Halk Bank AD Skopje

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2013

Contents

Independent auditor's report

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

We have audited the accompanying financial statements of Halk Bank AD - Skopje (the 'Bank'), which comprise the Bank's separate statement of financial position as of 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Halk Bank AD - Skopje as of 31 December 2013, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

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PricewaterhouseCoopers REVIZIJA DOO

Skopje,

23 April 2014

Statement of Financial Position

As at 31 December

In thousands of Denars	*Note*	**2013**	**2012**
Assets			
Cash and cash equivalents	*15*	4,514,268	7,047,269
Trading assets	*16*	-	64,797
Loans and advances to banks	*17*	7,682	18,947
Loans and advances to customers	*18*	13,820,526	9,231,275
Investment securities	*19*	1,148,215	860,293
Property and equipment	*20*	682,881	647,835
Intangible assets	*21*	28,560	34,162
Other financial assets	*22*	89,224	57,413
Other Non-financial assets	*22*	167,589	182,775
Total assets		20,458,945	18,144,766
Liabilities			
Deposits from banks	*23*	1,689,691	1,999,003
Deposits from customers	*24*	12,515,445	10,858,588
Other borrowed funds	*25*	2,275,446	1,555,057
Provisions	*26*	236	1,761
Other financial liabilities	*27*	127,793	80,098
Other Non-financial liabilities	*27*	31,902	21,786
Total liabilities		16,640,513	14,516,293
Equity	*28*		
Share capital		2,893,690	2,893,694
Share premium		325,854	325,854
Other reserves		129,882	133,588
Retained earnings		469,006	275,337
Total equity		3,818,432	3,628,473
Total liabilities and equity		20,458,945	18,144,766

These financial statements set out on pages 1 to 75 were approved by the Supervisory Board on 17 April 2014 and were signed on its behalf by:

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

In thousands of denars	***Note***	**2013**	**2012**
Interest income	*8*	1,139,323	793,594
Interest expense	*8*	(411,511)	(307,788)
Net interest income		727,812	485,806
Fee and commission income	*9*	205,997	134,323
Fee and commission expense	*9*	(85,028)	(62,855)
Net fee and commission income		120,969	71,468
Net trading income	*10*	(327)	10,204
Net foreign exchange gain		29,199	20,101
Other operating income	*11*	17,930	11,411
		46,802	41,716
Operating income		895,583	598,990
Net impairment loss on financial assets	*15,18,19,22*	(21,620)	(19,719)
Personnel expenses	*12*	(269,238)	(192,661)
Depreciation and amortisation	*20,21*	(90,553)	(75,337)
Other expenses	*13*	(319,233)	(247,620)
		(700,644)	(535,337)
Profit before tax		194,939	63,653
Income tax expense		-	-
Profit for the year		194,939	63,653

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

Other comprehensive income

Items that may be reclassified subsequently to profit or loss:			
Available-for-sale investments:			
Gains less losses arising during the year -Fair value reserve		-	(819)
Items that will not be reclassified to profit or loss:			
Other comprehensive income for the year		-	(819)
Total comprehensive income for the year		194,939	62,834
Profit/(loss) is attributable to:			
- Owners of the Bank		194,939	62,834
Profit for the year		194,939	62,834
Total comprehensive income is attributable to:			
- Owners of the Bank		194,939	62,834
Total comprehensive income / (loss) for the year		194,939	62,834
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in Denars per share)	*14*	674	298

Statement of Changes in Equity

In thousands of denars	Share capital	Share premium	Statutory reserve	Revaluation reserve	Retained earnings	Total equity
Balance at 1 January 2012	1,884,150	325,854	74,419	5,795	147,562	2,437,780
Total comprehensive income for the year						
Profit or loss	-	-	-	-	63,653	63,653
Other comprehensive income	-	-	-	-	-	-
Fair value reserve (available-for-sale financial assets)	-	-	-	-	-	-
Net change in fair value	-	-	-	(819)	-	(819)
Total comprehensive income for the year	-	-	-	(819)	63,653	62,834
Transactions with equity holders, recognized directly in equity						
Transfer to retained earnings	-	-	(11,478)	-	11,478	-
Shares issued	1,009,544	-	-	-		1,009,544
Transactions as result of the merger with Ziraat Bank AD Skopje	-	-	65,671	-	59,199	124,870
Taken over reserves and retained earnings from Ziraat Bank	-	-	-	-	(6,338)	(6,338)
Taken over loss from Ziraat Bank	-	-	-	-	(217)	(217)
Total contributions by and distributions to equity holders	1,009,544	-	54,193	-	64,122	1,127,859
Balance at 31 December 2012	2,893,694	325,854	128,612	4,976	275,337	3,628,473

Statement of Changes in Equity (continued)

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

Statement of Cash Flows

In thousands of denars	*Note*	2013	2012
Cash flows from operating activities			
Profit for the period		194,939	63,653
Adjustments for:			
Depreciation and amortization	*20,21*	90,553	75,337
Capital gain on sale of property and equipment	*11*	(493)	(57)
Capital gain on sale of assets acquired through foreclosure procedure	*11*	143	-
Capital loss on sale of property and equipment		14	-
Impairment provision for off balance sheet items	*13*	-	227
Net interest income	*8*	(727,812)	(485,806)
Net trading income	*10*	327	(10,204)
Net impairment loss on financial assets	*15,18, 19,22*	21,620	19,719
Impairment losses on assets acquired through foreclosure procedures	*13*	19,487	1,831
Dividend income	*11*	(4,165)	(3,815)
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		**(405,387)**	**(339,115)**
Net (increase)/decrease in:			
- financial assets held for trading		61,508	110,193
- loans and advances to banks		11,265	378,000
- loans and advances to customers		(4,595,818)	(2,871,433)
- other assets		(37,698)	(30,836)
Net increase/(decrease) in:			
- deposits from banks		(309,310)	1,988,771
- deposits from customers		1,642,839	3,932,064
- other liabilities and impairment provision related to off balance sheet items		54,483	3,725
		(3,578,118)	3,171,369
Interest received		1,128,806	794,442
Interest paid		(396,606)	(251,730)
Net cash from/(used in) operating activities		**(2,845,918)**	**3,714,081**

Statement of cash flows (continued)

In thousands of denars	*Note*	2013	2012
Cash flows from investing activities			
Acquisition of property and equipment		(106,715)	(121,898)
Proceeds from the sale of property and equipment		4,519	496
Acquisition of intangible assets	*21*	(17,322)	(11,299)
Acquisition of investment securities		(291,230)	(555,377)
Dividends received		4,165	3,815
Net cash used in investing activities		**(406,583)**	**(684,263)**
Cash flows from financing activities			
Proceeds from other borrowed funds		1,762,690	1,864,182
Repayment of other borrowed funds		(1,043,190)	(1,735,839)
Net cash from/(used in) financing activities		**719,500**	**128,343**
Net increase in cash and cash equivalents		(2,533,001)	3,158,161
Cash and cash equivalents taken from Ziraat Bank AD Skopje as at 30 September 2012		-	1,714,699
Cash and cash equivalents at 1 January		7,047,269	2,174,409
Cash and cash equivalents at 31 December	*15*	**4,514,268**	**7,047,269**

Notes to the financial statements

1. Reporting entity

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

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

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

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

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

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

Merger with Ziraat Bank AD Skopje

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

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

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

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

In the absence of a specific guidance in IFRS that specifically applies to the above legal transformation transaction (status changes under common control) the management has applied the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and used its judgment in developing and applying its own accounting policy to account for the above transaction. In choosing the appropriate accounting policy the management has considered that the ultimate ownership structure of the merging entities has not changed. Therefore the risks and benefits of the ultimate owner have not changed as a result of the legal transformation.

