

STOPANSKA BANKA AD - SKOPJE

**Financial Statements and
Independent Auditors' Report
For the year ended December 31, 2014**

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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 legislative 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

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS ASSEMBLY AND SUPERVISORY BOARD
OF STOPANSKA BANKA AD - SKOPJE**

We have audited the accompanying financial statements (page 4 to 128) of Stopanska Banka AD – Skopje (hereinafter referred to as the Bank), which comprise the balance sheet as at December 31, 2014 and the income statement, the statement of comprehensive income, the statement of changes in equity and reserves and the statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Macedonia and regulations of the National Bank of the Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Auditing Standards and Audit Law of the Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements of Stopanska Banka AD - Skopje for the year ended December 31, 2014 are prepared, in all material respects, in accordance with the accounting regulative of the Republic of Macedonia.

(continued)

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS ASSEMBLY AND SUPERVISORY BOARD
OF STOPANSKA BANKA AD - SKOPJE**

Report on other legal and regulatory requirements

The Bank management is responsible for preparing the Annual Report (Appendix 1 to the Financial statements) and Annual Account (Appendix 2 to the Financial statements), in accordance with the Companies Law. They were accepted and approved by the Bank management on 10 April 2015. Our responsibility is to issue an opinion in relation to the consistency of the Annual Report with the Annual Account and financial statements of the Bank. We conducted our procedures in compliance with the Audit Law in the Republic of Macedonia and the International Audit Standard 720 – Responsibilities of the auditor in relation to other information in documents which contain audited financial statements . According to our opinion, the historical financial data disclosed in the Annual Report are consistent with the Annual Account and with the attached audited financial statements of the Bank for the year ended as at 31 December 2014.

Deloitte DOO

Skopje, 10 April 2015

Lidija Nanus
Director
Certified Auditor

Aleksandar Arizanov
Certified Auditor

INCOME STATEMENT**for the period from January 1, 2014 to December 31, 2014****(In thousands of Denars)**

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Interest income		4,672,715	4,625,397
Interest expense		(1,542,181)	(1,827,235)
Net interest income	6	3,130,534	2,798,162
Fee and commission income		1,053,074	999,071
Fee and commission expense		(89,562)	(89,487)
Net fee and commission income	7	963,512	909,584
Trading income, net	8	41,874	70,049
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	79,910	95,421
Other operating income	11	209,363	250,176
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(631,950)	(891,181)
Impairment losses on non-financial assets, net	13	(111,524)	(152,651)
Personnel expenses	14	(757,658)	(734,228)
Depreciation and amortization	15	(111,740)	(141,194)
Other operating expenses	16	(1,122,137)	(1,208,421)
Share in the loss of associated companies	24	-	-
Profit before tax		1,690,184	995,717
Income tax	17	(177,841)	(5,772)
Net profit for the year		1,512,343	989,945
Earnings per share	41		
Basic earnings per share (in MKD)		86,61	56,70
Diluted earnings per share (in MKD)		86,61	56,70

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 21, 2015 and adopted by the Bank's Supervisory Board on January 29, 2015.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos
Chief Executive Officer
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska
Chief Retail Officer
Member of the Board of Directors

Mr. Toni Stojanovski
Chief Risk Officer
Member of the Board of Directors

Mr. Theodoulos Skordis
Chief Corporate Officer
Member of the Board of Directors

STATEMENT OF COMPREHENSIVE INCOME
for the period from January 1, 2014 to December 31, 2014
(In thousands of Denars)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Profit / (loss) for the financial year		1,512,343	989,945
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		(1,016)	(22,134)
- 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		-	-
Income tax from other gains / (losses) not shown in the Income Statement	17	35	-
Total other gains / (losses) in the periods not shown in the Income Statement		(981)	(22,134)
Comprehensive income /(loss) for the financial year		<u>1,511,362</u>	<u>967,811</u>

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

The financial statements were approved by the Bank's Board of Directors on 21 January, 2015 and adopted by the Bank's Supervisory Board on January 29, 2015.

Signed on behalf of STOPANSKA BANKA AD - Skopje:

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Chairman of the Board of Directors

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Chief Corporate Officer
Member of the Board of Directors

BALANCE SHEET**As at December 31, 2014****(In thousands of Denars)**

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
ASSETS			
Cash and cash equivalents	18	18,459,379	16,616,744
Trading financial assets	19	293,003	233,064
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	251,665	310,654
Loans to customers	22.2	51,408,295	48,057,104
Investments in securities	23	11,765,150	11,977,024
Investments in associates	24	-	-
Income tax receivable (current)	30.1	-	-
Other receivables	25	141,786	213,736
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	415,236	517,824
Intangible assets	28	86,824	72,314
Property and equipment	29	879,744	900,377
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
Total assets		<u>83,701,082</u>	<u>78,898,841</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	293,181	189,764
Deposits from customers	34.2	65,906,558	63,168,377
Issued debt securities	35	-	-
Borrowings	36	854,848	944,151
Subordinated debt	37	2,775,970	2,777,763
Special reserve and provisions	38	185,160	180,206
Income tax payable (current)	30.1	172,665	888
Deferred tax liabilities	30.2	-	-
Other liabilities	39	1,311,715	948,069
Liabilities directly related to disposal group of assets	31	-	-
Total liabilities		<u>71,500,097</u>	<u>68,209,218</u>

BALANCE SHEET (continued)
As at December 31, 2014
(In thousands of Denars)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
EQUITY AND RESERVES			
Subscribed capital	40	3,511,242	3,511,242
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves	40	(25,675)	(24,694)
Other reserves	40	831,373	831,373
Retained earnings		7,884,045	6,371,702
Total equity and reserves		12,200,985	10,689,623
Total liabilities and equity and reserves		83,701,082	78,898,841
Contingent liabilities	42.1	11,571,496	10,748,359
Contingent assets	42.2	-	-

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

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Member of the Board of Directors

Mr. Theodoulos Skordis
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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, 2014 to December 31, 2014

(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, 2012 / January 1, 2013	3,511,242	-	-	-	(2,560)	-	-	-	-	830,290	-	1,083	1,615,458	3,766,299	-	9,721,812
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit /(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	989,945	-	-	989,945
Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	(22,134)	-	-	-	-	-	-	-	-	-	-	(22,134)
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	-	-	-	-	(22,134)	-	-	-	-	-	-	-	989,945	-	-	967,811
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, 2013	3,511,242	-	-	-	(24,694)	-	-	-	-	830,290	-	1,083	2,605,403	3,766,299	-	10,689,623

STOPANSKA BANKA AD - Skopje

STATEMENT OF CHANGES IN EQUITY AND RESERVES for the period from January 1, 2014 to December 31, 2014

(In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings			
	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	(Accumulated losses)	Total equity and reserves
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

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

Signed on behalf of STOPANSKA BANKA AD - Skopje:

Mr. Diomidis Nikolettopoulos
Chief Executive Officer
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska
Chief Retail Officer
Member of the Board of Directors

Mr. Toni Stojanovski
Chief Risk Officer
Member of the Board of Directors

Mr. Theodoulos Skordis
Chief Corporate Officer
Member of the Board of Directors

STATEMENT OF CASH FLOW
for the period from January 1, 2014 to December 31, 2014
(In thousands of Denars)

	Note	2014	2013
Cash flows (used in)/ generated from operating activities			
Profit before taxation		1,690,184	995,717
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	26,732	39,497
- property and equipment	15/29	85,008	101,697
Capital gain on sale of:			
- intangible assets		-	-
- property and equipment	11	(1,817)	(2,135)
- assets acquired through foreclosures	11	(6,902)	(17,789)
Capital loss on sale of:			
- intangible assets		-	-
- property and equipment		-	170
- assets acquired through foreclosures	16	-	-
Interest income	6	(4,672,715)	(4,625,397)
Interest expense	6	1,542,182	1,827,235
Net trading expense / (income)	8	(41,874)	(70,049)
Impairment losses of financial assets, on a net basis			
- Additional impairment losses	12	993,271	1,629,192
- Release of impairment losses	12	(361,320)	(738,011)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	111,524	152,651
- Release of impairment loss		-	-
Special reserves:			
- additional provisions	38	62,590	89,535
- release of provisions	38	(57,636)	(48,205)
Dividend income		(4,974)	(4,090)
Share in profit/(loss) of associates		-	-
Other rectifications – gains from sale of available for sale assets	11	14,816	(3,383)
Interest received		4,652,905	4,630,509
Interest paid		(1,525,646)	(1,819,688)
Operating profit before changes in operating assets		2,506,328	2,137,456
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		(59,939)	13,670
Derivative assets held for risk management		-	-
Due from banks and financial institutions		58,989	(17,661)
Loans to customers		(3,993,249)	(3,347,285)
Pledged assets		-	-
Assets acquired through foreclosure proceedings		8,838	14,492
Reserve requirements in foreign currency		73,007	(198,393)
Obligatory deposit with NBRM in accordance with special legislative		-	(16)
Other receivables		71,950	629
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		103,417	(75,198)
Deposits from customers		2,738,181	3,912,838
Other liabilities		363,646	274,753
Liabilities directly related to group of assets for disposal		-	-
Net cash flows (used in)/ generated from operating activities before tax		1,871,168	2,715,285
(Paid)/Received on income tax		(5,657)	(5,671)
Net cash flows (used in)/ generated from operating activities		1,865,511	2,709,614

STATEMENT OF CASH FLOW (continued)
for the period from January 1, 2014 to December 31, 2014
(In thousands of Denars)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Cash flows from investing activities			
(Investments in securities)		(10,366,729)	(13,847,926)
Inflows from sale of investments in securities		10,600,996	5,258,592
(Outflows for investments in subsidiaries and affiliates)		-	-
Inflows from sale of investments in subsidiaries and affiliates			
(Acquisition of intangible assets)		(41,191)	(26,758)
Inflows from sale of intangible assets		-	-
(Acquisition of property and equipment)		(81,674)	(58,005)
Inflows from sale of property and equipment		18,549	8,560
(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		4,973	17,788
Net cash flows from investing activities		134,924	(8,647,749)
Cash flows from financing activities			
(Repayment of issued debt securities)		-	-
Inflows from issued debt securities		-	-
(Repayment of loan payables)		(383,114)	(2,072,183)
Increase in loan payables		292,610	498,087
(Repayment of issued subordinated debt)		-	-
Inflows from issued subordinated debt		-	-
Inflows from issued shares/equity instruments within the period		-	-
Acquisition of treasury shares)		-	-
Disposal of treasury shares		-	-
(Paid dividends)		(4,396)	(5,211)
(Other outflows from financing activities)		-	-
Other inflows from financing activities		-	-
Net cash flows from financing activities		(94,900)	(1,579,307)
Effects from allowance for impairment of cash and cash equivalents		-	(1,653)
Effects from foreign exchange gains/losses of cash and cash equivalents		-	-
Net-increase/(decrease) of cash and cash equivalents		1,905,535	(7,519,095)
Cash and cash equivalents as at January 1		13,710,557	21,229,652
Cash and cash equivalents as at December 31		15,616,092	13,710,557

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

Signed on behalf of STOPANSKA BANKA AD - Skopje:

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Chairman of the Board of Directors

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Chief Corporate Officer
Member of the Board of Directors

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 65 branches (2013: 64 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% (2013:94.64%) 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:

Code of the securityISIN number

STB (common share)

MKSTBS101014

STBP (preferred share)

MKSTBS120014

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2014****1. INTRODUCTION (continued)****a) General Information (continued)**

The financial statements of the Bank for the year ended December 31, 2014 were approved by the Bank's Board of Directors on January 21, 2015 and adopted by the Bank's Supervisory Board on January 29, 2015.

