers by type of debtor (continued)

	In thousands of Denars	
	current year 2015	previous year 2014
	<u> </u>	<u> </u>
Movement of allowance for impairment on a separate basis		
As at 1 January	6,106,330	5,605,535
Allowance for impairment for the year		
Additional allowance for impairment	850,946	888,430
(Release of allowance for impairment)	(338,975)	(260,629)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(199,371)	(127,006)
As at 31 December	<u>6,418,930</u>	<u>6,106,330</u>
Movement of allowance for impairment on a group basis		
As at 1 January	35,924	32,428
Allowance for impairment for the year		
Additional allowance for impairment	20,730	32,309
(Release of allowance for impairment)	(25,856)	(28,813)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
As at 31 December	<u>30,798</u>	<u>35,924</u>
Total allowance for impairment for placements with and loans to customers	<u>6,449,728</u>	<u>6,142,254</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

B. Structure of placements with and loans to customers by type of security

	In thousands of Denars	
	current year 2015	previous year 2014
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	1,235,086	1,178,756
government securities	-	1,759
government unconditional guarantees	1,427,877	1,593,028
bank guarantees	23,405	65,926
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	799,862	1,156,647
Guarantees from individuals	-	-
Property pledge:		
private property (flats, houses)	12,529,875	11,990,038
commercial property	13,031,487	12,302,246
Pledge over movables	2,098,979	1,892,261
Other types of collateral	1,216,239	1,142,969
Unsecured	23,213,049	20,084,665
Total placements with and loans to customers less allowance for impairment	<u>55,575,859</u>	<u>51,408,295</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

Risks and uncertainties

The Management of the Bank has recorded provisions for impairment losses for all known and estimated risks as of the date of the financial statements. The Bank's portfolio contains a number of debtors whose ability to service and repay their debts has been influenced by the economic developments in the Republic of Macedonia. The portfolio also contains a number of debtors that are involved in restructuring processes that are expected to lead to either partial or complete recovery of the Bank's receivables. The receivables from such debtors were classified on the bases of the latest available information and expectations of the restructuring process effects.

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment and in the case of retail services the loans collateralization depends on the type of loan product. Depending on the classification of loans, the Management is placing maximal efforts for prompt realization of the collateral. In case this proves to be unsuccessful, it will be needed to make additional provisions for impairment losses in future.

The Bank's operation could be influenced by the financial trends in case of deterioration of the overall global and local economic environment. In 2015 and 2014, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems given the fact that it undertook measures of strengthening its capital base by retaining the income.

The Management of the Bank has adequately reacted to any developments on the market and the entire economy. Some of the undertaken measures are: limiting the long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening the monitoring of large customers and industrial sectors to which the Bank is mostly exposed, providing appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial market, whereat it is possible to have increase the collateral limits. The aforementioned is focusing on protection and development of the current and future customer/borrower/depositor base heading to achievement of the Bank's goals and objectives for 2015 and beyond.

Presently, the influence of the adverse economic trends at the global level and in the country has limited impact on the Bank's operations; however, the future unfavourable developments in certain industries may influence the customer's ability to service their liabilities, which may consequently impact the level of impairment of loans. Based on the aforementioned, any additional impairment, if any, cannot be determined at this stage with rational accuracy.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

23. INVESTMENTS IN SECURITIES

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

	In thousands of Denars	
	Current year 2015	Previous year 2014
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	6,493,345	6,771,110
Other instruments in the money market		
Government bonds	3,918,057	4,784,677
Corporate bonds	-	-
Other debt instruments	-	-
	<u>10,411,402</u>	<u>11,555,787</u>
Quoted		
Unquoted	10,411,402	11,555,787
<i>Equity instruments</i>		
Equity instruments issued by banks	3,476	3,476
Other equity instruments	355,644	349,704
	<u>359,120</u>	<u>353,180</u>
Quoted	53,421	53,271
Unquoted	305,699	299,909
<i>Total investment in financial instruments available for sale before allowance for impairment</i>	10,770,522	11,908,967
<i>(Allowance for impairment)</i>	<i>(281,882)</i>	<i>(276,092)</i>
<i>Total investment in financial instruments available for sale reduced by the allowance for impairment</i>	<u>10,488,640</u>	<u>11,632,875</u>
	Current year 2015	Previous year 2014
Movements of allowance for impairment		
Balance on January 1	276,092	270,308
Allowance for impairment for the year:		
Additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	5,790	5,784
(Written off receivables)	-	-
	<u>281,882</u>	<u>276,092</u>
Balance on December 31	<u>281,882</u>	<u>276,092</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2015

23. INVESTMENTS IN SECURITIES(continued)

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

B. Reclassified financial assets available-for-sale

B.1 Balance of the reclassified financial assets available-for-sale

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year 2015		Previous year 2014	
		Book value on 31.12.2015	Fair value on 31.12.2015	Book value on 31.12.2014	Fair value on 31.12.2014
Assets available-for-sale reclassified in 2015 (current year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2015 (previous year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-

B.2 Profit and loss from reclassified assets available-for-sale

	In thousands of Denars			
	Income Statement 2015	Other profit /(loss) 2015	Income Statement 2014	Other profit /(loss) 2014
Period before reclassification				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Period after reclassification				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