1. Reporting entity (continued)

Based on that the legal transformation transaction is considered as business combination under common control and therefore, the book value accounting method was applied to account for it. As a result:

- The assets and liabilities of the merged subsidiaries were recorded at the carrying values; No additional adjustments were necessary to be made to harmonize the accounting policies;
- The income statement reflects the results of the both entities starting from the date when the legal transaction i.e. 1 October 2012;
- Considering the legal transformation as a non-cash transaction, the following assets, liabilities, equity and reserves have not been presented in the Statement of cash flows for the year ended as at 31 December 2012:

Balance Sheet of Ziraat Bank AD Skopje as at 30 September 2012	*In thousand of denars*
Cash and cash equivalents	1,714,699
Loans and advances to customers	584,971
Investments securities	138,372
Income tax receivables	99
Other receivables	2,354
Intangible assets	7,326
Property and equipment	74,489
Total assets	**2,522,310**
Deposits from customers	1,389,517
Provisions	294
Other liabilities	4,422
Total liabilities	**1,394,233**
Share capital	1,009,544
Other reserves	65,672
Retained earnings	52,861
Total equity and reserves	**1,128,077**
Total liabilities, equity and reserves	**2,522,310**

Representative office in the Republic of Serbia

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

3. Significant accounting policies

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

(a) Foreign currency transactions

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

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD). The exchange rates used for translation at 31 December 2013 and 2012 were as follows:

	2013	**2012**
	MKD	**MKD**
1 EUR	61.51	61.50
1 USD	44.63	46.65

(b) Interest income and expense

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

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

3. Significant accounting policies (continued)

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

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

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

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

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

(c) Fees and commission income and expense

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

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

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

(d) Net trading income

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

3. Significant accounting policies (continued)

(e) Dividends

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

(f) Lease payments made

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

(g) Income tax expense

In the Republic of Macedonia a tax regime is effective according which the base for income tax computation had been shifted from the profit before taxes to the income "distribution" concept. "Distributions" are split into two components:

- Tax on any dividend distribution – i.e. the tax base is the dividend paid;
- Tax on non deductable items – i.e. the tax base is the non deductable items specified in the tax rulebook less any allowable tax credits. The tax on non deductable items is paid each month in monthly advance installments based on the previous fiscal year computation of such non deductable differences. At year end a final tax computation is prepared with a final tax settlement (see note 13).

As such, the new income tax regime provokes certain implications on the presentation of the tax in the financial statements which are summarized below:

(i) Tax on dividend distribution:

Tax on dividend distribution is considered to be income tax within scope of International Accounting Standards - Tax on Income ("IAS 12").

The timing of recognition of this type of income tax is to be consistent with the underlining dividend liability recognition (i.e., recognized when the dividend is paid and/or declared). As such no provisions are required for income tax arising from dividend distribution until the dividend is declared and/or paid.

When the tax on dividend distribution arises on interim (advance) dividend paid before the year end, the income tax charge is recognized and presented in the Statement of comprehensive income after profit and loss before tax as income tax expense.

When the tax on dividend distribution arises from retained earnings, it is recognized and presented in the Statement of changes in equity.

(ii) Tax on non deductible items:

Tax on non deductible items is not income tax and is out of scope of IAS 12. Accordingly, such tax expense is presented within the operating results see note 13, and related tax payable/receivable is presented within the other assets/other liabilities in the statement of financial position.

3. Significant accounting policies (continued)

(g) Income tax expense (continued)

Recognition of tax provisions:

In case of tax contingencies, provisions are made in line with International Accounting Standards – Provisions, Contingent Liabilities and Contingent Assets adopted in the Republic of Macedonia ("IAS 37").

Such provisions are not presented as deferred tax assets or deferred tax liabilities, but as other assets or other liabilities.

Recognition/reversal of such tax provisions (that is not income taxes) is presented within the other expenses/other income.

(h) Financial assets and liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

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

(iii) Derecognition

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

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

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(iii) Derecognition (continued)

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

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

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

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

(vi) Fair value measurement

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a. in the principal market for the asset or liability; or
b. in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(vi) Fair value measurement (continued)

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

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

(vii) Identification and measurement of impairment

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

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

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

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

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

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

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(i) Cash and cash equivalents

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

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

(j) Trading assets and liabilities

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

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

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

(k) Loans and advances

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

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

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

3. Significant accounting policies (continued)

(l) Investment securities

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

(i) Held-to-maturity

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

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

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

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

  On 31.12.2013 the Held for Maturity Treasury bills are classified as cash due to the short term maturity of 28 days.

(ii) Available-for-sale

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

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

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

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

3. Significant accounting policies (continued)

(m) Property and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

	%
Buildings	2.5
Furniture and equipment	10 - 25

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

3. Significant accounting policies (continued)

(n) Intangible assets

(i) Recognition and measurement

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

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

	%
Software	25
Licences	25

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

(o) Leased assets – lessee

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

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

3. Significant accounting policies (continued)

(p) Impairment of non-financial assets

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

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

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

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

(q) Deposits and borrowed funds

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

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

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

(r) Provisions

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

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

3. Significant accounting policies (continued)

(s) Employee benefits

(i) Defined contribution plans

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

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

(ii) Short-term benefits

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

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

(iii) Other long-term employee benefits

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

(t) Share capital and reserves

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Share issue costs

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

(iii) Repurchase of share capital

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

(iv) Dividends

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

3. Significant accounting policies (continued)

(u) Earnings per share

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

(v) Segment reporting

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

(w) Accounting developments

a) Standards, amendments and interpretations effective and adopted by the Bank in 2013

- IFRS 7 (amended). In December 2011 the IASB issued Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7. The amendments clarify the accounting requirements for offsetting financial instruments and introduce new disclosure requirements that aim to improve the comparability of financial statements prepared in accordance with IFRS and US GAAP. The application of the amendment is required for annual periods beginning on or after 1 January 2013. The adoption of amended standard did not result in significant changes in the disclosures in the financial statements of the Bank..
- IFRS 13 - The IASB published IFRS 13 Fair Value Measurement in May 2011 in order to replace the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorizes the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorized into different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgment). The new standard should be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the new standard did not result in significant changes in the financial statements of the Bank.

3. Significant accounting policies (continued)

(w) Accounting developments (continued)

a) Standards, amendments and interpretations effective and adopted by the Bank in 2013 (continued)

- IAS 19 (amended) - The IASB published amendments to IAS 19 - Employee Benefits in June 2011. The amendments focus on the following key areas:
  - Recognition (only defined benefit plans) - elimination of the "corridor approach"
  - Presentation (only defined benefit plans) - gains and losses that arises from re-measurements should be presented (only) in other comprehensive income (elimination of the remaining options)
  - Disclosures - enhancing of disclosure requirements, e.g.
    - the characteristics of a bank's defined benefit plans;
    - amounts recognized in the financial statements;
    - risks arising from defined benefit plans; and
    - participation in multi-employer plans.
  - Improved / clarified guidance relating to several areas of the standard, e.g.
    - classification of benefits;
    - recognition of termination benefits; and
    - interest rate relating to the expected return on the plan assets.

  The application of the amendment is required for annual periods beginning on or after 1 January 2013. The amendments of the standard did not result in significant changes in the financial statements of the Bank.

b) Standards, amendments and interpretations effective in 2013 but not relevant for the Bank

- IFRS 10, IFRS 11, IFRS 12, IAS 27 (amended) and IAS28 (amended) - The IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities and amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures in May 2011. An entity shall apply this package of five new and revised standards (including the amendments) for annual periods beginning on or after 1 January 2013. The adoption of the amended package of standards did not have any impact on the Bank's financial statements.
- IFRIC 20 In October 2011, the IASB published IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. The interpretation shall be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted. As the Bank does not have mining activity, the interpretation has no impact on the Bank's financial statements.
- IFRS 1 The IASB amended IFRS 1 in March 2012 and in May 2012. The amendments should be applied for annual periods beginning on or after 1 January 2013. As the Bank has been reporting according to IFRS for many years, neither the original standard, nor any revision to that is relevant for the Bank.

3. Significant accounting policies (continued)

(w) Accounting developments (continued)

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

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

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

  - IFRS 9 requires that financial assets are classified as subsequently measured at either amortized cost or fair value. There are two conditions needed to be satisfied to classify financial assets at amortized cost: (1) The objective of an entity’s business model for managing financial assets has to be to hold assets in order to collect contractual cash flows; and (2) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Where either of these conditions is not satisfied, financial assets are classified at fair value.
  - Fair Value Option: IFRS 9 permits an entity to designate an instrument, that would otherwise have been classified in the amortized cost category, to be at fair value through profit or loss if that designation eliminates or significantly reduces a measurement or recognition inconsistency (‘accounting mismatch’).
  - Equity instruments: The default category for equity instruments is at fair value through profit or loss. However, the standard states that an entity can make an irrevocable election at initial recognition to present all fair value changes for equity investments not held for trading in other comprehensive income. These fair value gains or losses are not reported as part of a reporting entity’s profit or loss, even when a gain or loss is realized. Only dividends received from these investments are reported in profit or loss.
  - Embedded derivatives: The requirements in IAS 39 for embedded derivatives have been changed by no longer requiring that embedded derivatives be separated from financial asset host contracts.
  - Reclassification: IFRS 9 requires reclassification between fair value and amortized cost when, and only when there is a change in the entity’s business model. The 'tainting rules' in IAS 39 have been eliminated.