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, 165/12, 50/13 and 110/13) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no. 169/10, 152/11, 54/12 and 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, 152/2013, 54/2013 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, 2014 of Denar 77,002 thousand (2013: Denar 90,409 thousand) has not been made and is included in Property and equipment and Assets acquired in foreclosures in the amount of Denar 34,792 thousand and Denar 42,210 thousand, respectively (2013: Denar 36,147 thousand and Denar 54,262 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, 2014****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, 2014

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 NBRMat 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, 2014****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, 2014

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, 2014

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, 2014 and December 31, 2013 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, 2014

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, 2014

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, 2014**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 ie 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 acquired after April 6th 2013, the Bank shows impairment means at least 20% of its initial carrying amount. If the impairment of the loan value collected by foreclosure procedure is higher than 20% than the initial value of the acquired asset, the difference is recognized within the revaluation reserves of the Bank.

After initial recognition, at least once per year the foreclosed assets are reviewed due to impairment losses and the same are measured with lower value of 80% from the previous accounting value and the appraised value decreased by the estimated sale cost. The impairment is 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, 2014**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, 2014****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, 2014****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.

Financial crisis

The ongoing financial crisis so far had a limited effect on the Bank's financial position and performance, mostly due to the Bank's internal risk management and capital management bylaws, as well as limits prescribed by the effective legislation. The Bank has adopted strict procedures for loan approval, appraisal and acceptance of collaterals and treasury operations. The Bank regularly monitors credit risk and develops contemporary capital monitoring practices in order to be able to support the desired risk profile and continued business growth at the same time.

The credit risk is appropriately managed and the Bank management believes that on the day of the Balance Sheet, the coverage of nonfunctional loans with the existing level of the impairment is adequate to absorb the potential losses from the credit portfolio. The strong capital base (with a capital adequacy ratio of 16.36%,) enables the Bank to face any reasonably foreseeable adversity. Taking into consideration that the Bank wasn't significantly affected by the financial crisis, Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

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 Bank maintains its accounting records and prepares its financial statements in accordance with legal regulations prescribed by the NBRM.

The accompanying financial statements are in compliance with the regulations prescribed by the NBRM, which are in force at any balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

In the period from 10 September 2013 until 23 November 2013 NBRM undertook on-site control targeted supervision related to credit, operational, Anti Money Laundering and Combat Terrorist Financing, Compliance and IT risk and compliance with new Decision on methodology for determining capital adequacy (control). On 11 April 2014 the Bank received the official NBRM Report on conducted on-site control. The NBRM Minutes revealed some weaknesses and recommendations in the areas that were subject to the on-site examination.

For the identified weaknesses the bank prepared Action Plan together with the activities for adequate improvements. The Action Plan, which was presented to the member of the Supervisory Board, includes detailed explanations, arguments, planned activities, responsibilities and deadlines for all the identified irregularities and weaknesses from the current on-site examinations by the NBRM. Close monitoring of the implementation of NBRM recommendations is conducted and reported to the Supervisory Board and NBRM on a quarterly basis.

In the period from 09 September 2014 to 10 October 2014 NBRM conducted on-site control related compliance with the regulation (including f/x regulation, payment operations regulation, fast transfer of money etc.). Central Bank conducted control in two branches of the Bank (Gevgelija and Strumica). On January 13, 2015 was submitted to the Bank Minutes from the completed control. With the minutes are identified weaknesses and recommendations in the areas covered by the control. The Bank take appropriate action by preparing instructions and guidelines to improve the activities in areas where weaknesses are identified.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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, 2014****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, 2014

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 corporate clients to which the Bank is exposed to is reviewed at least on samyannual 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, 2014****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 for 2014 and 2013 move 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, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
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	251,665	310,654	44,410,643	39,845,128	11,626,037	11,310,509	132,275	667,319	10,037,959	8,857,204	4,200	10,174	5,303	20,257	8,845,790	7,930,996	75,313,872	68,952,241
B risk category	-	-	2,073,533	2,486,307	7,642	-	-	-	-	-	1,309	613	9,089	7,217	113,052	155,367	2,204,625	2,649,504
C risk category	-	-	2,245,962	1,715,630	-	-	-	-	-	-	2,193	2,126	-	29,363	40,361	20,153	2,288,516	1,767,272
D risk category	-	-	316,937	613,501	-	-	-	-	1,359	2,624	3,260	3,430	32,283	-	-	246	353,839	619,801
E risk category	22,320	26,515	5,393,218	4,868,733	275,288	269,504	-	-	-	-	42,794	36,008	-	29,102	80,277	74,313	5,813,897	5,304,175
	<u>273,985</u>	<u>337,169</u>	<u>54,440,293</u>	<u>49,529,299</u>	<u>11,908,967</u>	<u>11,580,013</u>	<u>132,275</u>	<u>667,319</u>	<u>10,039,318</u>	<u>8,859,828</u>	<u>53,756</u>	<u>52,351</u>	<u>46,675</u>	<u>85,939</u>	<u>9,079,480</u>	<u>8,181,075</u>	<u>85,974,749</u>	<u>79,292,993</u>
(Allowance for impairment and special reserve on an individual basis)	(22,320)	(26,515)	(6,107,620)	(5,605,882)	(276,092)	(270,308)	-	-	(613)	(1,183)	(44,902)	(40,100)	(36,826)	(36,255)	(106,387)	(104,990)	(6,594,760)	(6,085,233)
Carrying amount of separate significant exposures less the allowance for impairment and special reserve on an individual basis	<u>251,665</u>	<u>310,654</u>	<u>48,332,673</u>	<u>43,923,417</u>	<u>11,632,875</u>	<u>11,309,705</u>	<u>132,275</u>	<u>667,319</u>	<u>10,038,705</u>	<u>8,858,645</u>	<u>8,854</u>	<u>12,251</u>	<u>9,849</u>	<u>49,684</u>	<u>8,973,093</u>	<u>8,076,085</u>	<u>79,379,989</u>	<u>73,207,760</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
<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	-	-	3,110,256	4,165,903	-	-	-	-	-	-	267	39	-	15,422	2,605,249	2,678,474	5,715,772	6,859,838
(Allowance for impairment and special reserve on a group basis)	-	-	(34,634)	(32,216)	-	-	-	-	-	-	-	-	0	-28	(6,846)	(6,200)	(41,480)	(38,444)
Carrying amount of exposures assessed on a group basis less the allowance for impairment and special reserve on a group basis	-	-	3,075,622	4,133,687	-	-	-	-	-	-	267	39	-	15,394	2,598,403	2,672,274	5,674,292	6,821,394

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
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</i>																		
up to 30 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of mature receivables for which no allowance for impairment has been allocated</i>																		
non-mature receivables																		
Restructured receiv.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of non-mature receivable for which no allowance for impairment has been allocated</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
Total carrying amount of receivables with credit risk before the allowance for impairment and the special reserve	273,985	337,169	57,550,549	53,695,202	11,908,967	11,580,013	132,275	667,319	10,039,318	8,859,828	54,023	52,390	46,675	101,361	11,684,729	10,859,549	91,690,521	86,152,831
(Total allowance for impairment and special reserve)	(22,320)	(26,515)	(6,142,254)	(5,638,098)	(276,092)	(270,308)	-	-	(613)	(1,183)	(44,902)	(40,100)	(36,826)	(36,283)	(113,233)	(111,190)	(6,636,240)	(6,123,677)
Total carrying amount of receivables with credit risk less the allowance for impairment and special reserve	251,665	310,654	51,408,295	48,057,104	11,632,875	11,309,705	132,275	667,319	10,038,705	8,858,645	9,121	12,290	9,849	65,078	11,571,496	10,748,359	85,054,281	80,029,154

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
<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)	-	-	1,403,104	1,409,110	-	-	-	-	-	-	-	-	156,184	6,278	1,559,288	1,415,388
government securities	-	-	-	11,799	-	-	-	-	-	-	-	-	-	-	-	11,799
government unconditional guarantees	-	-	1,844,442	1,845,339	-	-	-	-	-	-	-	-	-	-	1,844,442	1,845,339
bank guarantees	-	-	59,971	152,938	-	-	-	-	-	-	-	-	29,499	58,418	89,470	211,356
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	5,811,405	941,123	-	-	-	-	-	-	-	-	1,179,303	-	6,990,708	941,123
Guarantees from individuals	-	-	-	353,201	-	-	-	-	-	-	-	-	-	2,030	-	355,231
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	33,135,214	28,575,915	-	-	-	-	-	-	-	-	586,683	9,128	33,721,897	28,585,043
commercial property	-	-	22,657,601	19,121,030	-	-	-	-	-	-	-	-	1,517,760	134,268	24,175,361	19,255,298
Pledge over movables	-	-	14,449,486	8,291,301	-	-	-	-	-	-	-	-	5,090,808	9,163	19,540,294	8,300,464
Other types of security	-	-	1,765,561	3,702,677	-	-	-	-	-	-	-	-	77,319	19,492	1,842,880	3,722,169
Total value of collateral of credit exposure assessed for impairment on an individual basis	-	-	81,126,784	64,404,433	-	-	-	-	-	-	-	-	8,637,556	238,777	89,764,340	64,643,210

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
<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)	-	-	-	200,563	-	-	-	-	-	-	-	-	-	32,346	-	232,909
government securities	-	-	-	1,749	-	-	-	-	-	-	-	-	-	-	-	1,749
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	11,795	-	-	-	-	-	-	-	-	-	13,160	-	24,955
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	-	2,246,342	-	-	-	-	-	-	-	-	-	755,286	-	3,001,628
Guarantees from individuals	-	-	-	61,511	-	-	-	-	-	-	-	-	-	-	-	61,511
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	-	1,716,574	-	-	-	-	-	-	-	-	-	141,289	-	1,857,863
commercial property	-	-	-	4,755,818	-	-	-	-	-	-	-	-	-	1,175,879	-	5,931,697
Pledge over movables	-	-	-	1,954,539	-	-	-	-	-	-	-	-	-	667,837	-	2,622,376
Other types of security	-	-	-	3,879,154	-	-	-	-	-	-	-	-	-	3,549,674	-	7,428,828
Total value of collateral of credit exposure assessed for impairment on a group basis	-	-	-	14,828,045	-	-	-	-	-	-	-	-	-	6,335,471	-	21,163,516

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
-	-	872,482	616,099	-	-	-	-	-	-	15	8	167	2,000	8,573	14,256	881,237	632,363	
-	-	68,868	116,710	-	-	-	-	-	-	4	10	13	379	62,684	23,311	131,569	140,410	
-	-	2,009,318	1,576,807	-	-	-	-	-	-	74	300	385	5,119	97,364	72,312	2,107,141	1,654,538	
-	-	694,140	711,418	-	-	-	-	-	-	3	-	133	2,310	36,692	37,982	730,968	751,710	
-	-	1,182,106	890,518	-	-	-	-	-	-	20	-	226	2,891	137,599	451,801	1,319,951	1,345,210	
-	-	3,466,954	3,191,827	-	-	-	-	-	-	1,242	2,594	664	10,363	633,154	650,187	4,102,014	3,854,971	
-	-	100,711	269,977	-	-	-	-	-	-	2,336	1,078	19	877	2,962	3,393	106,028	275,325	
-	-	1,837,613	2,157,384	-	-	-	-	-	-	-	-	352	7,004	87,338	32,980	1,925,303	2,197,368	
-	-	33,511	19,261	-	-	-	-	-	-	-	-	6	63	302	9,478	33,819	28,802	
-	-	1,369,831	1,560,740	-	-	-	-	-	-	37	348	262	5,067	2,108,857	1,367,633	3,478,987	2,933,788	
-	-	5,262,607	4,947,922	983	906	-	-	-	-	600	354	1,008	16,065	426,997	427,756	5,692,195	5,393,003	
-	-	855,532	675,124	-	-	-	-	-	-	224	96	164	2,192	231,982	197,385	1,087,902	874,797	
-	-	229,293	309,115	-	-	-	-	-	-	9	20	44	1,004	2,841	3,221	232,187	313,360	
-	-	223,310	79,982	-	-	-	-	-	-	3	18	43	260	1,970	11,933	225,326	92,193	
251,665	310,654	72,527	20	76,074	67,104	-	-	2,663,650	1,483,590	53	-	14	-	89,866	61,755	3,153,849	1,923,123	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
Activities related to real estate	-	-	444,541	317,648	-	-	-	-	-	-	-	-	85	1,031	120,120	462,370	564,746	781,049
Professional, scientific and technical activities	-	-	228,521	299,896	-	-	-	-	-	-	398	420	44	974	187,397	48,223	416,360	349,513
Administrative and support service activities	-	-	48,610	72,949	-	-	-	-	-	-	20	-	9	237	12,081	11,024	60,720	84,210
Public administration and defence, compulsory social security	-	-	-	-	11,555,818	11,241,695	132,275	667,319	7,375,055	7,375,055	-	-	1	-	-	15,036	19,063,150	19,299,105
Education	-	-	98,306	83,102	-	-	-	-	-	-	-	-	19	270	19,072	16,327	117,397	99,699
Activities of Health and Social Care	-	-	36,264	27,113	-	-	-	-	-	-	-	-	7	88	1,899	548	38,170	27,749
Arts, entertainment and recreation	-	-	61,306	94,942	-	-	-	-	-	-	-	280	12	308	36,081	35,554	97,399	131,084
Other service activities	-	-	15,636	25,395	-	-	-	-	-	-	1,232	663	3	82	3,141	2,710	20,012	28,850
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	-	-	32,196,308	30,013,155	-	-	-	-	-	-	2,850	6,101	6,169	6,494	7,262,524	6,791,184	39,467,851	36,816,934
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	251,665	310,654	51,408,295	48,057,104	11,632,875	11,309,705	132,275	667,319	10,038,705	8,858,645	9,121	12,290	9,849	65,078	11,571,496	10,748,359	85,054,281	80,029,154

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013	current year 2014	previous year 2013
<i>Geographical location</i>																		
Republic of Macedonia	-	-	51,408,295	48,057,104	11,632,875	11,309,703	132,275	667,319	7,391,455	6,496,697	9,121	12,290	9,849	65,078	11,571,496	10,696,527	82,155,366	77,304,718
EU member countries	251,665	310,654	-	-	-	2	-	-	2,647,250	2,361,948	-	-	-	-	-	3,819	2,898,915	2,676,423
Europe (other)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (more than 10% of total credit risk exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	48,013	-	48,013
Total	251,665	310,654	51,408,295	48,057,104	11,632,875	11,309,705	132,275	667,319	10,038,705	8,858,645	9,121	12,290	9,849	65,078	11,571,496	10,748,359	85,054,281	80,029,154

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2014****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 funding 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, 2014

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, 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	3,314,842	4,231,877	17,277,067	4,505,026	9,911,449	12,168,034	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	22,245,292	6,251,981	23,886,724	7,624,435	9,911,449	12,399,397	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	1,220,738	-	-	-	-	90,977	1,311,715
Total financial liabilities	26,902,519	6,913,502	23,328,564	9,578,509	4,036,820	555,023	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)	(383,357)	(2,458,091)	4,626,732	11,346,713	(610,614)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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, 2013

	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	16,616,744	-	-	-	-	-	16,616,744
Trading assets	217,272	-	8,476	7,316	-	-	233,064
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	698	-	143,381	-	-	166,575	310,654
Loans to customers	3,236,998	4,740,181	15,622,390	4,820,034	9,474,636	10,162,865	48,057,104
Investment securities	134,628	1,125,962	9,019,094	-	1,629,300	68,040	11,977,024
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-
Other receivables	213,736	-	-	-	-	-	213,736
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	20,420,076	5,866,143	24,793,341	4,827,350	11,103,936	10,397,480	77,408,326
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	189,764	-	-	-	-	-	189,764
Deposits from customers	24,001,416	7,403,637	23,632,596	5,484,245	2,418,121	228,362	63,168,377
Loans payable	209,833	15,183	141,748	180,153	397,234	-	944,151
Subordinated debt	-	9,755	-	-	2,768,008	-	2,777,763
Income tax liabilities (current)	888	-	-	-	-	-	888
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	857,091	-	-	-	-	90,978	948,069
Total financial liabilities	25,258,992	7,428,575	23,774,344	5,664,398	5,583,363	319,340	68,029,012
Off balance items							
Off balance assets	14,144	11,882	-	-	-	-	26,026
Off balance liabilities	7,662,527	413,004	1,510,286	504,456	400,751	368,525	10,859,549
Net liquidity gap	(12,487,299)	(1,963,554)	(491,289)	(1,341,504)	5,119,822	9,709,615	(1,454,209)

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2014****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, 2014 and 2013, 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, 2014 and 2013.

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, 2014

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 Banksportfolio.

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2014 and 2013.

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. SensitivityAnalysis 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, 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	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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, 2013				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2013)	-	9,897,712	54,810,434	18.06%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	225,408	10,123,120	55,035,895	18.39%
Denar to appreciate by 10% in relation of all other F/X	(225,408)	9,672,304	54,584,973	17.72%
Denar to depreciate by 20% in relation of all other F/X	450,817	10,348,529	55,261,356	18.73%
Denar to appreciate by 20% in relation of all other F/X	(450,817)	9,446,895	54,359,512	17.38%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	30,799	9,928,511	54,810,434	18.11%
Decreasing of interest rates by 200 b.p.	(30,799)	9,866,913	54,810,434	18.00%
Increasing of interest rates by 400 b.p.	61,598	9,959,310	54,810,434	18.17%
Decreasing of interest rates by 400 b.p.	(61,598)	9,836,114	54,810,434	17.95%
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 2014 and 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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

	2014				In thousands of Denars 2013			
	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, 2014

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	2014	2013
NET WEIGHTED POSITION FOR CURRENCY EUR (FKS+VKS+PKS)	EUR	22,747	17,947
NET WEIGHTED POSITION FOR CURRENCY MKD (FKS+VKS+PKS)	MKD	43,321	7,157
NET WEIGHTED POSITION FOR CURRENCY MKDcEUR (FKS+VKS+PKS)	MKDcEUR	399,097	195,482
NET WEIGHTED POSITION FOR other CURRENCIES (FKS+VKS+PKS)	Other	(3,269)	6,671
TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK’S ACTIVITY PORTFOLIO		461,896	227,257
OWN FUNDS		9,344,389	9,897,712
TOTAL WEIGHTED VALUE / OWN FUNDS		4.94%	2.30%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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, 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	-	-	145,435	242,405
Loans and receivables from other customers		21,188,047	2,127,977	21,073,118	1,566,158	2,744,360	2,520,929	51,220,589
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		31,258,267	4,148,082	27,639,200	4,685,567	2,744,360	2,666,364	73,141,840
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		30,659,389	4,710,055	25,267,041	4,423,365	425,817	123,577	65,609,244
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		31,033,149	7,476,718	25,422,156	4,586,417	702,912	150,545	69,371,897
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	2,515,819	3,769,943

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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, 2013								
ASSETS								
Cash and cash equivalents		15,442,132	-	-	-	-	-	15,442,132
Financial assets at fair value through profit and loss account designated as such at initial recognition		-	-	-	-	-	-	-
Loans and receivables from banks		-	-	143,381	-	-	112,842	256,223
Loans and receivables from other customers		1,504,410	19,425,004	21,237,499	1,794,834	2,754,150	1,016,212	47,732,109
Investments in securities		132,587	1,125,962	8,996,525	-	1,629,300	-	11,884,374
Other interest-sensitive unstated assets		-	-	-	-	-	-	-
Total interest-sensitive financial assets		17,079,129	20,550,966	30,377,405	1,794,834	4,383,450	1,129,054	75,314,838
LIABILITIES								
Financial liabilities at fair value through profit and loss account designated as such at initial recognition		-	-	-	-	-	-	-
Deposits of banks		189,761	-	-	-	-	-	189,761
Deposits of other customers		26,337,092	10,963,244	21,058,904	3,683,398	747,992	59,817	62,850,447
Issued debt securities		-	-	-	-	-	-	-
Borrowings		208,637	15,183	141,695	180,153	397,234	-	942,902
Subordinated liabilities and hybrid instruments		-	2,768,009	-	-	-	-	2,768,009
Other unspecified interest-sensitive liabilities		-	-	-	-	-	-	-
Total interest-sensitive financial liabilities		26,735,490	13,746,436	21,200,599	3,863,551	1,145,226	59,817	66,751,119
Net - balance position								
Off-balance sheet interest-sensitive assets positions		-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions		-	-	-	-	-	-	-
Net positions - off-balance sheetposition		-	-	-	-	-	-	-
Total net-position		(9,656,361)	6,804,530	9,176,806	(2,068,717)	3,238,224	1,069,237	8,563,719

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

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	48,814,341	29,990,575	2,163,333	1,351,029	82,319,278
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)	172,665	-	-	-	172,665
Deferred tax liabilities	-	-	-	-	-
Other liabilities	965,974	342,107	3,575	59	1,311,715
Total monetary liabilities	39,766,430	28,083,930	2,130,534	1,334,043	71,314,937
Net – position	9,047,911	1,906,645	32,799	16,986	11,004,341

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

In thousands of Denars
31 December 2013

	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	10,882,371	4,250,808	265,045	1,218,520	16,616,744
Trading assets	-	15,793	212,858	4,413	233,064
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	543	167,194	119,824	23,093	310,654
Placement with and loans to customers	22,747,819	23,941,718	1,367,067	500	48,057,104
Investments in securities	9,725,989	2,248,989	1	2,045	11,977,024
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	-	-	-	-	-
Other receivables	196,770	13,450	3,365	151	213,736
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	43,553,492	30,637,952	1,968,160	1,248,722	77,408,327
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	-	36,461	94,179	59,124	189,764
Deposits from customers	35,672,112	24,566,819	1,775,540	1,153,906	63,168,377
Issued Debt Securities	-	-	-	-	-
Borrowings	171,051	768,361	4,739	-	944,151
Subordinated debt	-	2,777,763	-	-	2,777,763
Income tax payable (current)	888	-	-	-	888
Deferred tax liabilities	-	-	-	-	-
Other liabilities	824,547	108,447	14,210	865	948,069
Total monetary liabilities	36,668,598	28,257,851	1,888,668	1,213,895	68,029,012
Net – position	6,884,894	2,380,101	79,492	34,827	9,379,314

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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.

In 2013 the National Bank of the Republic of Macedonia adopted a new Decision on the methodology for determining the capital adequacy, according to which the manner is prescribed for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk.

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. In 2013 the Bank was obliged for the first time to allocate capital to cover the operational risk. The calculation of the capital for currency risk was amended and is made to the net amount of aggregate foreign currency position taking into consideration of the calculation of the impairment. Furthermore, as was previously the case, in accordance with the new regulations 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, 2014

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, 2014 and 2013.

	In thousands of Denars	
	current year 2014	previous year 2013
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	4,596,589	4,596,589
Reserve fund	830,290	830,290
Retained earnings restricted for distribution to shareholders	3,766,299	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	(23,983)	(23,983)
Amount of allocated impairment and special reserves as a result of accounting delay	-	-
Unrealized loss from own instruments available for sale	-	-
Other deducted items	-	-
Initial capital	8,083,848	8,083,848

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

	In thousands of Denars current year 2014	previous year 2013
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	1,416	569
Hybrid capital instruments	-	-
Subordinated instruments	1,168,147	1,722,317
Amount of cumulative preferred shares and subordinated instruments that can be part of the additional capital I	1,259,125	1,813,295
Additional capital I	1,260,541	1,813,864
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	8,083,848	8,083,848
Additional capital I after deductible items	1,260,541	1,813,864
OWN ASSETS	9,344,389	9,897,712

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

3. CAPITAL ADEQUACY (continued)

Own assets

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, 2014 and 2013.

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Credit risk weighted assets		
Capital required for covering the credit risk	3,878,288	3,704,613
Credit risk weighted assets by applying standardized approach	48,478,603	46,307,661
Currency risk weighted assets		
Currency risk weighted assets	1,972,632	2,254,609
Aggregate foreign currency position	-	-
Net position in gold	157,811	180,369
Capital required for covering the currency risk	1,972,632	2,254,609
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	534,233	499,853
Operational risk weighted assets	6,677,908	6,248,164
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	57,129,143	54,810,434
Capital required for covering the risks	4,570,332	4,384,835
Own assets	9,344,389	9,897,712
Capital adequacy ratio	16.36%	18.06%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

4. SEGMENT REPORTING

A. Operating segments

In thousands of Denars
December 31, 2014

	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	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	(35,748)	(45,384)	-	(105)	(996)	(82,233)
Other expenses	(782,273)	(991,204)	-	(2,287)	(21,798)	(1,797,562)
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	12,058,153	-	-	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, 2014

4. SEGMENT REPORTING (continued)

A. Operating segments (continued)

In thousands of Denars
December 31, 2013

	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	Total
Net interest income /(expense)	1,263,653	1,205,012	329,497	-	-	2,798,162
Net fees and commissions income / (expense)	493,573	434,639	(23,100)	4,472	-	909,584
Net trading income	-	-	70,049	-	-	70,049
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	194,728	48,694	-	-	102,175	345,597
Income realized between segments	-	-	-	-	-	-
Total income by segments	1,951,954	1,688,345	376,446	4,472	102,175	4,123,392
Allowance for impairment of financial assets, on net basis	56,898	(1,063,045)	114,966	-	-	(891,181)
Impairment loss of non-financial assets, on net-basis	(62,084)	(58,697)	-	-	(31,870)	(152,651)
Depreciation	(57,425)	(54,292)	-	(13,240)	(16,237)	(141,194)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	(23,592)	(22,304)	-	(5,438)	(6,671)	(58,005)
Other expenses	(766,246)	(724,789)	-	(268,245)	(125,364)	(1,884,644)
Total expenses by segments	(852,449)	(1,923,127)	114,966	(286,923)	(180,142)	(3,127,675)
Financial result by segment	1,099,505	(234,782)	491,412	(282,451)	(77,967)	995,717
Income tax	-	-	-	-	(5,772)	(5,772)
Profit/(loss) for the financial year	1,099,505	(234,782)	491,412	(282,451)	(83,739)	989,945
Total assets by segment	17,570,693	49,118,060	12,207,453	-	-	78,896,206
Unallocated assets per segment	-	-	-	-	2,635	2,635
Total assets						78,898,841
Total liabilities by segment	44,904,737	23,300,204	-	-	-	68,204,941
Unallocated liabilities by segment	-	-	-	-	4,277	4,277
Total liabilities						68,209,218

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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, 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
Previous year, 2013						
Customer 1						
Income	1,076	146,628	-	-	-	147,704
(Expenses)	(14,431)	(85,809)	-	-	-	(100,240)
Customer 2						
Income	673	135,249	-	-	-	135,922
(Expenses)	(13,280)	(55,877)	-	-	-	(69,157)
Customer 3						
Income	673	78,592	-	-	-	79,265
(Expenses)	(10,427)	(35,282)	-	-	-	(45,709)
Customer 4						
Income	538	63,697	-	-	-	64,235
(Expenses)	(10,204)	(33,025)	-	-	-	(43,229)
Customer 5						
Income	538	47,480	-	-	-	48,018
(Expenses)	(9,624)	(28,744)	-	-	-	(38,368)
Total by segment	(54,468)	232,909	-	-	-	178,441

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

4. SEGMENT REPORTING(continued)

C. Geographic areas

In thousands of Denars
December 31, 2014

	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, 2014							
Total income	5,851,762	138,972	37,192	29,010	-	-	6,056,936
Total assets	80,865,769	1,920,467	513,949	400,897	-	-	83,701,082
Previous year, 2013							
Total income	5,841,996	165,391	9,825	22,902	-	-	6,040,114
Total assets	75,394,177	3,189,189	184,152	131,323	-	-	78,898,841

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A. Fair value of financial assets and liabilities

	December 31, 2014		In thousands of Denars December 31, 2013	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents	18,459,379	18,459,379	16,616,744	16,616,744
Trading assets	293,003	293,003	233,064	233,064
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	251,665	251,665	310,654	310,654
Placement with, and loans to other customers	51,408,295	51,408,295	48,057,104	48,057,104
Investment securities	11,765,150	11,765,150	11,977,024	11,977,024
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	-	-	-	-
Other receivables	141,786	141,786	213,736	213,736
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	82,319,278	82,319,278	77,408,326	77,408,326
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	293,181	293,181	189,764	189,764
Deposits from other customers	65,906,558	65,906,558	63,168,377	63,168,377
Issued debt securities	-	-	-	-
Borrowings	854,848	854,848	944,151	944,151
Subordinated debt	2,775,970	2,775,970	2,777,763	2,777,763
Income tax liabilities (current)	172,665	172,665	888	888
Differed tax liabilities	-	-	-	-
Other liabilities	1,311,715	1,311,715	948,069	948,069
	71,314,937	71,314,937	68,029,012	68,029,012

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

		In thousands of Denars			
	Note	Level 1	Level 2	Level 3	Total
Current 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		-	-	-	-
Previous year, 2013					
Financial assets measured at fair value					
Trading assets	19	233,064	-	-	233,064
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	43,632		24,407	68,040
Total		276,696	-	24,407	301,103
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, 2014

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

	Current year, 2014		Previous year, 2013	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
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, 2014

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

				In thousands of Denars			
	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	Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
Balance at January 1, 2013							
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, 2013	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2013	-	-	-	-	-	-	-
Balance at January 1, 2014							
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, 2014	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2014	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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, 2014

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 2014	Previous year 2013
Interest income		
Cash and cash equivalents	232,295	339,437
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	21,525	19,724
Placements with and loans to customers	3,830,193	3,794,038
Investments in securities	388,843	308,692
Other receivables	12,735	11,546
(Allowance for impairment of income interest, on net-basis)	(70,342)	(66,171)
Collected previously written-off interest	257,466	218,131
Total interest income	4,672,715	4,625,397
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	-	-
Deposits from other customers	1,451,854	1,735,152
Issued debt securities	-	-
Borrowings	9,960	10,416
Subordinated debt	75,014	74,431
Other liabilities	5,353	7,236
Total interest expense	1,542,181	1,827,235
Net interest income / (expense)	3,130,534	2,798,162

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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

B. Sector analysis of interest income and expenses by sector

	In thousands of Denars current year 2014	previous year 2013
Interest income		
Non-financial companies	1,181,074	1,164,791
Government	389,034	334,261
Non-profit institutions servicing households	290	879
Banks	22,055	19,779
Other financial companies (non-banking)	241,698	321,787
Households	2,651,440	2,631,940
Non-residents	-	-
(Allowance for impairment of interest income, on net-basis)	(70,342)	(66,171)
Collected previously written-off interest	257,466	218,131
Total interest income	4,672,715	4,625,397
Interest expense		
Non-financial companies	206,367	241,985
Government	3,966	5,948
Non-profit institutions servicing households	10,888	11,976
Banks	8,198	9,815
Other financial companies (non-banking)	29,561	41,702
Households	1,192,245	1,423,290
Non-residents	90,956	92,519
Total interest expense	1,542,181	1,827,235
Net interest income / (expense)	3,130,534	2,798,162

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

7. NET FEE AND COMMISSION INCOME/(EXPENSE)

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

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Fee and commission income		
Financing	103,811	106,634
Payment operations		
domestic	354,367	314,662
international	87,814	97,519
L/Cs and L/Gs	68,069	69,216
Brokerage operations	1,556	1,740
Asset management	431	425
Commission and creditor activities	-	142
Issue of securities	-	-
Card operations	349,708	333,712
Deposit operations	1,233	1,578
Renting safe-deposit-boxes	7,886	6,437
Third party accounts collection	10,727	9,485
Other	67,472	57,521
Total fee and commission income	1,053,074	999,071
Fee and commission expense		
Financing	-	-
Payment operations		
domestic	64,900	67,494
international	15,670	13,960
L/Cs and L/Gs	-	-
Brokerage operations	-	-
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	8,992	8,033
Total fee and commission expense	89,562	89,487
Net fee and commission income / (expense)	963,512	909,584

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

B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Fee and commission income		
Non-financial companies	582,545	566,755
Government	3,291	4,373
Non-profit institutions servicing households	155	148
Banks	19,278	16,779
Other financial companies (non-banking)	-	-
Households	421,317	382,072
Non-residents	26,488	28,944
Total fee and commission income	1,053,074	999,071
Fee and commission expense		
Non-financial companies	5,575	7,117
Government	-	7
Non-profit institutions servicing households	-	-
Banks	57,975	57,500
Other financial companies (non-banking)	26,012	24,863
Non-residents	-	-
Total fee and commission expense	89,562	89,487
Net fee and commission income / (expense)	963,512	909,584

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8. NET TRADING INCOME

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	33
unrealized	(2,795)	(1,861)
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	39,969	67,545
Income from dividend from trading assets	1,462	926
Income from interest from trading assets	3,238	3,406
<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	41,874	70,049

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

	In thousands of Denars	
	current year 2014	previous year 2013
<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	-	-

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10. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Realized net foreign exchange gains/(losses)	105,670	120,091
Non-realized net foreign exchange gains/(losses)	-	-
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	5,784	(13,053)
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis	-	-
other foreign exchange gains/(losses), on net basis	(31,544)	(11,617)
Net foreign exchange gains/(losses)	79,910	95,421

11. OTHER OPERATING INCOME

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Profit from sales of assets available for sale	387	3,976
Dividend from equity instruments available for sale	4,974	4,090
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
property and equipment	8,719	19,924
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	2,005	3,116
Income from won court disputes	13,738	10,689
Collected previously written-off receivables	133,858	151,118
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	30,307	39,660
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	2,687	7,951
other income	12,688	9,652
Total other operating income	209,363	250,176

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NOTES TO THE FINANCIAL STATEMENTS December 31, 2014

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, 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>
December 31, 2013								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	3,597	1,538,968	-	-	1,605	8,910	33,578	1,586,658
(Release of allowance for impairment)	(395)	(581,035)	-	-	(1,653)	(784)	(41,704)	(625,571)
	<u>3,202</u>	<u>957,933</u>	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>8,126</u>	<u>(8,126)</u>	<u>961,087</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	42,534	-	-	-	-	-	42,534
(Release of allowance for impairment)	-	(112,440)	-	-	-	-	-	(112,440)
	<u>-</u>	<u>(69,906)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,906)</u>
Total allowance for impairment of financial assets, on net-basis	<u>3,202</u>	<u>888,027</u>	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>8,126</u>	<u>(8,126)</u>	<u>891,181</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

13. IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET

						In thousands of Denars
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	Total
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
December 31, 2013						
Additional impairment loss	-	-	152,651	-	-	152,651
(Release of impairment loss)	-	-		-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	152,651	-	-	152,651

NOTES TO THE FINANCIAL STATEMENTS
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14. PERSONNEL EXPENSES

	In thousands of Denars current year 2014	previous year 2013
Short-term personnel benefits		
Salaries	442,564	447,382
Compulsory contributions for social and health insurance	212,625	213,515
Short-term paid leaves	-	-
Costs for temporary employment	14,155	14,680
Share in profit and remuneration	36	-
Non-monetary benefits	-	-
Other personnel benefits	61,066	58,122
	<u>730,446</u>	<u>733,699</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	27,212	529
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	-	-
	<u>27,212</u>	<u>529</u>
Total personnel expenses	<u><u>757,658</u></u>	<u><u>734,228</u></u>

The amounts referring to provisions for retirement benefits in the amount of Denar 833 thousand (2013: Denar 2,488 thousand) are presented in Note 38.

	current year 2014	previous year 2013
Average number of employees for the period	1042	1028
Number of permanent employees at year-end	1046	1045
Number of temporary employees at year-end	-	-

NOTES TO THE FINANCIAL STATEMENTS
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15. DEPRECIATION

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Depreciation of intangible assets		
Internally developed software	-	-
Software acquired from external suppliers	26,732	39,497
Other internally developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>26,732</u>	<u>39,497</u>
Depreciation of property and equipment		
Buildings	29,968	28,682
Means of transport	-	55
Furniture and equipment	41,225	54,415
Other equipment	1,799	2,197
Other items of property and equipment	1,445	1,444
Property and equipment leasehold improvements	10,571	14,904
	<u>85,008</u>	<u>101,697</u>
Total depreciation	<u>111,740</u>	<u>141,194</u>

16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current	previous
	year	year
	2014	2013
Losses from sale of assets available for sale	-	50
Software licensing expense	-	-
Deposit insurance premia	294,348	336,190
Premia on property and employee insurance	14,385	15,015
Materials and services	576,042	594,810
Administrative and marketing expense	124,910	112,935
Other taxes and contributions	4,612	3,691
Rental expense	60,983	63,405
Court dispute expense	9,093	11,657
Special reserve for off-balance sheet exposure, on a net basis	2,626	7,182
Provisions for pension and other employee benefits, on a net basis	833	2,488
Provisions for contingent liabilities based on court disputes, on a net basis	1,869	32,265
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	-	170
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	7,180	6,178
other costs	25,256	22,385
Total other operating expenses	<u>1,122,137</u>	<u>1,208,421</u>

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17. INCOME TAX

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

	In thousands of Denars current year 2014	previous year 2013
Current income tax		
Expenses/(income) for current income tax for the year	177,841	5,772
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>177,841</u>	<u>5,772</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>
Total income taxexpenses/(returns)	<u>177,841</u>	<u>5,772</u>

	In thousands of Denars current year 2014	previous year 2013
Current income tax		
Recognized in income statement	177,841	5,772
Recognized in capital and reserves	-	-
	<u>177,841</u>	<u>5,772</u>
Deferred income tax		
Recognized in income statement	-	-
Recognized in capital and reserves	-	-
	<u>-</u>	<u>-</u>
Total income taxexpenses/(returns)	<u>177,841</u>	<u>5,772</u>

In accordance with the amendments of the Income Tax Law in appliance for the fiscal 2014, 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. Due to those reasons, the distribution of profit after taxation is not subject to taxation in full, if it is aimed for distribution of dividend and other distributions of the profit, both in cash or non-cash.

NOTES TO THE FINANCIAL STATEMENTS
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17. INCOME TAX (continued)

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

The accumulated undistributed 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 2014		previous year 2013	
Profit/(loss) before taxation	100.00	1,690,184	100.00	995,717
Income tax as per applicable tax rate	10.00	169,018	10.00	99,572
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	0.55	9,320	0.69	6,877
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	(0,03)	(497)	(10,11)	(100,677)
Total expenses/(return) on income tax		177,841		5,772
Average effective tax rate	10.52		0.58	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2014

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, 2014			Previous year, 2013		
	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	-	-	-	-	-	-

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18. CASH AND CASH EQUIVALENTS

	In thousands of Denars current year 2014	previous year 2013
Cash on hand	1,335,657	1,229,271
Accounts and deposits with NBRM, besides mandatory FCdeposits	4,982,831	3,653,423
Current accounts and transaction deposits with foreign banks	1,477,781	1,168,427
Current accounts and transaction deposits with local banks	4,931	1,587
Treasury bills that may be traded in the secondary market	6,575,298	6,462,846
Government bills that may be traded in the secondary market	99,757	-
Time deposits up to 3 months	1,140,082	1,193,521
Other short-term highly liquid assets	368	246
Receivables based on interest (allowance for impairment loss)	- (613)	2,419 (1,183)
Included in cash and cash equivalents for the needs of the Statement on cash flows	15,616,092	13,710,557
Mandatory FC deposits	2,802,187	2,875,194
Restricted deposits (allowance for impairment loss)	41,100 -	30,993 -
Total	18,459,379	16,616,744

	In thousands of Denars current year 2014	previous year 2013
Movement of allowance for impairment		
On January 1	1,183	1,231
Allowance for impairment for the year		
Additional allowance for impairment	23,650	1,605
(release from allowance for impairment)	(24,220)	(1,653)
(foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
On December 31	613	1,183

Level of mandatory deposits in foreign currency is determined in the amount of 2.802.187 thousand of Denars (2013: 2.875.194 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 (2013: 0,1% per annum)

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December 31, 2014

18. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 4.982.831 thousand of Denars (2013: 3.653.423 thousand of Denars), represent mandatory reserve in Denars. The mandatory reserves in Denars bear an interest at a rate of 0% p.a. (2013: 1% p.a.).

Treasury bills that can be traded at the secondary market in the amount of 6.575.298 thousand of Denars (2013: 6.462.846 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% (2013: 3,75%).

Government bills that can be traded at the secondary market in amount of 99,757 thousands of Denars (2013: 0 thousands of Denars) have been purchased from the Ministry of Finance of the Republic of Macedonia with a maturity in the following three months. Depending on maturity, interest rates range from 1.70% to 4.25% (2013: 3.60% to 4.25%)

19. TRADING ASSETS

A Structure of trading assets by type of financial instrument

	In thousands of Denars	
	current year 2014	previous year 2013
<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	15,793
Corporate bonds	-	-
Other debt instruments	-	-
	<u>7,485</u>	<u>15,793</u>
Quoted	7,485	15,793
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	285,518	217,271
Other equity instruments	-	-
	<u>285,518</u>	<u>217,271</u>
Quoted	285,518	217,271
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	-	-
	<u>-</u>	<u>-</u>
Total trading assets	<u>293,003</u>	<u>233,064</u>

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TRADING ASSETS (continued)

B. Reclassified trading assets

B.1 Balance of the reclassified trading assets

	Reclassified amount (on the date of reclassification)	In thousands of Denars			
		Current year, 2014		Previous year, 2013	
		Book amount on 31.12.2014	Fair value on 31.12.2014	Book amount on 31.12.2014	Fair value on 31.12.2014
Trading assets, reclassified in 2014 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2013 (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, 2014

19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.2 Profit and loss from reclassified trading assets

	In thousands of Denars					
	Reclassified in 2014 (Current year)		Reclassified in 2013 (previous year)			
	Income Statement 2014 (Current year)	Other profit /(loss) 2014 (Current year)	Income Statement 2014 (Current year)	Other profit /(loss) 2014 (Current year)	Income Statement 2014 (Current year)	Other profit /(loss) 2014 (Current 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	-	-	-	-	-	-

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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 2014 (Current year)	Reclassified in 2013 (previous year)
	Income Statement 2014 (Current year)	Income Statement 2014 (Current year) Income Statement 2013 (Current 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 2014	previous year 2013
<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, 2014

21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

		current year 2014		In thousands of Denars previous year 2013	
		derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
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	-	-	-	-
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	-	-	-	-
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	-	-	-	-
	Total derivatives held for risk management	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

22. LOANS AND PLACEMENTS

22.1 PLACEMENTS WITH AND LOANS TO BANKS

	current year 2014		In thousands of Denars previous year 2013	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	206	-	205	-
foreign banks	31,160	-	80,249	-
Time deposits at maturity period of over 3 months				
domestic banks	-	-	-	-
foreign banks	96,971	145,434	145,769	110,454
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	544	-
foreign banks	-	-	-	-
Receivables based on interests	420	-	154	-
Current maturity	-	-	-	-
Total placements with and loans to banks before allowance for impairment	128,757	145,434	226,921	110,454
(Allowance for impairment)	(22,526)	-	(26,721)	-
Total placements with and loans to banks less allowance for impairment	106,231	145,435	200,200	110,454

	In thousands of Denars current year 2014	previous year 2013
Movements of allowance for impairment	26,721	23,519
As at January 1		
Allowance for impairment for the year		
Additional allowance for impairment	22,199	3,597
(Release of allowance for impairment)	(26,394)	(395)
(Foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
As at December 31	22,526	26,721

Part of loans and advances with banks amounting to 20,945 thousand of Denars (2013: 65,609 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).

In time deposits in foreign banks are included restricted accounts totalling 145,434 thousand of Denars (2013: 112,841 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS

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

	current year 2014		In thousands of Denars previous year 2013	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	13,397,225	9,756,282	11,756,317	9,925,892
interest receivables	87,558	-	68,785	-
Government				
receivables upon principal	1,153	-	1,145	1,097
interest receivables	-	-	5	-
Non-profit institutions that serve households				
receivables upon principal	221	2,625	805	3,337
interest receivables	20	-	25	-
Financial companies, besides banks				
receivables upon principal	29	941	-	-
interest receivables	25	-	-	-
Households				
receivables upon principal				
housing loans	308,438	8,399,187	215,482	8,014,495
consumer loans	1,023,538	14,042,593	882,298	11,938,727
auto loans	64,289	256,052	69,852	466,371
mortgage loans	-	-	-	-
credit cards	875,515	7,486,979	791,046	7,781,817
other loans	156,594	1,582,561	143,795	1,525,232
interest receivables	108,724	-	108,544	-
Non-residents, besides banks				
receivables upon principal	-	-	-	-
interest receivables	-	-	-	-
Current maturity	5,781,773	(5,781,773)	5,949,904	(5,949,904)
Total placements with and loans to customers before allowance for impairment	21,805,102	35,745,447	19,988,003	33,707,064
(Allowance for impairment)	(100,046)	(6,042,208)	(80,280)	(5,557,683)
Total placements with and loans to customers less allowance for impairment	21,705,056	29,703,239	19,907,723	28,149,381

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 2014	previous year 2013
Movement of allowance for impairment on a separate basis		
As at 1 January	5,605,535	4,913,612
Allowance for impairment for the year		
Additional allowance for impairment	888,430	1,538,968
(Release of allowance for impairment)	(260,629)	(581,035)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(127,006)	(266,010)
As at 31 December	6,106,330	5,605,535
Movement of allowance for impairment on a group basis		
As at 1 January	32,428	102,334
Allowance for impairment for the year		
Additional allowance for impairment	32,309	42,534
(Release of allowance for impairment)	(28,813)	(112,440)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
As at 31 December	35,924	32,428
Total allowance for impairment for placements with and loans to customers	6,142,254	5,637,963

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 2014	previous year 2013
<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)	1,178,756	1,166,067
government securities	1,759	2,317
government unconditional guarantees	1,593,028	1,761,460
bank guarantees	65,926	159,081
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	1,156,647	861,681
Guarantees from individuals	-	-
Property pledge:		
private property (flats, houses)	11,990,038	11,657,569
commercial property	12,302,246	11,368,124
Pledge over movables	1,892,261	2,143,416
Other types of collateral	1,142,969	1,416,294
Unsecured	20,084,665	17,521,095
Total placements with and loans to customers less allowance for impairment	51,408,295	48,057,104

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2014****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 2013 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 2014 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, 2014

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 2014	Previous year 2013
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	6,771,110	9,607,885
Other instruments in the money market		
Government bonds	4,784,677	1,633,780
Corporate bonds	-	-
Other debt instruments	-	-
	<u>11,555,787</u>	<u>11,241,665</u>
Quoted	-	-
Unquoted	11,555,787	11,241,665
<i>Equity instruments</i>		
Equity instruments issued by banks	3,476	3,476
Other equity instruments	349,704	334,872
	<u>353,180</u>	<u>338,348</u>
Quoted	52,681	43,632
Unquoted	300,499	294,716
Total investment in financial instruments available for sale before allowance for impairment	11,908,967	11,580,013
<i>(Allowance for impairment)</i>	<i>(276,092)</i>	<i>(270,308)</i>
Total investment in financial instruments available for sale reduced by the allowance for impairment	<u>11,632,875</u>	<u>11,309,705</u>

	In thousands of Denars	
	Current year 2014	Previous year 2013
Movements of allowance for impairment		
Balance on January 1	270,308	283,361
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	5,784	(13,053)
(Written off receivables)	-	-
Balance on December 31	<u>276,092</u>	<u>270,308</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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 2014		Previous year 2013	
		Book value on 31.12.2014	Fair value on 31.12.2014	Book value on 31.12.2014	Fair value on 31.12.2014
Assets available-for-sale reclassified in 2014 (current year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2013 (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 2014	Other profit /(loss) 2014	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, 2014

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 2014 (current year)	Other profit /(loss) 2014	Income Statement 2013 (previous year)	Other profit /(loss) 2013
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	-	-	-	-

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December 31, 2014

23. INVESTMENT IN SECURITIES (continued)

23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES

	In thousands of Denars	
	Current year 2014	Previous year 2013
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	132,275	667,319
Corporate bonds	-	-
Other debt instruments	-	-
	<u>132,275</u>	<u>667,319</u>
Quoted	132,275	667,319
Unquoted	-	-
	<u>-</u>	<u>-</u>
<i>Total investment in financial instruments hold to maturity before allowance for impairment</i>	132,275	667,319
(Allowance for impairment)	-	-
Total investment in financial instruments hold to maturity reduced by the allowance for impairment	<u>132,275</u>	<u>667,319</u>
	In thousands of Denars	
	Current year 2014	Previous year 2013
	<u>2014</u>	<u>2013</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>

Part of the government bonds in amount of MKD 132,275 thousand (2013: MKD 667,319 thousand) are 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 bear an interest rate of three month EURIBOR plus 1 p.p. and are repayable in 56 equal quarterly instalments commencing from 2001 to 2014.

NOTES TO THE FINANCIAL REPORTS
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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 2014	Previous year 2013	Current year 2014	Previous year 2013
-	-	-	-	-	-

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 2014	-	-	-	-	-
Previous year 2013	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
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25. OTHER RECEIVABLES

	In thousands of Denars	
	Current year	Previous year
	2014	2013
Trade receivables	46,675	101,361
Prepaid expenses	5,017	7,493
Diferred income	1,108	368
Fees and commissions receivables	54,022	52,390
Receivables from the employees	1,268	1,267
Advances for intangible assets	-	-
Advances for property and equipment	1,662	7,204
Other:		
Materials in stocks	7,197	9,124
Numismatic collections	9,723	9,730
Arka sub-branch (judicial process)	11,500	11,500
Receivables for disbursements to foreign VISA cards	74,495	75,535
Other	10,847	14,143
Total other receivables before allowance for impairment	223,514	290,115
(Allowance for impairment)	(81,728)	(76,379)
Total other receivables reduced for the allowance for impairment	141,786	213,736

	In thousands of Denars	
	Current year	Previous year
	2014	2013
Movements of allowance for impairment		
Balance on January 1	76,379	77,090
Allowance for impairment for the year:		
Additional allowance for impairment	26,682	42,488
(release of the allowance for impairment)	(21,264)	(42,488)
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(69)	(711)
Balance on December 31	81,728	76,379

26. COLLATERALIZED ASSETS

	In thousands of Denars	
	Current year	Previous year
	2014	2013
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2013	6,345	862,273	34,959	177,503	1,558	1,082,638
Assets acquired during the year	-	46,597	-	1,252	-	47,849
(Sold during the year)	-	(82,905)	-	(12,429)	-	(95,334)
(Transferred to own assets)	(2)	(13,131)	(6)	13,139	-	-
Balance on 31st December 2013	6,343	812,834	34,953	179,465	1,558	1,035,153
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
Impairment						
Balance on 1 st January 2013	4,025	268,748	33,355	89,006	1,288	396,422
Impairment loss during the year	602	127,660	328	24,007	54	152,651
(Sold during the year)	-	(28,734)	-	(3,010)	-	(31,744)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December 2013	4,627	367,674	33,683	110,003	1,342	517,329
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
Current carrying amount						
Balance on 1 st January 2013	2,320	593,525	1,604	88,497	270	686,216
Balance on 31st December 2013	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

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 2014, the Bank recorded impairment losses on these assets in the total amount of Denar 111,524 thousand (2013: Denar 152,651 thousand).

During this period, the Bank sold 21 assets (2013: 17 assets) totaling MKD 22,361 thousand (2013: Denar 59,664 thousand), and tookover two objects (2013: 2 objects) value totaling Denar 13,871 thousand (2013: Denar 38,146 thousand). Activities are undertaken for the preparation for sale of the assets taken over in 2014 because the Bank's general policy is these facilities to be sold within a period of 3 years.

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December 31, 2014

28. INTANGIBLE ASSETS

A. Reconsiliation 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 2013	-	558,296	-	-	9,844	-
increases through new purchases	-	34,410	-	-	(7,652)	-
increases through internal development	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-
(disposals)	-	(228)	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-
Balance at 31 December 2013	-	592,478	-	-	2,192	-
Balance at 1 January 2014	-	592,478	-	-	2,192	-
increases through new purchases	-	41,608	-	-	(366)	-
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	-
Depreciation and impairment						
Balance at 1 January 2013	-	483,087	-	-	-	-
Depreciation for the year	-	39,497	-	-	-	-
Impairment loss during the year	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-
(disposals)	-	(228)	-	-	-	-
Balance at 31 December 2013	-	522,356	-	-	-	-
Balance at 1 January 2014	-	522,356	-	-	-	-
Depreciation for the year	-	26,732	-	-	-	-
Impairment loss during the year	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-
Balance at 31 December 2014	-	549,088	-	-	-	-
Current book value at						
January 1, 2013	-	75,209	-	-	9,844	-
December 31, 2013	-	70,122	-	-	2,192	-
December 31, 2014	-	84,998	-	-	1,826	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

28. INTANGIBLE ASSETS (continued)

B. Carrying value of intangible assets where there is a limitation 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, 2013	-	-	-	-	-	-	-
December 31, 2014	-	-	-	-	-	-	-

On December 31, 2014 and 2013, 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, 2014

29. REAL ESTATE AND EQUIPMENT

A. Reconciliation of the present carrying amount

In thousands of Denars								
							Investmen t in leased real estate and equipme nt	
	Land	Building facilities	Transport vehicles	Furniture and office equipme nt	Other equipme nt	Other items of propert y and equipme nt	Real estate and equipme nt in progress	Total
Cost								
On 1 January 2013	-	1,185,544	23,940	1,126,688	68,793	57,759	28,985	2,626,801
Increases	-	9,121	-	46,608	9	-	1,674	58,005
increases through business combinations	-	-	-	-	-	-	-	-
(Disposals)	-	(11,901)	(18,099)	(74,866)	(2,336)	-	-	(107,202)
(entering through business combinations)	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-
other transfers	-	(9,961)	-	9,961	-	-	-	-
On December 31, 2013	-	1,172,803	5,841	1,108,391	66,466	57,759	30,659	2,577,604
On 1 January 2013	-	1,172,803	5,841	1,108,391	66,466	57,759	30,659	2,577,604
Increases	-	27,437	-	39,954	469	90	21,945	93,156
increases through business combinations	-	-	-	-	-	-	-	-
(Disposals)	-	(31,755)	-	(21,688)	-	-	-	(63,741)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-
On December 31, 2014	-	1,168,485	5,841	1,126,657	66,935	57,849	52,604	2,607,019
Depreciation and impairment								
On 1 January 2013	-	443,805	23,885	1,029,975	53,511	20,168	-	1,674,172
Depreciation for the year	-	28,682	55	54,415	2,197	1,444	-	101,697
Impairment loss during the year	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-
(Disposals)	-	(3,341)	(18,099)	(74,866)	(2,336)	-	-	(98,642)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-
other transfers	-	(9,961)	-	9,961	-	-	-	-
On December 31, 2013	-	459,185	5,841	1,019,485	53,372	21,612	-	1,677,227
On 1 January 2013	-	459,185	5,841	1,019,485	53,372	21,612	-	1,677,227
Depreciation for the year	-	29,968	-	41,225	1,799	1,445	-	85,008
Impairment loss during the year	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-
(Disposals)	-	(4,979)	-	(19,823)	-	-	-	(34,960)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-
On December 31, 2014	-	484,174	5,841	1,040,887	55,171	23,057	-	1,727,275
Current carrying amount								
On January 1, 2013	-	741,739	55	96,713	15,282	37,591	28,985	952,629
On December 31, 2013	-	713,618	-	88,906	13,094	36,147	30,659	900,377
On December 31, 2014	-	684,311	-	85,770	11,764	34,792	52,604	879,744

NOTES TO THE FINANCIAL REPORTS
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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								
							Investment in leased real estate and equipment	
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Total
Current carrying amount								
On December 31, 2013	-	-	-	-	-	-	-	-
On December 31, 2014	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2014 includes assets with a net book value of Denar 39,658 thousand (2013: Denar 126.226 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

The Bank has no real estate and equipment that are pledged as collateral in favour of third parties.

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

30.1 Current tax assets and current tax liabilities

	In thousands of Denars	
	Current year 2014	Previous year 2013
Income tax receivable (current)	-	-
Income tax payable (current)	172,665	888

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2014			In thousands of Denars 31 December 2013		
	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	
	Curent year 2014	Previous year 2013
Tax losses	-	-
Tax credits	-	-
Total unrecognized deferred tax assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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

	Balance at January 1	Recognized in Income Statement	In thousands of Denars Recognized in equity	Balance at December 31
31 December 2013				
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, 2014

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 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)	-	-	-	-

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

A. Non-current assets held for sale

	In thousands of Denars	
	Curent year 2014	Previous year 2013
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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

B. Group for disposal

	In thousands of Denars	
	Curent	Previous
	year	year
	2014	2013
<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	-	-
<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	-	-

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

	In thousands of Denars	
	Curent	Previous
	year	year
	2014	2013
Profit/(loss) recognized from sale of held for sale assets and group for disposal	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

32. TRADING LIABILITIES

	In thousands of Denars	
	Curent	Previous
	year	year
	2014	2013
<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	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	-	-
<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	-	-
	-	-
Total liabilities held for trading	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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

	Curent year 2014		In thousands of Denars Previous year 2013	
	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, 2014

34. DEPOSITS

34.1 DEPOSITS FROM BANKS

	Curent year 2014		In thousands of Denars Previous year 2013	
	short-term	long-term	short-term	long-term
Current accounts				
with domestic banks	2,589	-	6,123	-
with foreign banks	16,790	-	28,773	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	252,803	-	89,256	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	20,945	-	65,609	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Interest payable on deposits				
with domestic banks	-	-	-	-
with foreign banks	54	-	3	-
Current maturity	-	-	-	-
Total deposits from banks	293,181	-	189,764	-

The restricted deposits with foreign banks in the amount of Denar 20,945 thousand (2013: Denar 65,609 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

34. DEPOSITS (continued)

34.2 DEPOSITS FROM OTHER CLIENTS

	Curent year 2014		In thousands of Denars Previous year 2013	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	7,056,062	-	6,709,521	-
Demand deposits	28,360	-	90,691	-
Time deposits	2,313,901	1,393,606	3,777,946	1,123,070
Restricted deposits	337,510	557,819	264,790	428,635
Other deposits	58,793	-	6,139	-
Interest payable on deposits	52,476	-	61,890	-
	<u>9,847,102</u>	<u>1,951,425</u>	<u>10,910,977</u>	<u>1,551,705</u>
State				
Current accounts	119,307	-	115,020	-
Demand deposits	-	-	-	-
Time deposits	-	-	48,450	-
Restricted deposits	86	-	41	783
Other deposits	-	-	-	-
Interest payable on deposits	-	-	348	-
	<u>119,393</u>	<u>-</u>	<u>163,859</u>	<u>783</u>
Non-profit institutions serving the households				
Current accounts	410,634	-	414,493	-
Demand deposits	-	-	14	-
Time deposits	227,682	97,782	223,546	95,482
Restricted deposits	3,036	1,411	4,019	-
Other deposits	-	-	-	-
Interest payable on deposits	1,964	-	2,493	-
	<u>643,316</u>	<u>99,193</u>	<u>644,565</u>	<u>95,482</u>
Financial companies, except banks				
Current accounts	43,633	-	43,374	-
Demand deposits	-	-	-	-
Time deposits	213,400	406,685	454,605	292,421
Restricted deposits	222	35,257	707	166
Other deposits	-	-	-	-
Interest payable on deposits	13,992	-	9,722	-
	<u>271,247</u>	<u>441,942</u>	<u>508,408</u>	<u>292,587</u>
Households				
Current accounts	11,753,980	-	10,223,309	-
Demand deposits	28,970	-	12,400	-
Time deposits	23,212,406	14,469,820	24,107,459	11,812,074
Restricted deposits	848,543	1,339,639	487,651	1,499,437
Other deposits	-	-	-	-
Interest payable on deposits	95,321	-	75,048	-
	<u>35,939,220</u>	<u>15,809,459</u>	<u>34,905,867</u>	<u>13,311,511</u>
Non-residents, except banks				
Current accounts	259,131	-	273,247	-
Demand deposits	102	-	1	-
Time deposits	227,668	213,154	257,102	180,240
Restricted deposits	54,961	26,078	45,018	26,048
Other deposits	-	-	-	-
Interest payable on deposits	3,167	-	977	-
	<u>545,029</u>	<u>239,232</u>	<u>576,345</u>	<u>206,288</u>
Current maturity	<u>7,844,120</u>	<u>(7,844,120)</u>	<u>7,319,911</u>	<u>(7,319,911)</u>
Total deposits from other clients	<u>55,209,427</u>	<u>10,697,131</u>	<u>55,029,932</u>	<u>8,138,445</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	Curent	Previous
	year	year
	2014	2013
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on deposits	-	-
Total issued debt securities	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

36. BORROWINGS

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

	Current year2014		In thousands of Denars Current year2013	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	681,218	-	763,995
Repo-transactions	-	-	-	-
Interest payable	1,449	-	1,181	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	15,689	149,399	15,689	157,261
Repo-transactions	-	-	-	-
Interest payable	1,136	-	59	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	9	-
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	214,103	(214,103)	216,116	(216,116)
Total loans payable	232,377	622,471	233,054	711,097

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

36. BORROWINGS (continued)

B. Borrowings according to the creditor

	Current year2014		In thousands of Denars Current year2013	
	short-term	long-term	short-term	long-term
<i>Domestic sources:</i>				
Asset Management Agency - long-term loans amounting to Denar 149,399 thousand (2013: 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	1,136	149,399	6	149,399
Agency for underdeveloped regions – matures in 2013 and the interest rate is equal to 3.9% per annum (2010: 3.9% p.a.).	15,689	-	15,689	-
Macedonian Bank for Promotion and Development – with maturity deadline in 2019 and interest rate of 1.0% at annual level (2013: 1 %.)	1,449	681,218	1,180	759,262
	18,274	830,617	16,875	908,661
<i>Foreign sources:</i>				
Council of Europe Social Development Fund - matures in 2014 and bears fixed interest rate of 6.73% per annum	-	-	54	7,860
ICDF Taiwan - to be repaid in 20 equal semi-annual instalments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% per annum.	-	-	9	4,735
Other banks	-	5,957	-	5,957
	-	5,957	63	18,552
Curent maturities	214,103	(214,103)	216,116	(216,116)
Total loans payable	232,377	622,471	233,054	711,097

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

37. SUBORDINATED DEBT

	<u>Maturity</u>	<u>Interest rate</u>	In thousands of Denars	
			current year	previous year
			2014	2013
<i>Liabilities under subordinated deposits</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
<i>Liabilities under subordinated loans</i>				
NBG Athens, Greece		3 month		
(principal EUR 20 million)	27.12.2016	EURIBOR		
		+0.85% p.a.	1,229,628	1,230,224
NBG Athens, Greece		3 month		
(principal EUR 25 million)	05.11.2018	EURIBOR		
		+3.7% p.a.	1,537,035	1,537,784
Interest payables			9,307	9,755
			<u>2,775,970</u>	<u>2,777,763</u>
<i>Liabilities under subordinated issued debt securities</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
Redeemable preferred shares			-	-
Total subordinated debt			<u>2,775,970</u>	<u>2,777,763</u>

The received funds 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.

Interest is paid quarterly. It is agreed with the creditor that the subordinated debt shall:

- be unconditionally irrevocable;
- be fully and timely available for covering the Bank's risks and operating losses;
- not be covered by other type of collateral by the Bank or a person related to the Bank;
- in the case of bankruptcy or liquidation of the Bank, the subordinated debt will be paid before settling the liabilities to the Bank's shareholders
- not be used for claims and contingent liabilities of the Bank
- not be treated as deposit.

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 restructuri ng	Provisions for unfavoura ble agreement s	Other provisions	Total
Balance as at January 1, 2013	104,008	14,939	20,439	-	-	-	139,386
Additional provisions during the year	51,967	34,297	3,271	-	-	-	89,535
(utilized provisions during the year)	-	(1,115)	-	-	-	-	(1,115)
(provisions recovery during the year)	(44,785)	(2,032)	(783)	-	-	-	(47,600)
Balance at 31 December 2013	111,190	46,089	22,927	-	-	-	180,206
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 as at 31 December 2014	113,816	47,584	23,760	-	-	-	185,160

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>2014</u>	<u>2013</u>
Interest rate	4,35%	4.60%
Average salary increase	4,50%	4.50%
Inflation rate	2,50%	2.00%

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, 2014

39. OTHER LIABILITIES

	In thousands of Denars	
	Current year 2014	Previous year 2013
Trade payables	15,262	9,630
Received advances	-	-
Fees and commissions liabilities	4,659	26
Accrued expenses	243,939	165,869
Deferred income from previous year	27,604	25,757
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	4,716	5,587
Disputed VISA cards transactions	14,596	16,197
Unallocated inflows upon deposits and other inflows	845,798	554,211
Premature repayment of loans and other liabilities	64,163	79,814
Total other liabilities	1,311,715	948,069

As at December 31, 2014 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 2014, the Bank allocated an amount of Denar 3,639 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2014 (2013: Denar 4,549 thousand).

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2014	Previous year 2013	Current year 2014	Previous year 2013	Current year 2014	Previous year 2013
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 2014	Previous year 2013
Announced dividends and paid dividends for the year	4,396	5,211

Announced dividends and paid dividends for the year in the amount of Denar 4,396 thousand are allocated for the holders of the preferred shares of the net profit in 2013 (2013: Denar 5,211 thousand of net profit for 2012).

	In MKD	
	Current year 2014	Previous year 2013
Dividend per ordinary share	-	-
Dividend per preferred share	19,00	23,00

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 2014	Previous year 2013
Announced dividends after 31 December	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2014	In Denars Previous year 2013
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, 2014 and 2013 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

	In thousands of Denars		In %	
	current year 2014	previous year 2013	current year 2014	previous year 2013
Shareholder	Subscribed capital (nominal value)	Subscribed capital (nominal value)	Voting right	Voting right
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, 2014 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, 2014**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, 2014

41. EARNINGS PER SHARE

A. Basic earnings per share

	In thousands of Denars current year 2014	previous year 2013
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	1,512,343	989,945
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	1,512,343	989,945
Net profit attributable to ordinary shareholders	1,512,343	989,945
	Number of shares current year 2014	previous year 2013
<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	-	-
Weighted average number of ordinary shares at 31 December	17,460,180	17,460,180
Basic earnings per share (in MKD)	86,61	56,70

B. Diluted earnings per share

	In thousands of Denars current year 2014	previous year 2013
<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	1,512,343	989,945
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
Net gains to which the holders of common shares are entitled (diluted)	1,512,343	989,945

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

41. EARNINGS PER SHARE (continued)

B. Diluted earnings per share (continued)

	In thousands of Denars current year 2014	previous year 2013
<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	<u>17,460,180</u>	<u>17,460,180</u>
Diluted earnings per share (in MKD)	<u>86,61</u>	<u>56,70</u>

42. COMMITMENTS AND CONTINGENCIES

42.1 COMMITMENTS

	In thousands of Denars current year 2014	previous year 2013
Uncovered payment guarantees		
in MKD	917,792	1,243,560
in foreign currency	800,220	633,792
in MKD with FC Clause	524,100	136,706
Uncovered performance guarantees		
in MKD	322,307	635,454
in foreign currency	198,083	218,211
in MKD with FC Clause	597,399	66,054
Uncovered letters of credit		
in MKD	-	-
in foreign currency	202,929	253,406
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1,522,502	1,409,712
Unutilized limits under credit cards	5,753,667	5,400,783
Taken liabilities for financing and unutilized credit limits	353,428	588,851
Other uncovered contingent liabilities	897	2,537
Issued covered letters of guarantee	434,226	269,699
Covered letters of credit	57,762	784
Other covered contingent liabilities	-	-
Total contingent liabilities before special reserve	<u>11,685,312</u>	<u>10,859,549</u>
(Provisions)	<u>(113,816)</u>	<u>(111,190)</u>
Total contingent liabilities reduced by special reserve	<u>11,571,496</u>	<u>10,748,359</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 1,545,449 thousand (2013: Denar 1,924,397 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2013: 1year). 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 2014 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 2014, 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 47,584 thousand (2013: Denar 46,089 thousand). This amount includes the penalty interests, as well. Accordingly, in 2014, the Bank made provisions for impairment losses on the basis of litigations in the amount of Denar 1,495 thousand (2013: Denar 31,149 thousand).

42.2 CONTINGENCIES

	In thousands of Denars	
	current year	previous year
	2014	2013
	-	-
Total contingent assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year2014			In thousands of Denars Previous year2013		
	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	268,081	268,081	-	226,114	226,114	-
FC loans	237,594	237,594	-	225,291	225,291	-
Other MKD receivables	965,903	965,903	-	970,262	970,262	-
Other FC receivables	318,371	318,371	-	315,257	315,257	-
<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>	25,378	25,382	(4)	69,288	69,291	(3)
<i>Other</i>	-	-	-	-	-	-
Total	<u>1,815,327</u>	<u>1,815,331</u>	<u>(4)</u>	<u>1,806,212</u>	<u>1,806,215</u>	<u>(3)</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

44. RELATED PARTY TRANSACTIONS

A. Balance Sheet

	In thousands of Denars					
	Parent company	Subsidiari es	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, 2014

44. RELATED PARTY TRANSACTIONS (continued)

A. Balance Sheet (continued)

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
31 December 2013						
Assets						
Current accounts	2,624	-	-	-	1,987	4,611
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	13,406	-	13,406
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	871,411	871,411
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	-	-	-
Other assets	10,647	-	-	-	-	10,647
Total	13,271	-	-	13,406	873,398	900,075
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	-	24,988	94,921	119,909
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	2,777,763	-	-	-	-	2,777,763
Other liabilities	636	-	-	-	2	638
Total	2,778,399	-	-	24,988	94,923	2,898,310
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, 2014

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
2014current 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

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

44. RELATED PARTY TRANSACTIONS (continued)

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

	In thousands of Denars					
	Parent company	Subsidiaries	Associates	Management personnel of the Bank	Other related parties	Total
2013previous year						
Income						
Interest income	1	-	-	756	1,164	1,921
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non-current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	1	-	-	756	1,164	1,921
Expenses						
Interest expenses	74,430	-	-	-	613	75,043
Expenses for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	33,345	-	-	24,218	20	57,583
Transfers between entities	-	-	-	-	-	-
Total	107,775	-	-	24,218	633	132,626

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2014	previous year 2013
Short-term benefits for employees	26,118	22,064
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	2,154
Total	28,715	24,218

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2014 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
31 December 2013 (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 2014 (current year)				
Net present value of minimum lease payments	2,005	2,005	-	-
31 December 2013 (previous year)				
Net present value of minimum lease payments	3,116	3,116	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

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 2014	-	77,007	-	-	-	-	77,007
31 December 2013	-	91,150	-	-	-	-	91,150
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			
	Maturity period for financial lease liabilities			
	Total financial lease liabilities	up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2014 (current year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2013 (previous year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

45. LEASES (continued)

B. Lessee (continued))

B.1 Financial lease liabilities(continued)

	In thousands of Denars						
	<u>Land</u>	<u>Buildings</u>	<u>Means of transportation</u>	<u>Furniture and office equipment</u>	<u>Other equipment</u>	<u>Other items of property and equipment</u>	<u>Total</u>
Value of the property taken under financial lease:							
Cost							
Balance as at 1 January 2013	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at31 December2013	-	-	-	-	-	-	-
Balance as at 1 January2014	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at31 December2014	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
Balance as at 1 January2013	-	-	-	-	-	-	-
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 at31 December2013	-	-	-	-	-	-	-
Balance as at 1 January2014	-	-	-	-	-	-	-
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 at31 December2014	-	-	-	-	-	-	-
Current carrying amount							
na 1 January2013	-	-	-	-	-	-	-
On 31 December2013	-	-	-	-	-	-	-
On 31 December2014	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2014

45. LEASES (continued)

B. Lessee (continued)

B.2 Irrevocable operating lease liabilities (continued)

	In thousands of Denars			
	Maturity period for operational lease liabilities			
	Total operational lease liabilities	up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2014 (current year)	-	-	-	-
Balance as at 31 December 2013 (previous year)	-	-	-	-

46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2014	previous year 2013
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	-	-

	current year 2014		previous year 2013	
	number of options for shares	weighted average price of options for shares	number 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, 2014

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>2014</u>	In MKD <u>2013</u>
1 USD	50,5604	44,6284
1 EUR	61,4814	61,5113