23. INVESTMENT IN SECURITIES (continued)

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

B. Reclassified financial assets available-for-sale (continued)

B.3 Profit or loss that would have been recognized if assets were not reclassified

	In thousands of Denars			
	Income Statement 2015 (current year)	Other profit /(loss)2015	Income Statement 2014 (previous year)	Other profit /(loss) 2014
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

23. INVESTMENT IN SECURITIES (continued)

23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	132,275
Corporate bonds	-	-
Other debt instruments	-	-
	<u> </u>	<u> </u>
	-	132,275
Quoted	-	132,275
Unquoted	-	-
	<u> </u>	<u> </u>
	-	-
<i>Total investment in financial instruments hold to maturity before allowance for impairment</i>	-	132,275
(Allowance for impairment)	-	-
	<u> </u>	<u> </u>
Total investment in financial instruments hold to maturity reduced by the allowance for impairment	<u> </u>	<u> </u>
	-	132,275

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
Movements of allowance for impairment		
Balance on January 1	-	-
Allowance for impairment for the year:		
additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	<u> </u>	<u> </u>
	-	-
Balance on December 31	<u> </u>	<u> </u>
	-	-

The government bonds on December 31, 2014 in amount of MKD 132,275 thousand was bonds issued by the Republic of Macedonia in exchange for the Bank's receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables from end beneficiaries by the Republic of Macedonia in the Bank. These bonds were fully realized during 2015.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

24. INVESTMENT IN ASSOCIATES

A. Bank's participation percentage in subsidiaries and associates

Name of subsidiaries and associates	Country	Share percentage in ownership		Percentage of voting share	
		Current year	Previous year	Current year	Previous year
		2015	2014	2015	2014
-	-	-	-	-	-

B. Financial data of associates – 100 %

Name of associates	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the fin. year
Current year 2015	-	-	-	-	-
Previous year 2014	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

25. OTHER RECEIVABLES

	In thousands of Denars	
	Current year	Previous year
	<u>2015</u>	<u>2014</u>
Trade receivables	44,967	46,675
Prepaid expenses	5,184	5,017
Diferred income	1,816	1,108
Fees and commissions receivables	58,681	54,022
Receivables from the employees	1,325	1,268
Advances for intangible assets	-	-
Advances for property and equipment	136	1,662
Other:		
Materials in stocks	13,424	7,197
Numismatic collections	9,708	9,723
Arka sub-branch (judicial process)	11,500	11,500
Receivables for disbursements to foreign VISA cards	60,086	74,495
Other	7,609	10,847
Total other receivables before allowance for impairment	214,436	223,514
(Allowance for impairment)	(82,527)	(81,728)
Total other receivables reduced for the allowance for impairment	131,909	141,786

	In thousands of Denars	
	Current year	Previous year
	<u>2015</u>	<u>2014</u>
Movements of allowance for impairment		
Balance on January 1	81,728	76,379
Allowance for impairment for the year:		
Additional allowance for impairment	17,000	26,682
(release of the allowance for impairment)	(15,780)	(21,264)
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(421)	(69)
Balance on December 31	82,527	81,728

26. COLLATERALIZED ASSETS

	In thousands of Denars	
	Current year	Previous year
	<u>2015</u>	<u>2014</u>
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and apartments	Other valuables	Total
Cost						
Balance on 1 st January 2014	6,343	812,834	34,953	179,465	1,558	1,035,153
Assets acquired during the year	44	42,516	-	145	-	42,705
(Sold during the year)	-	(59,792)	(12)	(5,365)	(216)	(65,385)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December 2014	6,387	795,558	34,941	174,245	1,342	1,012,473
Balance on 1 st January 2015	6,387	795,558	34,941	174,245	1,342	1,012,473
Assets acquired during the year	-	62	54	1,177	275	1,568
(Sold during the year)	-	(92,559)	-	(11,640)	-	(104,199)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December 2015	6,387	703,061	34,995	163,782	1,617	909,842
Impairment						
Balance on 1 st January 2014	4,627	367,674	33,683	110,003	1,342	517,329
Impairment loss during the year	359	97,885	252	13,028	-	111,524
(Sold during the year)	-	(29,934)	-	(1,682)	-	(31,616)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December 2014	4,986	435,625	33,935	121,349	1,342	597,237
Balance on 1 st January 2015	4,986	435,625	33,935	121,349	1,342	597,237
Impairment loss during the year	280	61,182	1,060	10,459	275	73,256
(Sold during the year)	-	(44,091)	-	(5,583)	-	(49,674)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December 2015	5,266	452,716	34,995	126,225	1,617	620,819
Current carrying amount						
Balance on 1 st January 2014	1,716	445,160	1,270	69,462	216	517,824
Balance on 31st December 2014	1,401	359,933	1,006	52,896	-	415,236
Balance on 31st December 2015	1,121	250,345	-	37,557	-	289,023

Assets acquired on the basis of outstanding claims consist of assets that are not used in the regular operations of the Bank, except in rare cases when the Bank uses them for its own activities. During 2015, the Bank recorded impairment losses on these assets in the total amount of Denar 73,256 thousand (2014: Denar 111,524 thousand).