3. Significant accounting policies (continued)

(w) Accounting developments (continued)

c) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Bank (continued)

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

- Carries forward the IAS 39 rules for the recognition and derecognition unchanged;
- Carries forward most of the requirements in IAS 39 for classification and measurement;
- Eliminates the exception from fair value measurement for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument;
- Changes the requirements related to the fair value option for financial liabilities to address own credit risk.

An entity shall apply IFRS 9 for annual periods beginning on or after 1 January 2015. Earlier adoption is permitted. A reporting entity must apply IFRS 9 retrospectively. For entities that adopt IFRS 9 for periods before 1 January 2012 the IFRS provides transition relief from restating comparative information. The Bank is currently analyzing the possible changes in the financial statements of the Bank that will be a result of the adoption of the new standard.

- IAS 32 (amended). In December 2011 the IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32). These amendments are to the application guidance in IAS 32, ‘Financial instruments: Presentation’, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The application of the amendment is required for annual periods beginning on or after 1 January 2014. The Bank is currently analyzing the possible changes in the disclosures in the financial statements of the Bank that will be a result of the amendment of the standard.
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets, amends IAS 36 Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amended standard is applicable to annual periods beginning on or after 1 January 2014. The Bank is currently analyzing the possible changes from the amendments to the financial statements.
- IFRIC 21 Levies - Provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

3. Significant accounting policies (continued)

(w) Accounting developments (continued)

c) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Bank (continued)

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

The interpretation applies to annual periods beginning on or after 1 January 2014. The Bank is currently analyzing the impact of the interpretation to the financial statements.

i) Standards, amendments and interpretations that are not yet effective and not relevant for the Bank's operations

- IFRS 10, IFRS 12 and IAS 27 (amended) Investment Entities. In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments include: the creation of a definition of an investment entity; the requirement that such entities measure investments in subsidiaries at fair value through profit or loss instead of consolidating them; new disclosure requirements for investment entities; and requirements for an investment entity's separate financial statements. The amendments are effective from 1 January 2014 with early adoption permitted. As the Bank does not have investment entities, the amendment will not have any impact on the Bank's financial statements.
- Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting, amends IAS 39 Financial Instruments: Recognition and Measurement make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations. The amendments are applicable to annual periods beginning on or after 1 January 2014. As the Bank does not apply hedge accounting, the amendment will not have any impact on the Bank's financial statements.
- IFRS14 Regulatory Deferral Accounts - IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. The new standard is applicable to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016. As the Bank has been reporting according to IFRS for many years, the new standard is not relevant for the Bank.

3. Significant accounting policies (continued)

(w) Accounting developments (continued)

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) - In November 2013, IASB amended IAS 19 to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service, in those contributions, can, but are not required, to be recognized as a reduction in the service cost in the period in which the related service is rendered. The amendment is applicable to annual periods beginning on or after 1 July 2014. As the Bank does not operate defined benefit plans, the amendment is not relevant for the Bank.

4. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks

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

Risk management framework

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

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

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

(b) Credit risk

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

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk

The Supervisory Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to 1.000.000 EUR and credit exposures collateralized with deposit/s up to 10% of own assets. All credit exposures greater than 1.000.000 EUR, up to 25% of the bank's own assets must be approved by the Supervisory Board. Approving credit exposures below 350.000 EUR is delegated to the Sub-Credit Committees (SME Credit Committee up to 350.000 EUR and Retail Credit Committee up to 150.000 EUR) and Branches Credit Committees (each branch has assigned limit for approval).

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

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

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

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

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

4. Financial risk management (continued)

(b) Credit risk (contunued)

Management of credit risk (continued)

Bank's internal ratings scale

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

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

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

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

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

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

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

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

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

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk (continued)

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

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

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

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

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk

In thousands of denars	***Note***	**Loans and advances to customers 2013**	**Loans and advances to customers 2012**	**Loans and advances to banks**	**Loans and advances to banks 2012**	**Investment securities**	**Investment securities 2012**
Carrying amount	*18,17,19*	13,820,526	9,231,275	7,682	18,947	1,148,215	860,293
Individually impaired							
Grade A		5,364	-	-	-	-	3,248
Grade B		92,930	62,865	-	-	-	-
Grade C		35,656	44,049	-	-	-	-
Grade D		30,690	28,035	-	-	-	-
Grade E		327,083	298,986	-	-	-	-
Gross amount		491,723	433,935	-	-	-	3,248
Specific Allowance for impairment		(315,484)	(276,427)	-	-	-	(162)
Carrying amount		176,239	157,508	-	-	-	3,086
Past due but not impaired:							
Past due but not impaired comprises:							
up to 30 days		61,592	108,330	-	-	-	-
30-60 days		445,022	258,032	-	-	-	-
60-90 days		99,377	73,462	-	-	-	-
90-180 days		951	14,946	-	-	-	-
180 days+		25,414	27,952	-	-	-	-
Carrying amount		632,356	482,722	-	-	-	-
Neither past due nor impaired:							
Grade A		13,011,931	8,591,045	7,682	18,947	1,148,215	857,207
Carrying amount		13,011,931	8,591,045	7,682	18,947	1,148,215	857,207
Total carrying amount		13,820,526	9,231,275	7,682	18,947	1,148,215	860,293

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect part or all of the principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system where 95% of the loans are classified in A risk category.

Past due but not impaired loans

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Allowances for impairment

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

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

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

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

Write-off policy

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy (continued)

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

	Loans and advances to customers	
In thousands of denars	**Gross**	**Net**
31 December 2013		
Individually impaired		
Grade A	5,364	5,080
Grade B	92,930	81,153
Grade C	35,656	23,740
Grade D	30,690	12,654
Grade E	327,083	53,612
Total	491,723	176,239
31 December 2012		
Individually impaired		
Grade A	-	-
Grade B	62,865	55,286
Grade C	44,049	31,623
Grade D	28,035	12,560
Grade E	298,986	58,039
Total	433,935	157,508

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 or 2012.

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

	Loans and advances to customers	
In thousands of denars	**2013**	**2012**
Cash collateral	174,932	204,611
Apartments	5,698,658	4,301,615
Business premises	10,289,508	6,944,692
Moveable lien	1,377,388	1,818,023
Other	2,429,417	2,078,050
	19,969,903	15,346,991

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Write-off policy (continued)

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

In thousands of denars	**2013**	**2012**
Land	4,933	18,622
Apartments	-	1,356
Business premises	-	-
Other	-	1,891
	4,933	21,869

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

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

	Note	**Loans and advances to banks**		**Loans and advances to customers**		**Investment securities**	
In thousands of denars		**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Carrying amount	*18,17,19*	7,682	18,947	13,820,526	9,231,275	1,148,215	860,293
Concentration by sector							
Corporate		-	-	7,707,083	4,654,861	34,312	34,343
Public sector		-	-	66,795	92,753	1,113,903	825,950
Bank		7,682	18,947	-	-	-	-
Retail		-	-	6,046,648	4,483,661	-	-
		7,682	18,947	13,820,526	9,231,275	1,148,215	860,293
Concentration by location							
EU countries		7,682	18,947	-	9,231,275	4,277	4,471
Other European countries		-	-	344,161	267,405	-	-
Republic of Macedonia		-	-	13,476,365	8,963,870	1,143,938	855,822
		7,682	18,947	13,820,526	9,231,275	1,148,215	860,293

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

4. Financial risk management (continued)

(b) Credit risk (continued)

Trading assets

The Bank's trading assets are comprised of debt securities – government bonds of the Republic of Macedonia of MKD 0 thousand at 31 December 2013 (2012: government bonds of MKD 64,797 thousand).

An analysis of the credit quality of the maximum credit exposure is as follows:

In thousands of denars	**2013**	**2012**
Government bonds	-	64,797
Fair value and carrying amount	-	64,797

The Bank considers that the trading portfolio is with high quality as all investments included in trading assets are issued by the government and are low risk securities.

The Bank does not require collateral for investment in securities.

Settlement risk

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

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

Cash and cash equivalents

The Bank held cash and cash equivalents of MKD 4,514,268 thousand at 31 December 2013 (2012: MKD 7,047,269 thousand) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the central bank, domestic banks and foreign financial institution counterparties which are rated BBB - to AA, based on rating agency Standard&Poor's ratings.

(c) Liquidity risk

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

Management of liquidity risk

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

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

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

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

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

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

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

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

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

Residual contractual maturities of financial liabilities

In thousands of denars	**Note**	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2013								
Total Assets		20,196,187	20,196,187	5,066,213	597,666	3,316,496	5,997,312	5,218,500
Non-derivative liabilities								
Deposits from banks	*23*	1,689,691	(1,689,691)	(1,689,069)	-	(622)	-	-
Deposits from customers	*24*	12,515,445	(12,515,445)	(4,925,588)	(1,551,205)	(3,795,107)	(2,240,822)	(2,723)
Other borrowed funds	*25*	2,275,446	(2,275,446)	(37,356)	(15,560)	(689,385)	(1,328,520)	(204,625)
Other liabilities	27	159,695	(159,695)	(125,428)	-	(25,669)	-	(8,598)
Total Liabilities		16,640,277	(16,640,277)	(6,777,441)	(1,566,765)	(4,510,783)	(3,569,342)	(215,946)
Unrecognised loan commitments		2,560,252	(2,560,252)	(962,917)	(531,263)	(673,020)	(393,053)	-
Liquidity gap		995,658	995,658	(2,674,145)	(1,500,362)	(1,867,307)	2,034,918	5,002,554
31 December 2012								
Total Assets		17,885,809	17,885,809	6,728,098	1,527,718	2,263,149	4,243,092	3,123,752
Non-derivative liabilities								
Deposits from banks	*23*	1,999,003	(1,999,003)	(1,998,382)	-	(621)	-	-
Deposits from customers	*24*	10,858,588	(10,858,588)	(4,789,967)	(1,136,663)	(3,192,177)	(1,734,750)	(5,031)
Other borrowed funds	*25*	1,555,057	(1,555,057)	(310,017)	(17,107)	(48,170)	(845,142)	(334,621)
Other liabilities	27	101,884	(101,884)	(79,920)	-	(17,764)	(4,200)	-
Total Liabilities		14,514,532	(14,514,532)	(7,178,286)	(1,153,770)	(3,258,732)	(2,584,092)	(339,652)
Unrecognised loan commitments		584,138	(584,138)	(584,138)	-	-	-	-
Liquidity gap		2,787,139	2,787,139	(1,034,326)	373,948	(995,583)	1.659,000	2,784,100

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

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

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

(d) Market risks

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

Management of market risks

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

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

Exposure to market risks – trading portfolios

The Bank focuses on the real and potential sensitiveness of the separate positions in the portfolio as well as the total portfolio. The Bank uses internal calculation methods and stress-testing on the potential market risk exposure. Trading limits are used for daily risk management and each limit is monitored by the Risk Management Department and reported to the Board of directors of the Bank.

The principal tool used to control and measure market risk exposure within the Bank's trading portfolios is performing sensitivity analyses. By performing sensitivity analyses the Bank is making estimation of the loss that might arise on the portfolio from an adverse market movement. Sensitivity analyses that are performed are based mainly on historical simulation. The rules that are applied for performing the sensitivity analyses are:

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to market risks – trading portfolios (continued)

- Price volatility (in absolute terms over previous number of days)
- Previous trading range (price high/low over previous number of days)
- Maximum/minimum price changes (over previous number of days)
- Price volatility correlation to P&L, internal and regulatory ratios and indicators

In order for the Bank to estimate the effect of potential volatility in the price of the securities in the trading portfolio, using the portfolio data as of 31 December 2013, hypothetical stress-test scenario analyses were performed, based on assumptions for shock changes in their price.

Under first scenario there is 10% instantaneous change in the price and results are respectively shown in the following table:

	Profit / loss for the period *(Effect in thousands of denars)*	**Capital ratio** (*effect in %)*
2012		
Net trading income (10% increase in the market price)	6,187	0.05
Net trading income (10% decrease in the market price)	(6,187)	(0.05)

Under second, more conservative scenario there is 20% instantaneous change in the price and results are respectively shown in the following table:

Sensitivity of prices of securities in trading portfolio

	Profit / loss for the period *(Effect in thousands of denars)*	**Capital ratio** (*effect in %)*
2012		
Net trading income (20% increase in the market price)	12,374	0.10
Net trading income (20% decrease in the market price)	(12,374)	(0.10)

In both scenarios the Capital ratio is above the prescribed limit of 8% for 2012.As of 31.12.2013 the Bank's trading portfolio 0 MKD.

4. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk – non-trading portfolios

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

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

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

4. Financial risk management (continued)

(d) Market risks (continued)

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

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

In thousands of denars	*Note*	Carrying amount	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
31 December 2013							
Cash and cash equivalents	*15*	3,992,035	3,992,035	-	-	-	-
Loans and advances to banks	*17*	-	-	-	-	-	-
Loans and advances to customers	*18*	13,763,654	1,053,709	1,639,918	9,947,067	767,848	355,112
Investment securities	*19*	1,106,539	-	-	801,654	304,885	-
Total		18,862,228	5,045,744	1,639,918	10,748,721	1,072,733	355,112
Deposits from banks and other financial institutions	*23*	1,678,742	1,678,132	-	610	-	-
Deposits from customers	*24*	11,536,421	4,196,685	1,501,462	4,891,193	947,081	-
Other borrowed funds	*25*	2,267,287	78,310	169,337	1,374,000	593,595	52,045
Total		15,482,450	5,953,127	1,670,799	6,265,803	1,540,676	52,045
Interest rate gap		3,379,778	(907,383)	(30,881)	4,482,918	(467,943)	303,067
31 December 2012							
Cash and cash equivalents	*15*	6,819,620	6,252,750	566,870	-	-	-
Loans and advances to banks	*17*	-	-	-	-	-	-
Loans and advances to customers	*18*	9,323,546	448,691	983,469	7,550,826	335,117	5,443
Investment securities	*19*	825,269	280,004	179,038	366,227	-	-
Total		16,968,435	6,981,445	1,729,377	7,917,053	335,117	5,443
Deposits from banks and other financial institutions	*23*	1,983,370	1,982,760	-	610	-	-
Deposits from customers	*24*	10,188,401	4,398,711	1,056,441	3,595,271	1,137,978	-
Other borrowed funds	*25*	1,549,570	329,108	228,192	706,057	281,037	5,176
Total		13,721,341	6,710,579	1,284,633	4,301,938	1,419,015	5,176
Interest rate gap		3,247,094	270,866	444,744	3,615,115	(1,083,898)	267

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

4. Financial risk management (continued)

(d) Market risks (continued)

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

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

Effect in thousands of denars	**Profit / loss for the period**
2013	
Interest income (1% increase)	172,732
Interest income (1% decrease)	(172,732)
Interest expense (1% increase)	143,518
Interest expense (1% decrease)	(143,518)
2012	
Interest income (1% increase)	55,671
Interest income (1% decrease)	(55,671)
Interest expense (1% increase)	36,705
Interest expense (1% decrease)	(36,705)

Exposure to currency risk – non-trading portfolios

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

4. Financial risk management (continued)

(d) Market risks (continued)