During this period, the Bank sold 20 assets (2014: 21 assets) totaling MKD 49,154 thousand (2014: Denar 22,361 thousand), and takeover two objects (2014: 2 objects) value totaling Denar 862 thousand (2014: Denar 13,871 thousand). Activities are undertaken for the preparation for sale of the assets taken over in 2015 because the Bank's general policy is these facilities to be sold within a period of 3 years.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

28. INTANGIBLE ASSETS

A. Reconciliation of the current book value

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets	Total
Cost							
Balance at 1 January 2014	-	592,478	-	-	2,192	-	594,670
increases through new purchases	-	41,608	-	-	(366)	-	41,242
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2014	-	634,086	-	-	1,826	-	635,912
Balance at 1 January 2015	-	634,086	-	-	1,826	-	635,912
increases through new purchases	-	24,538	-	-	2,893	-	27,431
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2015	-	658,624	-	-	4,719	-	663,343
Depreciation and impairment							
Balance at 1 January 2014	-	522,356	-	-	-	-	522,356
Depreciation for the year	-	26,732	-	-	-	-	26,732
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
Balance at 31 December 2014	-	549,088	-	-	-	-	549,088
Balance at 1 January 2015	-	549,088	-	-	-	-	549,088
Depreciation for the year	-	27,545	-	-	-	-	27,545
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
Balance at 31 December 2015	-	576,633	-	-	-	-	576,633
Current book value at							
January 1, 2014	-	70,122	-	-	2,192	-	72,314
December 31, 2014	-	84,998	-	-	1,826	-	86,824
December 31, 2015	-	81,991	-	-	4,719	-	86,710

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

28. INTANGIBLE ASSETS (continued)

B. Carrying value of intangible assets where there is a limitations of ownership and / or pledged as collateral for the liabilities to the bank

	In thousands of Denars						
	<u>Internall developed software</u>	<u>Software bought from external suppliers</u>	<u>Other internally developed intangible assets</u>	<u>Other intangibl e assets</u>	<u>Intangible assets in preparation</u>	<u>Investment s in leased intangible assets</u>	<u>Total</u>
Current book value at							
December 31, 2014	-	-	-	-	-	-	-
December 31, 2015	-	-	-	-	-	-	-

On December 31, 2015 and 2014, the Bank has no intangible assets for which there is limitations of ownership and /or pledged as collateral for the liabilities to the Bank.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

29. REAL ESTATE AND EQUIPMENT

A. Reconciliation of the present carrying amount

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
Cost									
On 1 January 2014	-	1,172,803	5,841	1,108,391	66,466	57,759	30,659	135,685	2,577,604
Increases	-	27,437	-	39,954	469	90	11,022	3,261	82,233
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(41,716)	-	(8,193)	-	-	-	(10,298)	(60,207)
(entering through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	9,961	-	(13,495)	-	-	10,923	-	7,389
On December 31, 2014	-	1,168,485	5,841	1,126,657	66,935	57,849	52,604	128,648	2,607,019
On 1 January 2015	-	1,168,485	5,841	1,126,657	66,935	57,849	52,604	128,648	2,607,019
Increases	-	34,581	-	51,224	-	39	2,294	29,038	117,176
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(41,482)	(171)	-	-	(4,710)	(46,363)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	40,250	-	-	(40,250)	-	-
On December 31, 2015	-	1,203,066	5,841	1,176,649	66,764	57,888	14,648	152,976	2,677,832
Depreciation and impairment									
On 1 January 2014	-	459,185	5,841	1,019,485	53,372	21,612	-	117,732	1,677,227
Depreciation for the year	-	29,968	-	41,225	1,799	1,445	-	10,570	85,007
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(13,494)	-	(19,823)	-	-	-	(10,157)	(43,474)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	8,515	-	-	-	-	-	-	8,515
On December 31, 2014	-	484,174	5,841	1,040,887	55,171	23,057	-	118,145	1,727,275
On 1 January 2015	-	484,174	5,841	1,040,887	55,171	23,057	-	118,145	1,727,275
Depreciation for the year	-	30,308	-	40,509	1,063	1,446	-	7,974	81,300
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(41,482)	-	-	-	(4,331)	(45,813)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-	-
On December 31, 2015	-	514,482	5,841	1,039,914	56,234	24,503	-	121,788	1,762,762
Current carrying amount									
On January 1, 2014	-	713,618	-	88,906	13,094	36,147	30,659	17,953	900,377
On December 31, 2014	-	684,311	-	85,770	11,764	34,792	52,604	10,503	879,744
On December 31, 2015	-	688,584	-	136,735	10,530	33,385	14,648	31,188	915,070

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29. REAL ESTATE AND EQUIPMENT (continued)

B. Carrying amount of tangible assets for which there is a limit on ownership and / or pledged as collateral for the liabilities to the bank

	In thousands of Denars							Total	
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress		Investment in leased real estate and equipment
Current carrying amount									
On December 31, 2014	-	-	-	-	-	-	-	-	-
On December 31, 2015	-	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2015 includes assets with a net book value of Denar 28,699 thousand (2014: Denar 39,658 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

30.1 Current tax assets and current tax liabilities

	In thousands of Denars	
	Current year 2015	Previous year 2014
Income tax receivable (current)	-	-
Income tax payable (current)	76,451	172,665