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

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

In thousands of denars	2013					2012				
	MKD	**EUR**	**USD**	**Other**	**Total**	**MKD**	**EUR**	**USD**	**Other**	**Total**
Monetary assets										
Cash and cash equivalents	3,331,250	907,636	165,227	110,155	4,514,268	6,250,445	670,647	62,060	64,117	7,047,269
Loans and advances to banks	-	-	7,682	-	7,682	-	-	18,947	-	18,947
Loans and advances to customers	5,941,737	7,732,849	145,940	-	13,820,526	3,955,940	5,134,652	140,656	27	9,231,275
Investment securities	1,087,469	56,469	4,277	-	1,148,215	259,067	596,799	4,427	-	860,292
Other assets	206,493	48,972	1,348	-	256,813	195,549	43,126	1,513	-	240,188
	10,566,949	8,745,926	324,474	110,155	19,747,504	10,661,001	6,445,224	227,603	64,144	17,397,972
Monetary liabilities										
Deposits from banks	624	1,688,562	498	7	1,689,691	624	1,997,857	497	25	1,999,003
Deposits from customers	8,209,978	3,916,584	308,268	80,615	12,515,445	6,763,315	3,789,544	224,481	81,248	10,858,588
Other borrowed funds	23,977	2,251,469	-	-	2,275,446	323,677	1,231,380	-	-	1,555,057
Other liabilities	115,520	26,602	8,954	21	151,097	80,289	16,723	179	672	97,863
	8,350,099	7,883,217	317,720	80,643	16,631,679	7,167,905	7,035,505	225,157	81,945	14,510,511
Net FX position	2,216,850	862,709	6,754	29,512	3,115,825	3,493,096	(590,280)	2,445	(17,800)	2,887,460

In performing the currency risk stress test, the Bank in the worst case scenario assesses the impact of the 20% denar devaluation in relation with other currencies. Results of the stress test show that assumed 20% denar devaluation would lead to gains from changes in exchange rate in amount of 160,037 thousand MKD. This will have a positive effect on the Own funds as well through P&L.

4. Financial risk management (continued)

(e) Operational risk

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

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

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

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

(e) Capital management

Regulatory capital

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

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

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

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

4. Financial risk management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

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

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

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

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

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

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

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

As at 31 December 2013 the capital adequacy ratio of the Bank is 18.08% (31 December 2012: 26.34%) and is above the prescribed minimum of 8%.

5. Key sources of estimation uncertainty

Capital allocation

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

Allowances for impairment losses on loans and advances

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

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

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

Allowance for impairment of available for sale equity investments

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

Determining fair values

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

5. Key sources of estimation uncertainty (continued)

Critical accounting judgments in applying the Bank's accounting policies

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

Valuation of financial instruments

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

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

Level 2: This category includes investment in Government Bills in amount of 801,654 thousand mkd and Government Bonds in amount of 312,249 thousand mkd (2012: includes investment in Government Bills in amount of 695,117 thousand MKD and Eurobonds in amount of 130,833 thousand MKD).

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

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

Level 3: This category includes investments in equity shares and can be sold on Secondary Stock exchange market.

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

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

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

In thousands of denars	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
31 December 2013					
Trading assets	*16*	-	-	-	-
Investment securities	*19*	-	1,113,903	34,312	1,148,215
		-	1,113,903	34,312	1,148,215
31 December 2012					
Trading assets	*16*	64,797	-	-	64,797
Investment securities	*19*	130,833	695,117	34,343	860,293
		195,630	695,117	34,343	925,090

5. Key sources of estimation uncertainty (continued)

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

Financial asset and liability classification

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

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

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

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

5. Key sources of estimation uncertainty (continued)

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

Financial asset and liability classification (continued)

In thousands of denars	**Investments securities**	**Total**
Balance at 1 January 2012	33,730	33,730
Total gains or losses		
In profit or loss	613	613
In other comprehensive income		
Purchases	3,167	3,167
Settlements	(2,392)	(2,392)
Balance at 31 December 2012	34,343	34,343
Total gains/(losses) recognised in profit or loss for financial assets and liabilities outstanding as at 31 December 2012	613	613
Balance at 1 January 2013	34,343	34,343
Total gains or losses		
In profit or loss	(163)	(163)
In other comprehensive income		
Purchases	1,899	1,899
Settlements	(2,093)	(2,093)
Balance at 31 December 2013	34,312	34,312
Total gains/(losses) recognised in profit or loss for financial assets and liabilities outstanding as at 31 December 2013	(163)	(163)

6. Operating segments

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

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

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

Information about operating segments

31 December 2013

In thousands of denars	Investment Banking	Corporate Banking	Retail Banking	Central Treasury	Unallocated	Total
External revenue						
Net interest income	126,790	311,744	303,871	(14,593)	-	727,812
Net fee and commission income/(expense)	-	79,886	60,277	(19,194)	-	120,969
Net trading income	-	-	-	(327)	-	(327)
Other operating income	-	6,786	992	4,165	35,186	47,129
Total segment revenue	126,790	398,416	365,140	-29,949	35,186	895,583
Other material non-cash items:						
Impairment losses on financial assets	161	(6,409)	(14,781)	(591)	-	(21,620)
Depreciation and amortization	-	-	-	-	(90,553)	(90,553)
Personnel expenses and other expenses	-	(298,366)	(290,105)	-	-	(588,471)
Reportable segment profit before income tax	126,951	93,641	60,254	(30,540)	(55,367)	194,939
Reportable segment assets	2,844,997	8,264,282	6,412,674	2,936,993	-	20,458,945
Reportable segment liabilities	-	6,129,138	6,522,276	3,965,137	3,842,394	20,458,945

6. Operating segments (continued)

Information about operating segments (continued)

31 December 2012

In thousands of denars	**Investment Banking**	**Corporate Banking**	**Retail Banking**	**Central Treasury**	**Unallocated**	**Total**
External revenue						
Net interest income	62,103	196,944	240,922	(14,163)	-	485,806
Net fee and commission income/(expense)	-	28,078	57,550	(14,160)	-	71,468
Net trading income	10,204	-	-	-	-	10,204
Other operating income	-	8,483	3,628	3,748	15,653	31,512
Total segment revenue	72,307	233,505	302,100	(24,575)	15,653	598,990
Other material non-cash items:						
Impairment losses on financial assets	-	(10,348)	(9,371)	-	-	(19,719)
Depreciation and amortization	-	-	-	-	(75,337)	(75,337)
Personnel expenses and other expenses	-	-	-	-	-	-
Reportable segment profit before income tax	-	(201,338)	(238,943)	-	-	(440,281)
	72,307	21,819	53,786	(24,575)	(59,684)	63,653
Reportable segment assets	5,953,293	5,644,062	4,442,842	1,918,895	185,674	18,144,766
Reportable segment liabilities	-	5,612,557	5,822,120	3,075,832	5,784	14,516,293

6. Operating segments (continued)

Information about operating segments (continued)

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

In thousands of denars	**2013**	**2012**
Revenues		
Total revenue for reportable segments	860,397	583,337
Unallocated amounts	35,186	15,653
Total Revenue	895,583	598,990
Profit or loss		
Total profit or loss for reportable segments	250,306	123,337
Unallocated amounts	(55,367)	(59,684)
Profit before income tax	194,939	63,653
Assets		
Total assets for reportable segments	20,458,945	17,959,092
Other unallocated amounts	-	185,674
Total assets	20,458,945	18,144,766
Liabilities		
Total liabilities for reportable segments	16,616,550	14,510,509
Other unallocated amounts	3,842,394	5,784
Total liabilities	20,458,945	14,516,293

Geographical areas

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

Geographical information

In thousands of denars	**Republic of Macedonia**	**Europe**	**Other**	**Total**
2013				
External revenues	908,794	21,503	(34,714)	895,583
Non-current assets*	711,441	-	-	711,441
2012				
External revenues	629,269	13,953	(44,232)	598,990
Non-current assets*	681,997	-	-	681,997

* Includes property and equipment and intangibles assets

7. Financial assets and liabilities

Accounting classifications and fair values

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

In thousands of denars	***Note***	**Trading**	**Held-to-maturity**	**Loans and receivables**	**Available-for-sale**	**Other amortized cost**	**Total carrying amount**	**Fair value**
31 December 2013								
Cash and cash equivalents	*15*	-	-	-	-	4,514,268	4,514,268	4,514,268
Trading assets	*16*	-	-	-	-	-	-	-
Loans and advances to banks	*17*	-	-	7,682	-	-	7,682	7,682
Loans and advances to customers	*18*	-	-	13,820,526	-	-	13,820,526	13,820,526
Investment securities								
Measured at fair value	*19*	-	-	-	1,148,215	-	1,148,215	1,148,215
Other assets	*22*	-	-	89,224	-	-	89,224	89,224
		-	-	13,917,432	1,148,215	4,514,268	19,579,915	19,579,915
Deposits from banks	*23*	-	-	-	-	1,689,691	1,689,691	1,689,691
Deposits from customers	*24*	-	-	-	-	12,515,445	12,515,445	12,515,445
Other borrowed funds	*25*	-	-	-	-	2,275,446	2,275,446	2,275,446
Other liabilities	*27*	-	-	-	-	127,793	127,793	127,793
		-	-	-	-	16,608,375	16,608,375	16,608,375
31 December 2012								
Cash and cash equivalents	*15*	-	-	-	-	7,047,269	7,047,269	7,047,269
Trading assets	*16*	64,797	-	-	-	-	64,797	64,797
Loans and advances to banks	*17*	-	-	18,947	-	-	18,947	18,947
Loans and advances to customers:	*18*	-	-	9,231,275	-	-	9,231,275	9,231,275
Investment securities:								
Measured at fair value	*19*	-	-	-	860,293	-	860,293	860,293
Other assets	*22*	-	-	57,413	0	-	57,413	57,413
		64,797	-	9,307,635	860,293	7,047,269	17,279,994	17,279,994
Deposits from banks	*23*	-	-	-	-	1,999,003	1,999,003	1,999,003
Deposits from customers	*24*	-	-	-	-	10,858,588	10,858,588	10,858,588
Other borrowed funds	*25*	-	-	-	-	1,555,057	1,555,057	1,555,057
Other liabilities	*27*	-	-	-	-	80,098	80,098	80,098
		-	-	-	-	14,492,746	14,492,746	14,492,746

7. Financial assets and liabilities (continued)

Investment securities – unquoted equity securities at cost

The above table includes MKD 34,312 thousand (2012: MKD 34,506 thousand) of equity investment securities in both the carrying amount and fair value columns that are measured at cost and for which disclosure of fair value is not provided because their fair value cannot be reliably measured. According to the Bank's management fair value do not differ significantly from the carrying amount and it is not cost effective to carry out independent valuation.

8. Net interest income

In thousands of denars	**2013**	**2012**
Interest income		
Cash and cash equivalents	108,766	82,563
Loans and advances to banks	-	168
Loans and advances to customers	994,833	680,791
Investment securities	35,724	30,072
Total interest income	1,139,323	793,594
Interest expense		
Deposits from banks	7,877	5,510
Deposits from customers	356,188	256,633
Other borrowed funds	47,446	45,645
Total interest expense	411,511	307,788
Net interest income	727,812	485,806

9. Net fee and commission income

In thousands of denars	**2013**	**2012**
Fee and commission income		
Credit related fees	20,298	16,337
Payment operations in the country	45,728	30,415
Payment operations abroad	53,682	41,255
Letters of credit and guarantees	20,182	10,391
Other	66,107	35,925
Total fee and commission income	205,997	134,323
Fee and commission expense		
Payment operations within the country	21,552	16,175
Payment operations abroad	9,341	8,217
Letters of credit and guarantees	363	79
Other	53,772	38,384
Total fee and commission expense	85,028	62,855
Net fee and commission income	120,969	71,468

10. Net trading income

In thousands of denars	**2013**	**2012**
Interest income	109	9,636
Net change in fair value of held-for-trading assets	(436)	568
Total net trading income	(327)	10,204

11. Other operating income

In thousands of denars	**2013**	**2012**
Capital gain on sale of property and equipment	493	57
Capital gain on sale of assets acquired through foreclosure procedure	143	-
Dividends on available-for-sale equity securities	4,165	3,815
Collection of previously written off receivables	757	157
Release of impairment provision for off balance	1,523	-
Calculated expenses in previous years	1,253	-
Refund of phone expanses	524	-
Income from sale of gold coins	-	2,697
Income from collected claims insurance	250	382
Sale of bills of exchange	581	402
Other	8,241	3,901
	17,930	11,411

12. Personnel expenses

In thousands of denars	**2013**	**2012**
Wages and salaries	197,636	138,450
Compulsory contributions	67,347	48,392
Other staff costs	4,255	5,819
	269,238	192,661

13. Other expenses

In thousands of denars	**2013**	**2012**
Materials and services	129,056	127,091
Marketing and advertisement costs	33,119	26,797
Insurance premiums of deposits	44,472	29,754
Telecommunications	21,591	17,202
Rents	33,407	14,911
Security expenses	19,009	15,615
Impairment provision for off balance sheet items	-	227
Tax on non-deductable expenses	1,864	1,612
Insurance of property and employees	4,455	3,622
Impairment losses on assets acquired through foreclosure procedure	19,487	1,831
Penalties, court and administrative expenses	83	27
Other	12,690	8,931
	319,233	247,620

14. Earnings per share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share at 31 December 2013, was based on the profit attributable to ordinary shareholders of MKD 194,939 thousand (2012: MKD 63,653 thousand) and a weighted average number of ordinary shares outstanding of 213,861 (2012: 213,861), calculated as follows:

Profit attributable to ordinary shareholders

In thousands of denars	**2013**	**2012**
Net profit for the period	194,939	63,653
Net profit attributable to ordinary shareholders	194,939	63,653

Weighted average number of ordinary shares

Number of shares	**2013**	**2012**
Issued ordinary shares at 1 January	289,369	188,415
Effect of own shares issued in October as a result of merger with Ziraat Bank	-	25,446
Weighted average number of ordinary shares at 31 December	289,369	213,861
Basic and Diluted earnings per share	674	298

15. Cash and cash equivalents

In thousands of denars	**2013**	**2012**
Cash on hand	506,509	222,212
Balances with the National Bank of Republic of Macedonia	1,904,381	1,615,048
Current accounts with foreign banks	406,574	147,169
Current accounts with local banks	110	295
Government bills	-	766,518
Treasury bills	1,696,706	4,296,027
Total cash	4,514,278	7,047,269
Specific Allowance for impairment	(10)	-
Total cash after ımpaırment	4,514,268	7,047,269

In thousands of denars	**2013**	**2012**
Specific Allowances for impairment		
Balance at 1 January	-	-
Balance as at 30 September from Ziraat Bank AD Skopje	-	194
Impairment loss for the year recognized in the income statement		
Charge for the year	10	-
Release for the year		(194)
Balance at 31 December	10	-

At 31 December 2013 cash and cash equivalents included MKD 882,140 thousand (2012: MKD 893,955 thousand) as obligatory reserve requirement in MKD and MKD 551,810 thousand (2012: MKD 603,863 thousand) as obligatory reserve in foreign currency requirement. Funds from obligatory reserve in foreign currency are not available for the Bank's daily business.

Part of treasury bills in the amount of MKD 300,000 thousand in 2012 are pledged as a collateral upon a repo agreement with NBRM (see note 25 other borrowed funds).

15. Cash and cash equivalents (continued)

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

Bank	Credit rating on long term basıs		
	Fitch	Moody's	S & P
Banca Popolare di Milano scarl	BB+	B1	BB-
Commerzbank AG	A+	Baa1	A-
Credit Suisse AG	A	A1	A
Danske Bank A/S	A	Baa1	A-
Demir-Halk Bank (Nederland) NV	/	Ba2	/
Deutsche Bank AG Frankfurt am Main	A+	A2	A
Deutsche Bank Trust Company Americas New York	A+	A2	A
Erste Group Bank AG	A	A3	A
Intesa Sanpaolo Spa Milan	BBB+	Baa2	BBB
Landesbank Baden-Wurttember	A+	A3	/
Nova Ljubljanska Banka DD Ljubljana	BB-	Caa2	/
Raiffeisen Bank International	A	A2	A
Svenska Handelsbanken AB Stockholm	AA-	Aa3	AA-
Turkiye Halk bankasi AS	BBB-	Baa3	/
Ubs AG Zurich	A	A2	A
Unicredito spa Milan	BBB+	Baa2	BBB
Unicredit Bank Austria AG	A	Baa1	A-
Türkiye Cumhuriyeti Ziraat Bankasi AS	BBB-	Baa3	/

16. Trading assets

In thousands of denars	**2013**	**2012**
Government bonds	-	64,797
	-	64,797

17. Loans and advances to banks

In thousands of denars	2013	2012
Restricted loans and advances to foreign banks	7,682	18,947
	7,682	18,947
Current	-	-
Non-current	7,682	18,947

The restricted deposits include deposit placed in Deutsche Bank AG in the amount of MKD 7,682 thousand (2012: MKD 8,030 thousand) as collateral for transactions performed with MASTER payment cards and deposit placed in Raiffeisen Zentralbank Oesterreich AG is relised 2013 (2012: MKD 10,917 thousand) as collateral for transactions performed with VISA payment cards. These funds are not available for the Bank's daily business.