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities

A. Recognized deferred tax assets and deferred tax liabilities

	31 December 2015			In thousands of Denars 31 December 2014		
	Deferred tax assets	Deferred tax liabilities	Net basis	Deferred tax assets	Deferred tax liabilities	Net basis
Derivative assets held for risk management	-	-	-	-	-	-
Loans to and receivables on banks	-	-	-	-	-	-
Loans to and receivables on other customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Real estate and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the income statement	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Hedging of cash flows	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the equity	-	-	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-	-	-

B. Unrecognized deferred tax assets

	In thousands of Denars	
	Current year 2015	Previous year 2014
Tax losses	-	-
Tax credits	-	-
Total unrecognized deferred tax assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities(continued)

C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in equity	Balance at December 31
31 December 2014				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
Total recognized deferred tax assets/(liabilities)	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities (continued)

C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year (continued)

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in equity	Balance at December 31
31 December 2015				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
Total recognized deferred tax assets/(liabilities)	-	-	-	-

31. NON-CURRENT ASSETS HELD FOR SALE AND GROUPS FOR DISPOSAL

A. Non-current assets held for sale

	In thousands of Denars	
	Current year 2015	Previous year 2014
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

31. NON-CURRENT ASSETS HELD FOR SALE AND GROUPS FOR DISPOSAL (continued)

B. Group for disposal

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
<i>Group of assets for disposal</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in associates	-	-
Income tax receivables	-	-
Other assets	-	-
Total group of assets for sale	<u> </u> -	<u> </u> -
 <i>Liabilities directly related to the group of assets for disposal</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
Total liabilities directly related to the group of assets for disposal	<u> </u> -	<u> </u> -

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

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
Profit/(loss) recognized from sale of held for sale assets and group for disposal	<u> </u> -	<u> </u> -

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

32. TRADING LIABILITIES

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
<i>Deposits from banks</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Deposits from other clients</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	<u> </u>	<u> </u>
	-	-
<i>Other financial liabilities</i>	-	-
<i>Derivatives for trading</i>		
Agreements depending on the change of interest rate	-	-
Agreements depending on changes in the exchange rate	-	-
Agreements depending on the change of the price of securities	-	-
Other agreements that meet the criteria of IAS 39	-	-
	<u> </u>	<u> </u>
Total liabilities held for trading	<u> </u>	<u> </u>
	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

33. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE INCOME STATEMENT,
DETERMINED AS SUCH AT INITIAL RECOGNITION

	Current year 2015		In thousands of Denars Previous year 2014	
	Current carrying amount	Agreed amount, payable at maturity	Current carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>	-	-	-	-
<i>Other liabilities</i>	-	-	-	-
Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

34. DEPOSITS

34.1 DEPOSITS FROM BANKS

	Current year 2015		In thousands of Denars Previous year 2014	
	short-term	long-term	short-term	long-term
Current accounts				
with domestic banks	4,407	-	2,589	-
with foreign banks	7,492	-	16,790	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	585,150	-	-	-
with foreign banks	112,749	-	252,803	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	20,913	-	20,945	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Interest payable on deposits				
with domestic banks	1,221	-	-	-
with foreign banks	17	-	54	-
Current maturity	-	-	-	-
Total deposits from banks	731,949	-	293,181	-

The restricted deposits with foreign banks in the amount of Denar 20,913 thousand (2014: Denar 20,945 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

34. DEPOSITS (continued)

34.2 DEPOSITS FROM OTHER CLIENTS

	In thousands of Denars			
	Current year 2015		Previous year 2014	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	8,249,414	-	7,056,062	-
Demand deposits	29,474	-	28,360	-
Time deposits	1,758,768	788,144	2,313,901	1,393,606
Restricted deposits	330,205	488,442	337,510	557,819
Other deposits	40,350	-	58,793	-
Interest payable on deposits	18,031	-	52,476	-
	<u>10,426,242</u>	<u>1,276,586</u>	<u>9,847,102</u>	<u>1,951,425</u>
State				
Current accounts	33,273	-	119,307	-
Demand deposits	-	-	-	-
Time deposits	-	-	-	-
Restricted deposits	345	116	86	-
Other deposits	-	-	-	-
Interest payable on deposits	1	-	-	-
	<u>33,619</u>	<u>116</u>	<u>119,393</u>	<u>-</u>
Non-profit institutions serving the households				
Current accounts	440,354	-	410,634	-
Demand deposits	-	-	-	-
Time deposits	159,092	49,992	227,682	97,782
Restricted deposits	2,499	912	3,036	1,411
Other deposits	-	-	-	-
Interest payable on deposits	1,300	-	1,964	-
	<u>603,245</u>	<u>50,904</u>	<u>643,316</u>	<u>99,193</u>
Financial companies, except banks				
Current accounts	54,623	-	43,633	-
Demand deposits	-	-	-	-
Time deposits	413,483	1,343,110	213,400	406,685
Restricted deposits	1	35,067	222	35,257
Other deposits	-	-	-	-
Interest payable on deposits	33,089	-	13,992	-
	<u>501,196</u>	<u>1,378,177</u>	<u>271,247</u>	<u>441,942</u>
Households				
Current accounts	12,729,102	-	11,753,980	-
Demand deposits	17,610	-	28,970	-
Time deposits	21,987,410	14,892,660	23,212,406	14,469,820
Restricted deposits	1,165,100	1,032,936	848,543	1,339,639
Other deposits	-	-	-	-
Interest payable on deposits	118,220	-	95,321	-
	<u>36,017,442</u>	<u>15,925,596</u>	<u>35,939,220</u>	<u>15,809,459</u>
Non-residents, except banks				
Current accounts	347,525	-	259,131	-
Demand deposits	5	-	102	-
Time deposits	241,964	238,032	227,668	213,154
Restricted deposits	56,767	18	54,961	26,078
Other deposits	-	-	-	-
Interest payable on deposits	6,304	-	3,167	-
	<u>652,565</u>	<u>238,050</u>	<u>545,029</u>	<u>239,232</u>
Current maturity	<u>11,056,762</u>	<u>(11,056,762)</u>	<u>7,844,120</u>	<u>(7,844,120)</u>
Total deposits from other clients	<u>59,291,071</u>	<u>7,812,667</u>	<u>55,209,427</u>	<u>10,697,131</u>

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December 31, 2015

35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	Current year 2015	Previous year 2014
	<u> </u>	<u> </u>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on deposits	-	-
	<u> </u>	<u> </u>
Total issued debt securities	<u> </u> -	<u> </u> -

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

36. BORROWINGS

A. Borrowings structure according to the type of liability and sector of the creditor

	Current year 2015		In thousands of Denars Current year 2014	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	578,122	-	681,218
Repo-transactions	-	-	-	-
Interest payable	1,237	-	1,449	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	10,689	149,398	15,689	149,399
Repo-transactions	-	-	-	-
Interest payable	197	-	1,136	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-residents, except banks				
Non-financial companies				
Loans payable	-	5,957	-	5,957
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Current maturity	180,011	(180,011)	214,103	(214,103)
Total loans payable	192,134	553,466	232,377	622,471

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

36. BORROWINGS (continued)

B. Borrowings according to the creditor

	In thousands of Denars			
	Current year 2015		Current year 2014	
	short-term	long-term	short-term	long-term
<i>Domestic sources:</i>				
Asset Management Agency - long-term loans amounting to Denar 149,399 thousand (2014: Denar 149,399 thousand) matures and is payable in January 2020 on one-off basis. Related fees for these loans are 1.5% per annum	197	149,398	1,136	149,399
Agency for underdeveloped regions – matures in 2015 and the interest rate is equal to 3.9% per annum (2014: 3.9% p.a.).	10,689	-	15,689	-
Macedonian Bank for Promotion and Development – with maturity deadline in 2019 and interest rate of 1.0% at annual level (2014: 1 %.)	1,237	578,122	1,449	681,218
	12,123	727,520	18,274	830,617
<i>Foreign sources:</i>				
Other banks	-	5,957	-	5,957
	-	5,957	-	5,957
Current maturities	180,011	(180,011)	214,103	(214,103)
Total loans payable	192,134	553,466	232,377	622,471

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

37. SUBORDINATED DEBT

	<u>Maturity</u>	<u>Interest rate</u>	<u>In thousands of Denars</u>	
			<u>current year 2015</u>	<u>previous year 2014</u>
<i>Liabilities under subordinated deposits</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
<i>Liabilities under subordinated loans</i>				
NBG Athens, Greece (principal EUR 20 million)	27.12.2016	3 month EURIBOR +0.85% p.a.	-	1,229,628
NBG Athens, Greece (principal EUR 25 million)	05.11.2018	3 month EURIBOR +3.7% p.a.	-	1,537,035
Interest payables			-	9,307
			-	2,775,970
<i>Liabilities under subordinated issued debt securities</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
Redeemable preferred shares			-	-
Total subordinated debt			-	2,775,970

Subordinated debt are related to funds which are aimed for strengthening the guarantee capital of the Bank, realization of the Bank's projected goals in accordance with the Business Plan of the Bank, increasing the competitive position and market share of the Bank, its profitability as well as for increasing the Tier 2 two coefficient of the capital adequacy and other qualitative and quantitative indicators of the Bank.

During 2015, the Bank repaid prematurely subordinated loans to the parent bank NBG Athens, Greece.

Achieved results and accumulated profit during the previous years made conditions for early repayment of said loans, on which the Bank obtained preliminary approval from the NBRM. Along with the early repayment of said two loans. The Bank Shareholders Assembly bring a Decision to limit a portion of retained earnings for distribution to shareholders in the amount of 2,159,353 thousand, which increased the credit resources of the Bank.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

38. SPECIAL RESERVE AND PROVISIONS

In thousands of Denars

	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuring	Provisions for unfavourable agreements	Other provisions	Total
Balance as at January 1, 2014	111,190	46,089	22,927	-	-	-	180,206
Additional provisions during the year	48,161	11,184	3,245	-	-	-	62,590
(utilized provisions during the year)	-	(374)	-	-	-	-	(374)
(provisions recovery during the year)	(45,535)	(9,315)	(2,412)	-	-	-	(57,262)
Balance at 31 December 2014	113,816	47,584	23,760	-	-	-	185,160
Balance as at January 1, 2015	113,816	47,584	23,760	-	-	-	185,160
additional provisions during the year	29,686	6,641	3,255	-	-	-	39,582
(utilized provisions during the year)	-	(29,310)	-	-	-	-	(29,310)
(provisions recovery during the year)	(24,550)	(199)	(2,765)	-	-	-	(27,514)
Balance as at 31 December 2015	118,952	24,716	24,250	-	-	-	167,918

The present value of provisions for pensions and other benefits to employees is determined by discounting the estimated future cash outflows.

The basic used actuarial assumptions are as following:

	<u>2015</u>	<u>2014</u>
Interest rate	4,35%	4,35%
Average salary increase	4,50%	4,50%
Inflation rate	2,50%	2,50%

Mortality rate:

By the study of mortality rates in the past years, we have established the representation of the expected rate of mortality in the Republic of Macedonia. We used a mortality table of Switzerland, which is a reasonable approximation of long-term mortality rate in the country.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

39. OTHER LIABILITIES

	In thousands of Denars	
	Current	Previous
	year	year
	2015	2014
Trade payables	56,881	15,262
Received advances	-	-
Fees and commissions liabilities	75	4,659
Accrued expenses	188,622	243,939
Deferred income from previous year	47,633	27,604
Short-term liabilities to employees	-	-
Short-term liabilities for employees benefits	-	-
Other:		
Preferred cumulative shares	90,978	90,978
Liabilities for dividend on preferred shares	3,799	4,716
Disputed VISA cards transactions	1,908	14,596
Unallocated inflows upon deposits and other inflows	1,475,891	845,798
Obligations to merchants for outstanding payments on credit cards	21,791	14,186
Overpaid fees of credit cards	27,024	20,909
Premature repayment of loans and other liabilities	27,538	29,068
Total other liabilities	<u>1,942,140</u>	<u>1,311,715</u>

As at December 31, 2015 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400.

The priority non-redeemable cumulative shares give right to priority in payment of dividends and no voting rights. Preferred shares do not participate equally in the distribution of the rest of the bankruptcy i.e. liquidation equity of the Bank.

On 31 December 2015, the Bank allocated an amount of Denar 2,729 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2015 (2014: Denar 3,639 thousand).

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

40. SUBSCRIBED CAPITAL

A. Subscribed capital

	In Denars		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Common shares	Non-redeemable preferred shares	Current year 2015	Previous year 2014	Current year 2015	Previous year 2014	Current year 2015	Previous year 2014
Balance as at 1 January – paid in full	201,1	400	17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
Balance as at 31 December – paid in full			17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220

B. Dividends

B.1 Announced dividends and paid dividends by the Bank

	In thousands of Denars	
	Current year 2015	Previous year 2014
Announced dividends and paid dividends for the year	3,646	4,396

Announced dividends and paid dividends for the year in the amount of Denar 3,646 thousand are allocated for the holders of the preferred shares of the net profit in 2014 (2014: Denar 4,396 thousand of net profit for 2013).

	In MKD	
	Current year 2015	Previous year 2014
Dividend per ordinary share	-	-
Dividend per preferred share	16.00	19.00

B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet)

	In thousands of Denars	
	Current year 2015	Previous year 2014
Announced dividends after 31 December	-	-

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December 31, 2015

40. SUBSCRIBED CAPITAL(continued)

B. Dividend (continued)

B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet) (continued)

	Current year 2015	In Denars Previous year 2014
Dividend per ordinary share	-	-
Dividend per preferred share	-	-

C. Shareholders whose stake exceeds 5% of the voting shares

The structure of shareholders whose stake exceeds 5% of the issued voting shares on December 31, 2015 and 2014 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

	In thousands of Denars		In %	
	current year 2015	previous year 2014	current year 2015	previous year 2014
	Subscribed capital (nominal value)	Subscribed capital (nominal value)	Voting right	Voting right
Shareholder				
National Bank of Greece	3,323,094	3,323,094	94.64%	94.64%
Other	188,148	188,148	5.36%	5.36%
Total	3,511,242	3,511,242	100.00%	100.00%

The share capital of the Bank as at December 31, 2015 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1.

The holders of ordinary shares are entitled to dividends when it will be released and have the right to one vote in the Shareholders Assembly of the Bank for the equivalent of one ordinary share, as well as the right to participate equally in the distribution of the rest of the bankruptcy or liquidation equity of the Bank.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015**40. SUBSCRIBED CAPITAL(continued)****Revaluation reserve for available-for-sale assets**

These revaluation reserves consist of unrealized gains and losses arising from changes in fair value of investment in securities available for sale until they are sold or it is determined that they are impaired, whereat the cumulative unrealized gain or loss previously recognized within the revaluation reserves are recognized in the net profit or loss for the period.

Statutory reserves

In accordance with the local regulations, the Bank is required to calculate and set aside at least 5% of the net profit for the year to statutory reserve until the level of the statutory reserve reaches an amount equal to one-tenth of the share capital. While the legal reserve shall not exceed the minimum amount it can only be used to cover losses. When the legal reserve exceeds the minimum level and after the recovery of all losses of annual financial statements, with the decision of the Shareholders Assembly, the excess can be used for distribution of dividend, if within that business year it had not reached the minimum amount prescribed by the Companies Act or of the Statute of the Bank.

Other reserves

Other reserves represent a fund that is determined on the basis of the Bank's internal policy and is used for various purposes, classified as restrictive.

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

41. EARNINGS PER SHARE

A. Basic earnings per share

	In thousands of Denars current year 2015	previous year 2014
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	1,916,699	1,512,343
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	<u>1,916,699</u>	<u>1,512,343</u>
Net profit attributable to ordinary shareholders	<u>1,916,699</u>	<u>1,512,343</u>
	Number of shares current year 2015	previous year 2014
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at 1 January	17,460,180	17,460,180
Effects of changes in the number of ordinary shares during the year	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares at 31 December	<u>17,460,180</u>	<u>17,460,180</u>
Basic earnings per share (in MKD)	<u>109,77</u>	<u>86,61</u>

B. Diluted earnings per share

	In thousands of Denars current year 2015	previous year 2014
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	1,916,699	1,512,343
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	<u>-</u>	<u>-</u>
Net gains to which the holders of common shares are entitled (diluted)	<u>1,916,699</u>	<u>1,512,343</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

41. EARNINGS PER SHARE (continued)

B. Diluted earnings per share (continued)

	In thousands of Denars	
	current year 2015	previous year 2014
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from issuance of potential common shares	-	-
Weighted average number of common shares (diluted) on 31 December	17,460,180	17,460,180
Diluted earnings per share (in MKD)	109,77	86,61

42. COMMITMENTS AND CONTINGENCIES

42.1 COMMITMENTS

	In thousands of Denars	
	current year 2015	previous year 2014
Uncovered payment guarantees		
in MKD	917,889	917,792
in foreign currency	632,973	800,220
in MKD with FC Clause	479,061	524,100
Uncovered performance guarantees		
in MKD	225,502	322,307
in foreign currency	81,121	198,083
in MKD with FC Clause	730,682	597,399
Uncovered letters of credit		
in MKD	-	-
in foreign currency	40,751	202,929
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1,617,656	1,522,502
Unutilized limits under credit cards	6,053,014	5,753,667
Taken liabilities for financing and unutilized credit limits	542,052	353,428
Other uncovered contingent liabilities	1,080	897
Issued covered letters of guarantee	333,104	434,226
Covered letters of credit	51,283	57,762
Other covered contingent liabilities	-	-
Total contingent liabilities before special reserve	11,706,168	11,685,312
(Provisions)	(118,952)	(113,816)
Total contingent liabilities reduced by special reserve	11,587,216	11,571,496

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

42. COMMITMENTS AND CONTINGENCIES (continued)

42.1 COMMITMENTS (continued)

Bank's contingent liabilities consist of liabilities in respect of guarantees, letters of credit, and unused overdrafts on current accounts, unused limits on credit cards and unused credit limits granted to legal entities.

From the total potential liabilities on the basis of covered and uncovered guarantees issued with maturity up to one year in the amount of Denar 1,812,559 thousand (2014: Denar 1,545,449 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2014: 1 year). The unused overdrafts on current accounts are short-term overdrafts.

Contingent liabilities in respect of unused overdrafts on current accounts and unused limits on credit cards are unsecured and are revocable in the event of deterioration of the creditworthiness of the debtor. The interest rates on current accounts and credit cards in 2015 are ranged from 10.13% to 11.25%.

Contingent liabilities of the Bank towards legal entities on the basis of guarantees and letters of credit are irrevocable, and unused credit limits granted to legal entities are subject to annual revision. Apart from the covered guarantees and letters of credit that are secured by deposit, the remaining uncovered guarantees and letters of credit, and unused credit limits granted to legal entities are secured by real estate mortgage, pledge on movable property, guarantees, etc.

Litigation

The Bank is involved in litigation from its regular operations. The amount of litigation cases against the Bank as of 31 December 2015, for which additional analyzes were made on the basis of which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank for that material losses could result in respect of these disputes amounted to Denar 24,716 thousand (2014: Denar 47,584 thousand). This amount includes the penalty interests, as well. Accordingly, in 2015, the Bank made provisions for impairment losses on the basis of litigations in the amount of Denar 6,641 thousand (2014: Denar 1,495 thousand).

42.2 CONTINGENCIES

	In thousands of Denars	
	current year	previous year
	2015	2014
	-	-
Total contingent assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year 2015			In thousands of Denars Previous year 2014		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
	<i>Administration of assets on behalf and for account of third parties</i>					
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	269,945	269,945	-	268,081	268,081	-
FC loans	262,669	262,669	-	237,594	237,594	-
Other MKD receivables	1,025,950	1,025,950	-	965,903	965,903	-
Other FC receivables	426,399	426,399	-	318,371	318,371	-
<i>Asset management on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other MKD claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
<i>Custody accounts</i>	6,019	6,026	(7)	25,378	25,382	(4)
<i>Other</i>	-	-	-	-	-	-
Total	<u>1,990,982</u>	<u>1,990,989</u>	<u>(7)</u>	<u>1,815,327</u>	<u>1,815,331</u>	<u>(4)</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

44. RELATED PARTY TRANSACTIONS

A. Balance Sheet

	In thousands of Denars					
	Parent company	Subsidiaries	Associates	Management personnel of the Bank	Other related parties	Total
31 December 2015						
Assets						
Current accounts	3,160	-	-	6,335	3,185	12,680
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	11,459	-	11,459
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	-	-
Investments in securities (Allowance for impairment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	3,160	-	-	17,794	3,185	24,139
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	-	21,067	141,101	162,168
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	-	-	-	21,067	141,101	162,168
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	-	-
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

44. RELATED PARTY TRANSACTIONS (continued)

A. Balance Sheet (continued)

	In thousands of Denars					
	Parent company	Subsidiaries	Associates	Managem ent personnel of the Bank	Other related parties	Total
31 December 2014						
Assets						
Current accounts	1,359	-	-	-	2,713	4,072
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	12,614	-	12,614
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	733,995	733,995
Investments in securities (Allowance for impairment)	-	-	-	-	-	-
Other assets	20,708	-	-	-	2	20,710
Total	22,067	-	-	12,614	736,710	771,391
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	-	30,242	254,188	284,430
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	2,775,970	-	-	-	-	2,775,970
Other liabilities	-	-	-	-	-	-
Total	2,775,970	-	-	30,242	254,188	3,060,400
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	-	-
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
2015 current year						
Income						
Interest income	-	-	-	695	1,022	1,717
Income from fees and commissions	-	-	-	-	20	20
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	42	-	42
Transfers between entities	-	-	-	-	-	-
Total	-	-	-	737	1,042	1,779
Expenses						
Interest expenses	52,552	-	-	688	416	53,656
Expenses for fees and commissions	-	-	-	-	22	22
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	34,467	-	-	26,212	-	60,679
Transfers between entities	-	-	-	-	-	-
Total	87,019	-	-	26,900	438	114,357

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions (continued)

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
2014 previous year						
Income						
Interest income	1	-	-	749	1,574	2,324
Income from fees and commissions	-	-	-	-	9	9
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	1	-	-	749	1,583	2,333
Expenses						
Interest expenses	75,014	-	-	-	268	75,282
Expenses for fees and commissions	-	-	-	-	19	19
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	33,741	-	-	28,715	-	62,456
Transfers between entities	-	-	-	-	-	-
Total	108,755	-	-	28,715	287	137,757

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2015	previous year 2014
Short-term benefits for employees	26,212	26,118
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	-	2,597
Total	26,212	28,715

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

44. RELATED PARTIES TRANSACTIONS (continued)

Related parties include the major shareholders, associates and jointly controlled entities, control/management with the Bank, or whose activities the Bank has an ability to control. All transactions with related parties arise in the normal course of the Bank's business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

45. LEASES

A. Lessor

A.1 Financial leases receivables

	Total financial leases receivables	In thousands of Denars Maturity period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2015 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
31 December 2014 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-

A.2 Irrevocable operating lease receivables

	Total financial leases receivables	In thousands of Denars Maturity period of period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2015 (current year)				
Net present value of minimum lease payments	4,080	4,080	-	-
31 December 2014 (previous year)				
Net present value of minimum lease payments	1,299	1,299	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

45. LEASES (continued)

A. Lessor (continued)

A.2 Irrevocable operating lease receivables(continued)

	In thousands of Denars						Total
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	
Value of the property given under operating lease:							
31 December 2015	-	33,385	-	-	-	-	33,385
31 December 2014	-	77,007	-	-	-	-	77,007
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Agreed lease receivables are related to part of the property taken over for recovery of arrears and a smaller part of own property which the Bank in the past period used for their own needs but is no longer used and it is rented to third parties. Lease agreements contain a clause for reconsideration of the agreed price of the rent according to the market conditions, in case the lessee has exercised its right to renew the lease. Future lease incomes are approximate to the level of current rental income.

B. LEASEE

B.1 Financial lease liabilities

	In thousands of Denars			
	Total financial lease liabilities	Maturity period for financial lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2015 (current year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2014 (previous year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

45. LEASES (continued)

B, Lessee (continued))

B.1 Financial lease liabilities(continued)

	In thousands of Denars						
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of the property taken under financial lease:							
Cost							
Balance as at 1 January 2014	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	-	-	-	-	-	-
Balance as at 1 January 2015	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2015	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
Balance as at 1 January 2014	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	-	-	-	-	-	-
Balance as at 1 January 2015	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2015	-	-	-	-	-	-	-
Current carrying amount							
на 1 January 2014	-	-	-	-	-	-	-
On 31 December 2014	-	-	-	-	-	-	-
On 31 December 2015	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

45. LEASES (continued)

B. Lessee (continued)

B.2 Irrevocable operating lease liabilities

	Total operational lease liabilities	In thousands of Denars Maturity period for operational lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2015 (current year)	-	-	-	-
Balance as at 31 December 2014 (previous year)	-	-	-	-

46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2015	previous year 2014
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-
	In thousands of Denars	
	current year 2015	previous year 2014
	number of options for shares	number of options for shares
	weighted average price of options for shares	weighted average price of options for shares
Balance as at 1 January	-	-
Changes during the year:		
options given to the members of Supervisory Board	-	-
options given to the members of Board of Directors	-	-
other given options	-	-
forfeited options	-	-
options with expired deadline	-	-
Balance as at 31 December	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2015

47. TAXATION RISK

Financial statements and accounting records of the Bank are subject to tax audit by the tax authorities for a period of 5 years subsequent to the reported tax year, and may impose additional tax liabilities. According to the estimates of the Bank's management they are not aware of any additional conditions that may cause potentially materially significant liabilities on this basis,

48. EVENTS AFTER THE DATE OF THE BALANCE SHEET

After the date of the balance sheet there are no events that require adjustments to the financial statements or appropriate disclosure.

49. EXCHANGE RATES

Official exchange rates used in the conversion of the balance sheet items denominated in foreign currency are as follows:

	<u>2015</u>	In MKD <u>2014</u>
1 USD	56,3744	50,5604
1 EUR	61,5947	61,4814