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

18. Loans and advances to customers

Loans and advances to customers at amortized cost

In thousands of denars	2013	2012
Retail customers:		
Mortgage lending	420,842	353,496
Consumer loans	4,629,827	3,545,806
Credit cards	598,889	346,090
Other	594,679	407,658
Corporate customers	7,891,773	4,854,652
Less allowances for impairment	(315,484)	(276,427)
Total loans and advances to customers	13,820,526	9,231,275
Current	3,206,071	3,278,743
Non-current	10,614,455	5,952,532

In thousands of denars	2013	2012
Specific Allowances for impairment		
Balance at 1 January	276,427	181,141
Balance as at 30 September from Ziraat Bank AD Skopje	-	43,568
Impairment loss for the year recognized in the income statement		
Charge for the year	18,584	15,507
Effect from interest	20,565	36,211
Other corrections	(92)	-
Balance at 31 December	315,484	276,427

19. Investment securities

Available-for-sale investment securities

In thousands of denars	**2013**	**2012**
Government Bonds	312,249	130,833
Government Bills	801,654	695,117
Unquoted equity securities at cost	34,312	34,506
Specific Allowance for impairment	-	(163)
	1,148,215	860,293
Current	843,330	860,293
Non-current	304,885	-

In thousands of denars	**2013**	**2012**
Specific Allowances for impairment		
Balance at 1 January	163	-
Balance as at 30 September from Ziraat Bank AD Skopje	-	-
Impairment loss for the year recognized in the income statement		
Charge for the year	-	163
Release for the year	(161)	-
Other corrections	(2)	-
Balance at 31 December	-	163

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

According the Standard and Poor's the local Long term Rating of Republic of Macedonia is BB.

	2013		**2012**	
Type of investements	Days of Maturity	Interest Rate	Days of Maturity	Interest Rate
Government bills	364	(3.60%-4.25%)	84-105	(3.60%-4.25%)
Government bonds	1826	4.90%	90-182	4.90%

20. Property and equipment

In thousands of denars	**Buildings**	**Furniture and equipment**	**Assets under construction**	**Leasehold improvements**	**Total**
Cost					
Balance at 1 January 2012	471,188	271,594	19,095	5,765	767,642
Balance as at 30 September 2012 from Ziraat Banka	82,368	58,411	-	9,137	149,916
Acquisitions	20,703	87,679	-	22,395	130,777
Disposals	-	(9,576)	-	-	(9,576)
Other transfers	-	-	(8,879)	-	(8,879)
Balance at 31 December 2012	574,259	408,108	10,216	37,297	1,029,880
Balance at 1 January 2013	574,259	408,108	10,216	37,297	1,029,880
Acquisitions	9,948	72,055	135	20,799	102,937
Disposals	-	(4,040)	-	-	(4,040)
Other transfers	-	-	-	-	-
Balance at 31 December 2013	584,207	476,123	10,351	58,096	1,128,777
Depreciation					
Balance at 1 January 2012	54,091	207,500	-	1,180	262,771
Balance as at 30 September 2012 from Ziraat Banka	17,876	51,315	-	6,236	75,427
Depreciation for the period	12,301	37,369	-	3,315	52,985
Disposals	-	(9,137)	-	-	(9,137)
Other transfers	-	-	-	-	-
Balance at 31 December 2012	84,268	287,047	-	10,731	382,046
Balance at 1 January 2013	84,268	287,047	-	10,731	382,046
Depreciation for the period	14,444	46,522	-	6,664	67,630
Disposals	-	(3,780)	-	-	(3,780)
Balance at 31 December 2013	98,712	329,789	-	17,395	445,896
Carrying amounts					
Balance at 1 January 2012	417,097	64,094	19,095	4,585	504,871
Balance at 31 December 2012	489,991	121,061	10,216	26,566	647,834
Balance at 31 December 2013	485,495	146,334	10,351	40,701	682,881

There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2012: zero).

As at 31 December 2013 the Bank does not hold property deeds for one building with carrying amount MKD 1.095 thousand (2012: MKD 1,133 thousand). The Bank is in process of obtaining the necessary documents.

As at 31 December 2013 the Bank does not have any property pledged as collateral (2012: none).

Operating leases

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

21. Intangible assets

In thousands of denars	Software	Rights and licences	Assets under development	Total
Cost				
Balance at 1 January 2012	78,846	43,640	-	122,486
Balance as at 30 September 2012 from Ziraat Banka	8,422	6,202	-	14,624
Acquisitions	4,566	1,352	5,381	11,299
Disposal	(2,494)	(2,388)	-	(4,882)
Balance at 31 December 2012	89,340	48,806	5,381	143,527
Balance at 1 January 2013	89,340	48,806	5,381	143,527
Acquisitions	13,726	679	2,916	17,321
Disposal	-	-	-	-
Balance at 31 December 2013	103,066	49,485	8,297	160,848
Amortisation				
Balance at 1 January 2012	46,787	37,810	-	84,597
Balance as at 30 September 2012 from Ziraat Banka	4,928	2,370	-	7,298
Amortisation for the period	16,911	4,843	598	22,352
Disposal	(2,494)	(2,388)	-	(4,882)
Balance at 31 December 2012	66,132	42,635	598	109,365
Balance at 1 January 2013	66,132	42,635	598	109,365
Amortization for the period	18,972	2,798	1,153	22,923
Disposal	-	-	-	-
Balance at 31 December 2013	85,104	45,433	1,751	132,288
Carrying amounts				
Balance at 1 January 2012	32,059	5,830	-	37,889
Balance at 31 December 2012	23,208	6,171	4,783	34,162
Balance at 31 December 2013	17,962	4,052	6,546	28,560

22. Other assets

In thousands of denars	2013	2012
Other Financial assets		
Trade receivables	1,869	1,420
Fee and commission receivables	4,710	3,903
Receivables upon performed transactions - Western Union	1,328	1,494
Receivables upon performed transactions – Master Card	30,507	25,248
Receivables upon performed transactions – Visa	43,917	18,721
Receivables upon court taxes	16,776	13,166
Other	4,096	4,262
Total Other Financial assets	103,203	68,214
Specific Allowances for impairment	(13,979)	(10,801)
Total Less allowances for impairment	**89,224**	**57,413**
Current	103,203	68,214
Other Non-financial Assets		
Advances for intangible assets	10,570	9,023
Inventories	13,040	12,866
Asset acquired through foreclosure procedure	132,029	149,906
Prepayments	11,950	10,980
Total Other Non-financial assets	**165,589**	**182,775**

In thousands of denars	2013	2012
Specific allowances for impairment		
Balance at 1 January	10,801	6,186
Balance as at 30 September from Ziraat Banka AD Skopje	-	372
Impairment loss for the year:		
Charge for the year	3,187	4,243
Other corrections	(9)	-
Balance at 31 December	13,979	10,801

22. Other assets (continued)

Asset acquired through foreclosure procedure

In thousands of denars	Land	Construction	Equipment	Flats	Other	Total
Nominal Value						
Balance at 1 January 2012	36,046	77,181	2,138	23,827	4,116	143,308
Takeover during the year	18,622	-	-	1,356	1,891	21,869
Transfer to tangible assets	-	-	-	-	(14)	(14)
Balance at 31 December 2012	54,668	77,181	2,138	25,183	5,993	165,163
Balance at 1 January 2013	54,668	77,181	2,138	25,183	5,993	165,163
Takeover during the year	4,933	-	-	-	-	4,933
Sold during the year	-	-	-	-	(4,304)	(4,304)
Balance at 31 December 2013	59,601	77,181	2,138	25,183	1,689	165,792
Impairment						
Balance at 1 January 2012	1,640	3,680	-	7,861	245	13,426
Impairment during the year	633	630	167	-	402	1,832
Balance at 31 December 2012	2,273	4,310	167	7,861	647	15,258
Balance at 1 January 2012	2,273	4,310	167	7,861	647	15,258
Impairment during the year	2,622	13,824	62	2,394	586	19,487
Transfer to tangible assets	-	-	-	-	(981)	(981)
Balance at 31 December 2013	4,895	18,134	229	10,255	251	33,764
Carrying amounts						
Balance at 1 January 2012	34,406	73,501	2,138	15,966	3,871	129,882
Balance at 31 December 2012	52,395	72,871	1,971	17,322	5,346	149,905
Balance at 31 December 2013	54,706	59,047	1,909	14,928	1,438	132,028

23. Deposits from banks

In thousands of denars	**2013**	**2012**
Domestic banks	84,461	6,894
Foreign banks	1,605,230	1,992,109
Total	1,689,691	1,999,003
Current	10,871	15,611
Non - current	1,678,820	1,983,392

Time deposits from foreign banks represent a short term deposit from Halk Bank Turkey with interest rate of 0.2% p.a.

24. Deposits from customers

In thousands of denars	**2013**	**2012**
Retail customers	6,504,744	5,832,504
Corporate customers	5,996,071	4,932,286
Public sector	14,630	93,798
Total deposits	12,515,445	10,858,588
Current	3,369,335	3,283,392
Non-Current	8,507,752	6,179,462
Restricted	638,358	1,395,734

25. Other borrowed funds

In thousands of denars	**2013**	**2012**
Bank loans from other financial institutions	2,275,446	1,555,057
Current	742,301	375,294
Non-Current	1,533,145	1,179,763
Total other borrowed funds	2,275,446	1,555,057

25. Other borrowed funds (continued)

Terms and conditions of outstanding loans were as follows:

In thousands of denars					2013		2012	
		Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Unsecured loans	MBPR	EUR	1%-3%	2014 – 2021	840,243	840,243	273,366	273,366
Unsecured loans	Soros Economic Development Fund	EUR	0%-2.5%	According contract with final beneficiary	2,350	2,350	2,349	2,349
Unsecured loans	EFSE	EUR	3.393% - 3.493%	2016	155,154	155,154	217,605	217,605
Unsecured loans	MRFP	EUR	5.70%- 5.85%	2014 – 2016	92,040	92,040	151,928	151,928
Unsecured loans	DHB Demir-Halk Bank N.V.	EUR	3%	2014	616,292	616,292	-	-
Unsecured loans	GGF Green for growth Fund	EUR	2.993% - 3.093%	2018	254,742	254,742	305,833	305,833
Unsecured loans	EBRD	EUR	2.293%- 2.393%	2015 – 2017	290,648	290,648	280,307	280,307
Unsecured loans	FOOM	MKD	0% - 2%	According contract with final beneficiary	23,977	23,977	23,576	23,576
Secured loan	NBRM	MKD	3.73%	04.01.2013	-	-	300,093	300,093
Total					**2,275,446**	**2,275,446**	**1,555,057**	**1,555,057**

The secured loan represents a repo agreement with NBRM for which the bank has pledged treasury bills in 2012 (see note 15).

26. Provisions

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

In thousands of denars	**Off balance sheet items**	**Litigation and claims**	**Total**
Balance at 1 January 2012	1,061	1,209	2,270
Balance as at 30 September from Ziraat Bank AD Skopje	294	-	294
Provisions made during the year	227	-	227
Used during the year	-	(1,030)	(1,030)
Balance at 31 December 2012	1,582	179	1,761

27. Other liabilities

In thousands of denars	**2013**	**2012**
Other Financial liabilities		
Suppliers payable	9,655	13,904
Other Liabilities for employees	20,911	75
Liabilities upon performed transactions – Master Card	48,027	33,935
Liabilities upon performed transactions – Visa	522	2,006
Other	48,678	30,178
Total other Financial liabilities	**127,793**	**80,098**
Current	127,793	80,098
Other Non-financial liabilities		
Liabilities for employees benefits	8,598	4,021
Accrued expenses	23,304	17,765
Total other Non-financial liabilities	**31,902**	**21,786**

According the Standard and Poor's the local Long term Rating for United Kingdom and for Belgium is AAA

28. Capital and reserves

Share capital

In number of shares	**Ordinary shares** **2013**	**2012**
On issue at 1 January	289,369	188,415
Issued during the year	-	100,954
On issue at 31 December	289,369	289,369

At 31 December 2013 the authorized share capital comprised 289,369 (2012: 289.369) ordinary shares. Ordinary shares have a par value of MKD 10,000 (2012: MKD 10,000). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share (2012: one vote per share) at shareholders' meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

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

	% of voting share capital **2013**	**2012**
Halk Bankasi A.S. Ankara	98.78%	98.12%
Agency for managing repossessed property	1.08%	1.66%

28. Capital and reserves (continued)

Statutory reserve

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

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

Fair value reserve

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

Dividends

After 31 December 2013 no dividends were proposed by the Supervisory Board of the Bank.

29. Contingencies

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

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

In thousands of denars	***Note***	**2013**	**2012**
Guarantees			
in MKD		653,660	455,887
in foreign currency		372,869	190,522
Letters of credit in foreign currency		793,205	48,311
Loan commitments		918,284	584,138
Contingencies before provisions		2,738,018	1,278,858
Provisions	*26*	(57)	(1,582)
Contingencies after provisions		2,737,961	1,277,276

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

The amount of the revocable contingencies is 3,652,520 thousands MKD, and the amount of the irrevocable contingencies is 2,821,214 thousand MKD (2012: the amount of the revocable contingencies is 3,364,922 thousand MKD, and the amount of the irrevocable once is 1,311,264 thousand MKD).

30. Related parties transactions

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

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

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

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

(i) Cash and cash equivalents

	Transactions with the Parent Bank	
In thousands of denars	**2013**	**2012**
Placements as at 1 January	1,193	949
Placements during the year	223,332,894	97,141,940
Withdrawals during the year	(223,331,459)	(97,141,696)
Cash and cash equivalents outstanding at 31 December	2,628	1,193
Interest income earned	-	-

(ii) Loans and advances to related parties

	Key management personnel of the Bank and other related parties	
In thousands of denars	**2013**	**2012**
Loans outstanding at 1 January	8,383	6,110
Loans issued during the year	40,669	2,845
Loan repayments during the year	(25,289)	(572)
Loans outstanding at 31 December	23,763	8,383
Specific allowance for impairment	(199)	85
Interest income earned	1,517	871

30. Related parties transactions (continued)

(iii) Deposits from related parties

In thousands of denars	**Parent and with it related parties 2013**	**2012**	**Other related parties 2013**	**2012**	**Key management personnel of the Bank and with them related parties 2013**	**2012**
Deposits at 1 January	1,992,108	3,441	-	7,470	12,595	6,414
Deposits received during the year	214,247,551	95,902,071	-	-	233,369	128,027
Deposits repaid during the year	(214,634,429)	(93,913,404)	-	(7,470)	(223,325)	(121,846)
Deposits at 31 December	1,605,230	1,992,108	-	-	22,639	12,595
Interest expense on deposits	7,522	5,257	-	-	188	144

(iv) Borrowings from related parties

In thousands of denars	**Parent and with it related parties 2013**	**2012**	**Other related parties 2013**	**2012**
Borrowings at 1 January	-	-	-	180,825
Borrowings received during the year	616,292	-	-	180,825
Borrowings at 31 December	616,292	-	-	-
Interest expense - borrowings	10,683	-	-	6,609

(v) Other transactions with related parties

In thousands of denars	**Other related parties 2013**	**2012**	**Parent 2013**	**2012**	**Key management personnel of the Bank and with the related parties 2013**	**2012**
Cash and cash equivalents	-	519	-	-	30	-
Commitments and contingences	-	-	5,484	21,525	4,613	2,113
Provision for off balance	-	-	-	-	47	22
Interest income	-	141	-	-	1,517	730
Fee and commission expense	81	-	213	98	501	42
Fee and commission income	6	13	127	87	1,175	102

30. Related parties transactions (continued)

(vi) Key management personnel compensation

In thousands of denars	**2013**	**2012**
Short-term employee benefits	79,846	26,523
Termination benefits	-	-
	79,846	26,523

31. Subsequent events

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements.