



Independent Auditors' Report and
Financial Statements prepared based on International
Financial Reporting Standards

Macedonian Bank for Development Promotion A.D.,
Skopje

31 December 2014

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Independent auditors' report

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

T +389 (2) 3214 700
F +389 (2) 3214 710
www.grant-thornton.com.mk

To the Shareholders of
the Macedonian Bank for Development Promotion A.D., Skopje

We have audited the accompanying financial statements of the Macedonian Bank for Development Promotion A.D., Skopje (the "Bank") which comprise the Statement of financial position as at 31 December 2014, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Banks'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 Banks's internal control.

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

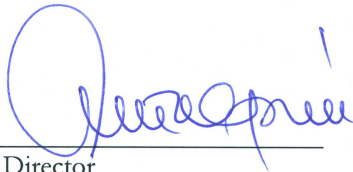
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

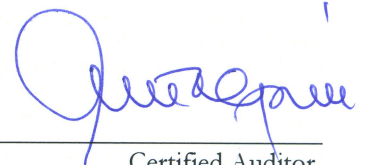
In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Skopje,
29 April 2015

Grant Thornton DOO Skopje



Director
Suzana Stavrik



Certified Auditor
Suzana Stavrik

Financial statements
31 December 2014

Statement of comprehensive income

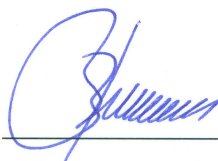
	Notes	2014	2013
(In Denar thousand)			
For the year ended			
31 December			
Interest income		367,178	366,706
Interest (expense)		(208,283)	(203,321)
Net interest income	5	158,895	163,385
Fee and commission income		35,055	33,027
Fee and commission (expense)		(15,045)	(16,410)
Net fee and commission income	6	20,010	16,617
Foreign exchange gains/(losses), net	7	(977)	130
Other operating income	8	1,211	18,658
Release of / (Impairment provision) of financial assets, net	9	5,135	(26,710)
Personnel expenses	10	(33,167)	(33,318)
Amortization and depreciation	18,19	(5,228)	(5,515)
Other operating expenses	11	(26,311)	(17,799)
Profit before tax		119,568	115,448
Income tax expense	12	(12,057)	(134)
Net profit for the year		107,511	115,314
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		107,511	115,314
Earnings per share			
Basic and diluted earnings per share (in Denar)	13	280	300

Financial statements
31 December 2014

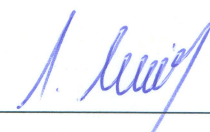
Statement of financial position

		(In Denar thousand)	
		As at 31 December	
	Notes	2014	2013
Assets			
Cash and cash equivalents	14	2,195,710	1,632,585
Loans and advances to banks	15	12,636,788	12,308,381
Loans and advances to customers	16	138,405	153,593
Foreclosed assets	17	1,798	1,550
Intangible assets	18	18,858	776
Property and equipment	19	94,153	97,577
Current income tax receivables		-	460
Other receivables	20	8,082	9,639
Total assets		15,093,794	14,204,561
Liabilities			
Borrowings	21	12,809,172	12,039,775
Provisions and special reserve	22	16,629	10,932
Current income tax payables		11,597	-
Other liabilities	23	7,480	13,059
Total liabilities		12,844,878	12,063,766
Equity and reserves			
Share capital	24	1,193,792	1,193,792
Reserves		947,682	831,758
Retained earnings		107,442	115,245
Total equity and reserves		2,248,916	2,140,795
Total liabilities, equity and reserves		15,093,794	14,204,561
Commitments and contingencies	26	471,578	292,847

These financial statements have been approved by the Bank's Supervisory Board on 28 April 2015, and signed on behalf of the Board of Directors by:



Mr. Besim Bilali
Chief Operating Officer

Mr. Dragan Martinovski
Chief Executive Officer

Financial statements
31 December 2014

Statement of changes in equity

	Share capital	Statutory reserve	Reserves for security	(In Denar thousand)	
				Retained earnings	Total equity and reserves
At 01 January 2014	1,193,792	678,637	153,121	115,245	2,140,795
Distribution of retained earnings	-	115,314	-	(115,314)	-
Allocation of other reserve	-	-	610	-	610
<i>Transactions with owners</i>	-	115,314	610	(115,314)	610
Profit for the year	-	-	-	107,511	107,511
Other comprehensive income	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	107,511	107,511
At 31 December 2014	1,193,792	793,951	153,731	107,442	2,248,916
At 01 January 2013	1,193,792	612,214	153,121	66,352	2,025,479
Distribution of retained earnings	-	66,421	-	(66,421)	-
<i>Transactions with owners</i>	-	66,421	-	(66,421)	-
Profit for the year	-	-	-	115,314	115,314
Other comprehensive Income	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	115,314	115,314
At 31 December 2013	1,193,792	678,637	153,121	115,245	2,140,795

Financial statements
31 December 2014

Statement of cash flows

	Notes	(In Denar thousand)	
		Year ended 31 December 2014	2013
Operating activities			
Profit before taxation		119,568	115,448
Adjustments for:			
Amortization and depreciation		5,228	5,515
(Release of) / Impairment provision of financial assets, net		(5,135)	26,710
Impairment provision of non-financial assets, net (Release of) / Impairment provision on commitments and contingencies		363	388
Interest income		5,697	(16,968)
Interest expenses		(367,178)	(366,706)
Other corrections		208,283	203,321
		-	(1,884)
<i>(Loss) before changes in operating assets and liabilities</i>		<i>(33,174)</i>	<i>(34,176)</i>
<i>Changes in operating assets and liabilities</i>			
Loans and advances to banks		(328,407)	(1,579,934)
Loans and advances to customers		15,187	69,118
Foreclosed assets		(248)	(1,938)
Other receivables		1,557	(3,779)
Other liabilities		(5,578)	3,393
<i>(Loss) after changes in operating assets</i>		<i>(350,663)</i>	<i>(1,547,316)</i>
Proceeds from interest		366,323	348,724
Paid interest		(208,481)	(195,048)
Cash used in operating activities		(192,821)	(1,393,640)
Investment activities			
Purchase of property and equipment and intangible assets		(19,886)	(890)
Cash used in investing activities		(19,886)	(890)
Financial activities			
Proceeds from borrowings, net		775,832	1,820,583
Cash generated from financial activities		775,832	1,820,583
Net change in cash and cash equivalents		563,125	426,053
Cash and cash equivalents, beginning of the year		1,632,585	1,206,532
Cash and cash equivalents, end of the year	14	2,195,710	1,632,585

Notes to the financial statements

1 General information

Macedonian Bank for Development Promotion AD Skopje (“the Bank” or “MBDP”) is a state owned Shareholding Company incorporated and domiciled in the Republic of Macedonia.

The address of the Bank’s registered office is as follows: St. Dimitrie Chupovski 26, 1000 Skopje Republic of Macedonia.

The Bank sole shareholder is the Government of the Republic of Macedonia. The Bank’s main activities include funding the start up of businesses and the development of small and medium size enterprises, financing exports with loans and issuing financial guarantees, export and domestic credit insurance, factoring, issuance of letter of guarantees, trading activities etc. Loans are granted through participating banks in the Republic of Macedonia which bear the ultimate risk of collection of the receivables and directly as well.

In accordance with the amendment of the Law for founding of the Macedonian Bank for Development Promotion in the Official Gazette no. 105/09 from 21 August 2009, apart from other changes introduced, the Bank is allowed to perform loan financing directly to the customers or jointly with the other Banks or non-banking financial institutions.

In addition, according to the changes in the Law on MBDP, the Bank has transferred previously established Guarantee Fund for issuing letter of guarantees for secure of payments of long term loans for investments approved by banks and other financial institutions in Republic of Macedonia to micro, small and medium sized enterprises, sole proprietorships and craftsmen registered in Republic of Macedonia, to the initial capital of the bank. The letters of guarantees issued from the Guarantee Fund until the date of entering into force of this Law are the responsibility of MBDP.

These financial statements are approved by the Supervisory Board of the Bank at 28 April 2015.

The Bank does not hold any investment in subsidiaries. Also, the Bank shares are not listed on any stock exchange market. The total number of employees of the Bank as at 31 December 2014 is 42 (2013: 42 employees).

2 Accounting policies

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

Notes to the financial statements (continued)
Accounting policies (continued)

2.1 Basis of preparation and statement of compliance

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

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

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

2.2 Changes in accounting policies and disclosures

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

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

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

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

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

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

Notes to the financial statements (continued)
Accounting policies (continued)

Changes in accounting policies and disclosures (continued)

The Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

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

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

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

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

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

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

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

Amendments to IFRS 11 Joint Arrangements

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

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

Notes to the financial statements (continued)
Accounting policies (continued)

2.3 Foreign currency translation

Transactions in foreign currencies are translated to Macedonian Denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian Denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Macedonian Denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

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

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

	<u>31 December 2014</u>	<u>31 December 2013</u>
1 EUR	61.4818 Denar	61.5113 Denar
1 USD	50.5604 Denar	44.6284 Denar
1 GBP	78.5906 Denar	73.5429 Denar
1 CHF	51.1152 Denar	50.1764 Denar

2.4 Offsetting

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

2.5 Interest income and expense

Interest income and expense are recognized in the profit or loss for all interest bearing financial assets and liabilities using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation of the effective interest rate includes all fees and points paid or received, (transaction costs, and discounts or premiums) that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss include interest on financial assets and liabilities at amortized cost on an effective interest rate basis

2.6 Fee and commission income

Fee and commission income with exception to the fees for approving of loans, is recognized in the profit or loss on an accrual basis when the service has been provided. Fees for approving of loans are deferred and amortised over the duration of period of the loan using the effective interest method.

Notes to the financial statements (continued)
Accounting policies (continued)

2.7 Financial assets

Financial assets are classified in the following categories: loans and receivables, financial assets at fair value through profit and loss, financial assets available-for-sale and financial assets held to maturity. Management classifies its investments at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. They are recognized when the cash is advanced.

As at 31 December 2014, loans and receivables of the Bank consist of loans and advances to banks, loans and advances to customers including factoring receivables, cash and cash equivalents and other receivables.

Financial assets at fair value through profits and losses

This category of financial assets consists of securities held for trading and securities at fair value through profits and losses classified as it at initial recognition. A financial asset is classified as asset held for trading if it is acquired or incurred principally for the purpose of generating profit through short-term fluctuations in the price or if it is included in the portfolio for which a short-term actual form of profit gain exists. As at 31 December 2014 the Bank has no assets classified under this category.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets available-for-sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices. As at 31 December 2014 the Bank has no assets classified under this category.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. If the Bank sells a significant amount of the financial assets held to maturity before they reach the maturity date, then the entire category of these assets will be reclassified in financial assets available-for-sale. As at 31 December 2014 the Bank has no assets classified under this category.

Initial recognition and derecognition

Purchases and sales of financial assets available – for – sale and held to maturity financial assets are recognized on trade – date – the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets except for financial assets not carried at fair value through profit or loss.

Financial assets cease to be recognized after the rights to receive cash flows from the funds ends or after their transfer, and the Bank transferred substantially all risks and benefits of ownership.

Notes to the financial statements (continued)
Accounting policies (continued)

Financial assets (continued)

Subsequent measurement

After initial recognition, the Bank measures financial assets carried at fair value through profit or loss, or as available-for-sale, at fair values without any deduction for transaction costs it may incur on their sale.

The fair value of quoted financial assets is their bid prices at the Statement of financial position date.

If the market on which the financial asset is quoted is not active, the Bank establishes fair values by using a valuation technique. Valuation techniques include the use of recent arm's length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost. Investments held to maturity and loans and receivables are measured at amortized cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the profit or loss in the period in which they arise.

Net changes in the fair value of financial assets classified as fair value through profit and loss include interest income.

Unrealised gains and losses arising from changes in the fair value of financial assets available-for-sale are recognised directly in Statement of comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss.

When financial assets available-for-sale are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Where financial assets available-for-sale are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

Notes to the financial statements (continued)
Accounting policies (continued)

2.8 Impairment of financial assets

Assets carried at amortized cost

The Bank assesses on a monthly basis whether there is objective evidence that a financial asset is impaired. A financial asset or a group of financial assets 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 or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Days in arrears for payment of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Initiation of bankruptcy proceedings;
- Activating the collateral.

The Bank assesses the existence of objective evidence for impairment on individual basis for individually significant financial assets.

The amount of impairment 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 based on the loan) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance for impairment and the amount of the impairment loss is recognized in the current Statement of comprehensive income.

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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment and are recognized as income in the current period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

2.9 Intangible assets

Recognition and measurement

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

Subsequent expenditure

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

Notes to the financial statements (continued)
Accounting policies (continued)

Intangible assets (continued)

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. No amortization is charged for assets under development. The following are approximations of estimated useful life applied to significant items of intangible assets:

	2014	2013
Software	4 years	4 years
Rights and licenses	4 years	4 years

2.10 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses, if any. Cost includes all expenses directly attributable to purchase of assets.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged through profit or loss during the financial period in which they are incurred.

Depreciation is charged on a straight - line basis in order to allocate the acquisition cost of property, building and equipment over their useful lives. No depreciation is charged for land and construction in progress. The following are approximations of estimated useful life applied to significant items of property and equipment:

Buildings	50 years
Furniture and equipment	4-5 years
Other assets	4-10 years

The residual values of assets and the estimated useful life are reviewed and if necessary are corrected at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

2.11 Foreclosed assets

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

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

Notes to the financial statements (continued)
Accounting policies (continued)

2.12 Impairment of non financial assets

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

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

2.13 Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, unrestricted cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid financial assets with original maturities of three months or less.

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

2.14 Provisions

A provision is recognized when there is a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation.

2.15 Employee benefits

The Bank contributes to its employees as prescribed by the local social security legislation. Contributions, based on salaries, are made to the national Pension Fund and the obligatory private pension funds. There is no additional liability regarding these contributions. In addition, all employers in the Republic of Macedonia are obligated to pay to the employees on retirement a separate minimum amount regulated by law.

The Bank has not provided for the employees' accrued separate minimum amount on retirement, as this amount would not have a material effect on the financial statements.

The Bank does not operate any pension scheme or retirement benefit plans and consequentially, has no liability for pensions. The Bank is not obliged to provide additional benefits for its current or previous employees.

Notes to the financial statements (continued)
Accounting policies (continued)

2.16 Current and deferred income tax

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

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

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The Bank has not recognized any deferred tax assets or liabilities as at 31 December 2014 and 2013, as there are no temporary differences existing at that date.

2.17 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities at amortized cost consist of borrowings and other liabilities.

Borrowings

Borrowings are initially recognized at fair value, being their issue proceeds (fair value of consideration received) corrected by transaction costs incurred. Borrowings are subsequently carried at amortized cost. Borrowings are derecognized at the moment of their settlement, cancellation or expiration.

Other liabilities

Other liabilities are recognised initially at fair value and subsequently are stated at amortised cost using the effective interest rate method. Other liabilities are derecognized at the moment of their settlement, cancellation or expiration.

2.18 Share capital and reserves

(a) Share capital

Share capital represents the nominal value of shares that have been issued.

(b) Reserves

Reserves, which comprise of reserves for securities as well as statutory reserves, are generated throughout the period, distributed from the accumulated gains based on legal regulation and decisions by the Bank's Management.

Notes to the financial statements (continued)
Accounting policies (continued)

Share capital and reserves (continued)

(c) Retained earnings

Retained earnings comprise of non-distributed earnings from the current and past periods.

(d) Dividends

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

2.19 Earnings per share

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

2.20 Assets and liabilities from commission operations

Assets and liabilities managed on behalf of and for the account of the banks and the Government of the Republic of Macedonia are included in the statement of financial position on a net basis. Net liabilities in the statement of financial position represent the temporary difference between liabilities payments for the account of the banks.

2.21 Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

2.22 Segment reporting

A business segment is a distinguishable component of an entity engaged in providing an individual – or a group of related – product(s) or service(s) subject to risks and rewards that are different from those of other business segments. A geographical segment is a distinguishable component defined as for a business segment, but subject to risks and rewards related to particular economic environments.

2.23 Commitments and contingencies

The Bank undertakes liabilities in its operating activities arising from loan placements accounted for in the off Statement of financial position accounts, which primarily include guarantees, letter of credits and potential commitments from factoring. The insured receivables are recorded in the off balance sheet accounts of the Bank. The Bank is exposed to a maximum of 90% of the invoiced amount and it's insured receivables are reinsured in foreign reinsurance companies.

2.24 Events after the reporting period

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

3 Financial risk management

The Bank's aim is to achieve an appropriate balance between risk and return and minimize the potential adverse effects on the Bank's financial performance.

The risk represents probability of particular activity or event to have a direct adverse impact on profits and / or own resources, or cause difficulty in achieving the objectives of the Bank. The risk is appropriately managed when identified, understood, evaluated, when monitoring is performed and when controlled.

Key elements of the risk management process of the Bank are: clearly defined organizational structure, internal acts for identifying, measuring, monitoring and control, stress tests rules, rules for implementation of new products and proper use of instruments for protection and reduction of certain risks.

Risk Management Committee establishes and implements policies for undertaking and managing certain risk, proposes their review and monitors and evaluates the effectiveness of the overall process of risk management. The Supervisory Board approves policies for undertaking and managing risks and monitors their implementation. Established policies for managing individual risks, enabling identification, measurement, monitoring and control of risk to which they refer, provide reasonable assurance that the operations are directed to achieving the objectives of the Bank in accordance with applicable rules and regulations, and with the approved exposure limits by the Supervisory Board. Limits to exposures to individual risks are subject to reviewed, at least once per year, depending on internal and external conditions in which the Bank operates. Additionally, the Board of Directors establishes and implements procedures for identification, measurement, monitoring and internal controls of the process of managing risks. Considering that the process of risk management is important for each employee of the Bank trainings are conducted in order to create constructive environment where all employees will understand their duties and responsibilities.

Internal Audit Department conducts regular and periodic evaluations of the implementations of the internal controls, policies and procedures for undertaking and managing individual risks.

The process of risk management is in accordance with the Strategy for the Bank to undertake and manage risks.

Bank is exposed to the following risks:

- Credit risk;
- Liquidity risk;
- Market risks (interest rate risk, currency risk);

This note represents information for Bank's exposure for each of these risks, objectives, policies and managing processes and methods used for Bank's risk measurement.

For all these risks the Bank establishes specific policies for managing individual types of risks and procedures for identification, assessment, monitoring and control of the individual risk.

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

3.1 Credit risk

Management of credit risk is part of the integrated process for management with all financial risks on which the Bank is exposed. Managing with the credit risk is a process that allows governing bodies to identify credit risk and thereby choose which exposures to reduce and which to increase and in what way.

Prior approving the exposure to credit risk, the Bank identifies all significant factors that may affect the riskiness of the client, or Bank's exposure to the client. Bank shall classify each active balance/off-balance sheet item by the degree of credit risk that it is exposed to on an individual basis based on the creditworthiness of the client, the orderliness in settlement of obligations and the quality of collateral. The results of the performed analysis of the abovementioned criteria results in classification of exposure to credit risk in one of the following risk categories A, B, C, D, E.

In measuring the credit risk, the basic indicators that the Bank uses are information for the exposure on the likelihood that the debtor will enter bankruptcy or other financial reorganization, the probability of deterioration in the solvency or other significant financial difficulties of the debtor, the breach of agreement by the debtor etc. Instruments for protection and reduction of credit risk used by the Bank are the system of exposure limits, quality of collateral, system of early warning, appropriate valuation of the credit risk components, use of relevant information, defining market risks etc.

Clearly defined organisational structure is an important element of the process of managing with credit risk that provides exposures to credit risk within the limits set by the Supervisory Board.

The Supervisory Board approves the exposure to individual from over 10% of own funds of the Bank, and exposure to individual bank from over 25% of own funds of the Bank. Exposures to credit risk under these limits are approved by the Credit Committee and Insurance Committee.

Credit and Guarantee Division, Credit Insurance Division and Division for Treasury and Liquidity monitor all credit exposures in terms of established limits.

The Board of Directors is responsible for internal control in terms of exposure to credit risk due to that internal acts are established with set risk limits that intend to assist in the risk control and risk management. Namely, the process of control aims to minimize the impact of risk on capital and profit in accordance with the strategic objectives of the Bank.

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

Credit risk (continued)

Impairment and provisioning policies

The provision for impairment at year-end is derived from each of the Bank's internal rating grades as explained in Credit risk measurement paragraph above. The table below shows the percentage of the Bank's loans and advances to banks and customers and the associated provision for impairment for each of the Bank's internal rating categories:

	2014		2013	
	Loans and advances to banks and customers (%)	Provision for impairment (%)	Loans and advances to banks and customers (%)	Provision for impairment (%)
Risk category A	98.62%	0.02%	98.43%	0.01%
Risk category B	-	-	0.09%	0.01%
Risk category V	0.04%	0.01%	0.01%	0.00%
Risk category G	-	-	0.18%	0.13%
Risk category D	1.33%	1.33%	1.29%	1.29%
	100%	1.36%	100%	1.44%

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Maximum exposure to credit risk before collateral held

The maximum exposure to credit risk is presented with the carrying amounts of assets in the Statement of Financial Position, provided in the table below:

Credit risk (continued)

Analysis of maximum exposure to credit risk

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Individually impaired												
Risk category A	-	-	51,416	50,165	-	-	6,350	8,194	178,592	279,790	236,358	338,149
Risk category B	-	-	-	11,206	-	-	-	-	15,754	11,791	15,754	22,997
Risk category V	-	-	5,399	1,028	-	-	-	23	22,685	5,380	28,084	6,431
Risk category G	-	-	-	22,338	-	-	-	-	-	2	-	22,340
Risk category D	-	77,836	172,778	85,569	-	-	3,698	3,139	4,964	6,816	181,440	173,360
Carrying value before provision for impairment	-	77,836	229,593	170,306	-	-	10,048	11,356	221,995	303,779	461,636	563,277
(Provision for impairment)		(77,836)	(175,883)	(103,806)	-	-	(3,809)	(3,247)	(16,629)	(10,932)	(196,321)	(195,821)
Net carrying value less provision for impairment	-	-	53,710	66,500	-	-	6,239	8,109	205,366	292,847	265,315	367,456
Not past due, nor impaired												
Risk category A	12,636,788	12,308,381	84,695	87,093	2,179,723	1,622,305	1,364	-	266,212	-	15,168,782	14,017,779
Net carrying value	12,636,788	12,308,381	84,695	87,093	2,179,723	1,622,305	1,364	-	266,212	-	15,168,782	14,017,779
Past due, but not impaired												
Risk category A	-	-	-	-	-	-	-	615	-	-	-	615
Net carrying value	-	-	-	-	-	-	-	615	-	-	-	615
Total net carrying value	12,636,788	12,308,381	138,405	153,593	2,179,723	1,622,305	7,603	8,724	471,578	292,847	15,434,097	14,385,850

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

In Denar thousand	Loans and advances to banks and customers	
	2014	2013
Other types of collateral	356,456	12,786,915
	356,456	12,786,915

Credit risk (continued)

Geographic sectors

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

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Republic of Macedonia	12,636,788	12,308,381	92,553	105,412	736,570	798,455	2,811	2,649	11,138	5,269	13,479,860	13,220,166
EU members	-	-	42,333	47,370	1,443,153	823,850	4,057	5,028	296,717	207,013	1,786,260	1,083,261
Other European countries	-	-	3,519	811	-	-	-	-	37,915	19,911	41,434	20,722
Other countries	-	-	-	-	-	-	735	1,047	125,808	60,654	126,543	61,701
	12,636,788	12,308,381	138,405	153,593	2,179,723	1,622,305	7,603	8,724	471,578	292,847	15,434,097	14,385,850

Credit risk (continued)

Industrial sectors

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

<i>In Denar thousand</i>	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Non residents	-	-	45,852	48,181	1,443,153	823,850	4,791	6,075	460,441	287,578	1,954,237	1,165,684
Agriculture, forestry and fishery	-	-	-	-	-	-	-	-	3,178	-	3,178	-
Food industry	-	-	3,832	609	-	-	5	-	1,607	-	5,444	609
Textile industry and production of clothing and footwear	-	-	-	544	-	-	-	-	-	-	-	544
Chemical industry, production of construction materials, fuel industry, pharmaceutical industry	-	-	246	2,153	-	-	-	-	-	-	246	2,153
Production of metals, machines, tools and equipment	-	-	-	3,994	-	-	-	-	747	-	747	3,994
Other manufacturing	-	-	-	160	-	-	-	31	135	132	135	323
Water trade, waste water removal, waste management and other environment sanitation activities	-	-	-	-	-	-	5	-	-	-	5	-
Construction	-	-	-	540	-	-	-	-	-	-	-	540
Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	54	10,319	-	-	-	2	5,047	5,111	5,101	15,432
Transport and storage	-	-	-	-	-	-	-	-	5	26	5	26
Financial activities and insurance activities	12,636,788	12,308,381	-	-	736,570	-	544	-	-	-	13,373,902	12,308,381
Real estate	-	-	-	-	-	-	-	-	418	-	418	-
Public administration and defence, compulsory social security	-	-	88,421	87,093	-	798,455	820	615	-	-	89,241	886,163
Individuals	-	-	-	-	-	-	1,438	2,001	-	-	1,438	2,001
Total	12,636,788	12,308,381	138,405	153,593	2,179,723	1,622,305	7,603	8,724	471,578	292,847	15,434,097	14,385,850

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

3.2 Liquidity risk

Liquidity risk represents the risk for the Bank of becoming incapable to provide sufficient funds for settlement of its liabilities when such liabilities fall due, or to provide such funds at much higher costs. Liquidity risk arises from the inability of the Bank to timely and quickly converts assets into cash with minimal costs and the inability to properly manage unexpected changes in the sources of funds.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Department for treasury and liquidity receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future operations. The Department for treasury and liquidity maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and placements with other banks, to ensure that sufficient liquidity is maintained within the Bank.

The tables below analyses financial liabilities of the Bank classified into relevant maturity based on the remaining period at the statement of financial position date to the contractual maturity date:

In Denar thousand	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2014						
Liabilities						
Borrowings	709,095	-	1,764,086	7,599,651	2,736,340	12,809,172
Other liabilities	3,715	-	-	-	-	3,715
	712,810	-	1,764,086	7,599,651	2,736,340	12,812,887
Off balance sheet items						
Other not covered commitments- insurance	-	28,132	1,008	458,958	109	488,207
	-	28,132	1,008	458,958	109	488,207
31 December 2013						
Liabilities						
Borrowings	581,563	-	1,733,333	6,588,796	3,136,083	12,039,775
Other liabilities	6,876	-	-	-	-	6,876
	588,439	-	1,733,333	6,588,796	3,136,083	12,046,651
Off balance sheet items						
Other not covered commitments- insurance	307	3,254	50,937	228,362	20,919	303,779
	-	28,132	1,008	458,958	109	303,779

3.3 Market risks

Market risk is the risk that changes in market prices, such as changes in interest rates, changes in equity prices, exchange rates and/or market prices of securities will affect the Bank's profit or the value of own financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits by optimizing the yield.

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

Market risk (continued)

Interest rate risk (continued)

The Bank is exposed to the risk of fluctuations of interest rates as a result of which the interest bearing assets and interest bearing liabilities mature or their interest rate changes at different times or in different amounts. In the case of assets and liabilities with variable interest rates, the Bank is also exposed to basic risk, which arises from the difference in changing the variable interest rates.

Managing this risk, which has a direct impact on revenues and the economic value of the banking activities of the Bank, is part of an integrated system of risk management in the Bank. The Macedonian Bank for Development Promotion establishes system of risk management from changes in interest rates in accordance with the scope and type of activities performed and the degree of risk exposure from changing interest rates.

To measure this risk the Bank applies the technique of gap analysis – maturity structure of interest sensitivity assets and liabilities in certain time periods. In function of monitoring and control, the Bank establishes limits for exposure to risk from changing interest rates, and adequate management with this risk directed to achieving the goals and objectives of the Bank.

Activities for risk management are aimed at optimizing net interest income, with market interest rates that are consistent with the business strategies of the Bank.

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

Market risks (continued)

Interest rate risk (continued)

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

In Denar thousand	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2014							
Assets							
Cash and cash equivalents	2,179,083	-	-	-	-	16,627	2,195,710
Loans and advances to banks	1,009,669	70,208	2,958,606	7,709,226	861,386	27,693	12,636,788
Loans and advances to customers	33,098	13,619	3,429	2,448	765	85,046	138,405
Other receivables	47	94	434	863	-	6,165	7,603
	3,221,897	83,921	2,962,469	7,712,537	862,151	135,531	14,978,506
Liabilities							
Borrowings	1,867,881	-	1,429,316	6,931,679	2,526,484	53,812	12,809,172
Other liabilities	-	-	-	-	-	3,715	3,715
	1,867,881	-	1,429,316	6,931,679	2,526,484	57,527	12,812,887
Net interest rate gap position	1,354,016	83,921	1,533,153	780,858	(1,664,333)	78,004	2,165,619
As at 31 December 2013							
Assets							
Cash and cash equivalents	1,621,582	-	-	-	-	11,003	1,632,585
Loans and advances to banks	892,284	1,042	2,880,835	7,382,946	1,123,814	27,460	12,308,381
Loans and advances to customers	13,766	40,412	5,378	-	-	94,037	153,593
Other receivables	45	90	414	1,454	-	7,333	9,336
	2,527,677	41,544	2,886,627	7,384,400	1,123,814	139,833	14,103,895
Liabilities							
Borrowings	2,547,275	-	1,128,407	5,523,893	2,786,155	54,045	12,039,775
Other liabilities	-	-	-	-	-	6,876	6,876
	2,547,275	-	1,128,407	5,523,893	2,786,155	60,921	12,046,651
Net interest rate gap position	(19,598)	41,544	1,758,220	1,860,507	(1,662,341)	78,912	2,057,244

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

Market risks (continued)
Interest rate risk (continued)
Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2014, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2014 would respectively decrease/increase by approximately Denar 41,752 thousands (2013: Denar 39,567 thousands).

Foreign currency risk

The measurement of the currency risk is performed through indicator in the relation between aggregate foreign exchange position and the Bank's own assets. In the policy for managing of currency risk this internal limit is defined, which is different from the one prescribed by the law on banks, since according to the Law for establishment of Macedonian Bank for Development and Promotion the procedures for open foreign currency position are not applicable to the Bank. Monitoring of this risk on a regular basis provides safety for the Supervisory and Managing Board that the established control system functions appropriately.

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2014 and 2013 (in Denar thousands).

In Denar thousand	MKD	EUR	GBP	Total
As at 31 December 2014				
Assets				
Cash and cash equivalents	752,557	1,443,153	-	2,195,710
Loans and advances to banks	3,726	12,633,062	-	12,636,788
Loans and advances to customers	-	138,405	-	138,405
Other receivables	344	7,114	145	7,603
Total Assets	756,627	14,221,734	145	14,978,506
Liabilities				
Borrowings	158,928	12,650,244	-	12,809,172
Other liabilities	1,781	1,934	-	3,715
Total Liabilities	160,709	12,652,178	-	12,812,887
Net foreign currency position	595,918	1,569,556	145	2,165,619
As at 31 December 2013				
Assets				
Cash and cash equivalents	808,734	823,851	-	1,632,585
Loans and advances to banks	20,000	12,288,381	-	12,308,381
Loans and advances to customers	-	153,593	-	153,593
Other receivables	668	8,668	-	9,336
Total Assets	829,402	13,274,493	-	14,103,895
Liabilities				
Borrowings	157,734	11,882,041	-	12,039,775
Other payables	311	6,565	-	6,876
Total Liabilities	158,045	11,888,606	-	12,046,651
Net foreign currency position	671,357	1,385,887	-	2,057,244

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

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

Market risks (continued)

Interest rate risk (continued)

When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousand).

	Change in 2014	Change in 2013	2014	Profit or loss 2013
EUR	1%	1%	15,696	13,859
GBP	1%	-	1	-

3.4 Segment reporting

Operating segments

The Bank has one reportable segment, which is the Bank's strategic business unit. The strategic business unit offers different products and services, which are managed separately based on the Bank's management and internal reporting structure. For the strategic business unit, the Managing Board reviews internal management reports.

Geographic segments

<i>in Denar thousand</i>	Republic of Macedonia	EU member countries	Unallocated	Total
2014				
Total income	402,233	(223,094)	-	179,139
Total assets	13,599,745	1,494,049	-	15,093,794
2013				
Total income	399,733	(212,503)	11,560	198,790
Total assets	13,390,009	814,552	-	14,204,561

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

3.5 Fair value estimation

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

	Loans and receivables	Other at amortized cost	Carrying value	Fair value
31 December 2014				
Assets				
Cash and cash equivalents	2,195,710	-	2,195,710	2,195,710
Loans and advances to banks	12,636,788	-	12,636,788	12,636,788
Loans and advances to customers	138,405	-	138,405	138,405
Other receivables	7,603	-	7,603	7,603
	14,978,506	-	14,978,506	14,978,506
Liabilities				
Borrowings	-	12,809,172	12,809,172	12,809,172
Other liabilities	-	3,715	3,715	3,715
	-	12,812,887	12,812,887	12,812,887
31 December 2013				
Assets				
Cash and cash equivalents	1,632,585	-	1,632,585	1,632,585
Loans and advances to banks	12,308,381	-	12,308,381	12,308,381
Loans and advances to customers	153,593	-	153,593	153,593
Other receivables	9,336	-	9,336	9,336
	14,103,895	-	14,103,895	14,103,895
Liabilities				
Borrowings	-	12,039,775	12,039,775	12,039,775
Other liabilities	-	6,876	6,876	6,876
	-	12,046,651	12,046,651	12,046,651

Cash and cash equivalents

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

Loans and advances to banks and customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating rates that represent current market interest rates and their fair value is assessed by discounting of future cash flow using the effective interest rate method.

Other financial assets

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

Borrowings

Fair value of borrowings with floating interest rates approximates its carrying value due to adjusting of the interest rates of certain financial liabilities with market interest rates of similar instruments. Fair value of the borrowings under special conditions and for which there are no other financial instruments with same or similar characteristics approximates its carrying value.

Other liabilities

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

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

Fair value estimation (continued)

Fair value hierarchy

According to IFRS 13, assets and liabilities are grouped into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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; and
- Level 3: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for 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.

There are no financial assets and liabilities measured at fair value in the Statement of financial position as at 31 December 2014 and 2013.

3.6 Capital management

The Bank's objective regarding capital management is to comply with the capital requirements of the National Bank of the Republic of Macedonia and to sustain stable and quality capital base which will support the Bank's development.

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

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

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

4 Critical accounting estimates and judgments

The Bank makes estimates and assumptions which affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Impairment losses on loans and advances

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

4.2 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2014, Management assesses that the useful lives represent the expected utility of the assets to the Bank. The carrying amounts are analyzed in Note 18 and 19. Actual results, however, may vary due to technical obsolescence.

4.3 Impairment of non-financial assets

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

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

5 Net interest income

Structure of interest income and (expenses) according to type of financial instruments	2014	2013
Interest income		
Loans and advances to customers	195,308	195,719
Loans and advances to banks	153,359	151,184
Cash and cash equivalents	18,511	19,803
	367,178	366,706
Interest expense		
Borrowings	208,283	203,321
	208,283	203,321
Net interest income	158,895	163,385

6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities	2014	2013
Fee and commission income		
Fees for insurance receivables	18,133	14,701
Asset management	6,215	7,001
Guarantees and other fees	4,481	6,202
Loans and advances	6,226	5,123
	35,055	33,027
Fee and commission expenses		
Fees for insurance receivables	(11,835)	(15,547)
Borrowings	(2,462)	-
Payment operations	-	-
- Domestic	(483)	(609)
- International	(265)	(254)
	(15,045)	(16,410)
Net fee and commission income	20,010	16,617

The Bank is authorized to act as an agent of the Government of the Republic of Macedonia, placing the loans of the Italian credit line for small and medium enterprises, funds from the Republic of Macedonia for the Project for Self – employment, the funds from International Bank for Reconstruction and Development for the Sustainable Energy Project, Renuable Credit Fund (ZKDF), funds from Special Credit Fund with guarantee scheme and funds from the previous Compensation funds (credit line for production, processing and export of agricultural products).

Income from fees for insurance receivables is based on concluded insurance policies of receivables. Expenses from fees from insured receivables are based on incurred insured event in accordance with the insurance policy.

7 Foreign exchange gains, net

	2014	2013
Foreign exchange gains	352,006	570,815
Foreign exchange (losses)	(352,983)	(570,685)
	(977)	130

8 Other operating income

	2014	2013
Release of impairment provision on commitments and contingencies, net (Note 22)	-	16,968
Income from foreign operations	202	814
Other income	1,009	876
	1,211	18,658

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

9 Impairment provision of financial assets, net

	2014	2013
Charge / (recovery) for:		
Loans and advances to customers (Note 16)	(5,697)	26,002
Other receivables (Note 20)	562	708
	(5,135)	26,710

10 Personnel expenses

	2014	2013
Net salaries	21,726	21,261
Social and health contributions	10,854	10,619
Other mandatory contributions	587	1,438
	33,167	33,318

11 Other operating expenses

	2014	2013
Materials and services	15,181	12,708
Impairment losses on commitments and contingencies, net (Note 22)	5,697	-
Expenses for membership	1,648	1,409
Insurance premiums on property and employees	409	427
Impairment provision on non-financial assets, net	363	388
Administrative and marketing expenses	134	246
Other taxes and contributions	334	140
Litigation expenses	21	124
Expenses from foreign currency operations	148	56
Other	2,376	2,301
	26,311	17,799

12 Income tax expense

	2014	2013
Current income tax expense	12,057	134
Deferred income tax expense	-	-
	12,057	134

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

	In %	2014	In %	2013
Profit before taxation		119,568		115,448
<i>Income tax calculated at rate of 10% (2013: 10%)</i>	10.0	11,957		-
Non-deductible expenses for tax purposes	0.8	1,004	1.0	1,336
Tax-exempt income	-	-		-
		100		134
	10.8	12,057	1.0	134

13 Earnings per share

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

	2014	2013
Net-profit attributable to shareholders	107,511	115,314
Net-profit attributable to holders of ordinary shares	107,511	115,314
Weighted average number of shares	384,103	384,103
Basic and diluted earnings per share (in Denars)	280	300

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

14 Cash and cash equivalents

	2014	2013
Current accounts and deposits with foreign banks	1,443,153	823,851
Treasury bills traded on the secondary market	340,570	403,454
Time deposits with maturity to 3 months	396,000	395,000
Account and balances with the NBRM	15,898	10,224
Cash in hand	85	52
Current accounts and deposits with domestic banks	4	4
	2,195,710	1,632,585

Treasury bills issued by the NBRM mature within of 35 days (2013: 35 days) and earn interest at rates of 3.25% p. a. (2013: 3.25% p.a.).

15 Loans and advances to banks

	2014		2013			
	Short-term	Long-term	Total	Short-term	Long-term	Total
Loans to banks	36,915	12,599,873	12,636,788	125,296	12,260,921	12,386,217
Current maturity	3,977,418	(3,977,418)	-	3,753,052	(3,753,052)	-
	4,014,333	8,622,455	12,636,788	3,878,348	8,507,869	12,386,217
Less: provision for impairment	-	-	-	(77,836)	-	(77,836)
	4,014,333	8,622,455	12,636,788	3,800,512	8,507,869	12,308,381

	2014	2013
Movement of impairment provision		
At 01 January	77,836	77,822
Additional impairment provision	-	-
(Release) of impairment provision	-	-
(Transfer to impairment provision from loans and advances to customers)	(78,056)	-
Foreign exchange differences	220	14
At 31 December	-	77,836

As at 31 December 2014, there are nonperforming loans included in loans and advances to banks (2013: Denar 77,836 thousand). In addition there is no unrecognized interest and other related expenses to these loans (2013: Denar 20,211 thousand).

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

16 Loans and advances to customers

Structure of loans and advances to customers by type of debtor

	2014			2013		
	Short-term	Long-term	Total	Short-term	Long-term	Total
<i>Non-financial institutions</i>	185,555	44,037	229,592	170,305	-	170,305
<i>State</i>	84,696	-	84,696	87,094	-	87,094
<i>Current maturity</i>	-	-	-	-	-	-
	270,251	44,037	314,288	257,399	-	257,399
Less: provision for impairment	(175,883)	-	(175,883)	(103,806)	-	(103,806)
	94,368	44,037	138,405	153,593	-	153,593

As at 31 December 2014, included in loans and advances to customers there are factoring receivables with recourse in the amount of Denar 76,246 thousand (2013: Denar 84,084 thousand). As at 31 December 2014, nonperforming loans included in loans and advances to customers amounted to Denar 172,778 thousand (2013: Denar 75,583 thousand). Unrecognized interest and other related expenses to these loans amounted to Denar 42,127 thousand (2013: Denar 16,551 thousand).

	2014	2013
Movements of provision for impairment		
At 01 January	103,806	77,595
Transfer to impairment provision from loans and advances to customers	78,056	-
Additional impairment provision (Note 9)	23,834	110,310
(Release) of impairment provision (Note 9)	(29,531)	(84,308)
Foreign exchange differences	(282)	209
At 31 December	175,883	103,806

17 Foreclosed assets

Movements in the components of the foreclosed assets for the periods considered are as follows:

	Land	Buildings	Equipment	Other	Total
Cost					
At 01 January 2013	-	-	-	-	-
Additions during the year	264	-	621	1,053	1,938
31 December 2013/01 January 2014	264	-	621	1,053	1,938
Additions during the year	-	763	-	-	763
31 December 2014	264	763	621	1,053	2,701
Impairment provision					
At 01 January 2013	-	-	-	-	-
Impairment loss during the year	53	-	124	211	388
31 December 2013/01 January 2014	53	-	124	211	388
Impairment loss during the year	95	153	99	168	515
31 December 2014	148	153	223	379	903
Net carrying value					
At 01 January 2013	-	-	-	-	-
At 31 December 2013/ 01 January 2014	211	-	497	842	1,550
At 31 December 2014	116	610	398	674	1,798

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

Foreclosed assets (continued)

As at 31 December 2014, the net carrying value of Bank's foreclosed assets amount to Denar 1,798 thousand (2013: Denar 1,550 thousand). As at 31 December 2014 their fair value is Denar 5,037 thousand (2013: corresponds to the current net carrying value).

18 Intangible assets

Movements in the components of the intangible assets for the periods considered are as follows:

	Software and licenses	Other intangible assets	Total
Cost			
At 01 January 2013	5,486	716	6,202
Additions during the year	-	-	-
31 December 2013/01 January 2014	5,486	716	6,202
Additions during the year	18,518	-	18,518
31 December 2014	24,004	716	24,720
Accumulated amortization			
At 01 January 2013	4,374	716	5,090
Amortization for the year	336	-	336
31 December 2013/01 January 2014	4,710	716	5,426
Amortization for the year	436	-	436
31 December 2014	5,146	716	5,862
Net carrying value			
At 01 January 2013	1,112	-	1,112
At 31 December 2013/ 01 January 2014	776	-	776
At 31 December 2014	18,858	-	18,858

19 Property and equipment

Movements in the components of the property and equipment for the periods considered are as follows:

	Buildings	Vehicles	Office equipment	Total
Cost				
At 01 January 2013	120,584	8,529	25,797	154,910
Additions during the year	259	84	547	890
31 December 2013/01 January 2014	120,843	8,613	26,344	155,800
Additions during the year	482	-	886	1,368
31 December 2014	121,325	8,613	27,230	157,168
Accumulated depreciation				
At 01 January 2013	23,085	7,272	22,687	53,044
Depreciation for the year	3,015	685	1,479	5,179
31 December 2013/01 January 2014	26,100	7,957	24,166	58,223
Depreciation for the year	3,033	537	1,222	4,792
31 December 2014	29,133	8,494	25,388	63,015
Net carrying value				
At 01 January 2013	97,499	1,257	3,110	101,866
At 31 December 2013/ 01 January 2014	94,743	656	2,178	97,577
At 31 December 2014	92,192	119	1,842	94,153

At 31 December 2014 and 2013, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property and equipment.

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

20 Other receivables

	2014	2013
Fees and commission receivables	8,100	8,716
Receivables from customers	3,312	3,867
Prepaid expenses	479	303
	11,891	12,886
Less: provision for impairment	(3,809)	(3,247)
	8,082	9,639

	2014	2013
Movements of provision for impairment		
At 01 January	3,247	2,548
Additional impairment provision (Note 9)	720	1,118
(Release) of impairment provision (Note 9)	(158)	(410)
Effect of exchange rate differences	-	(9)
At 31 December	3,809	3,247

21 Borrowings

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

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
Banks	37,829	12,612,415	39,256	11,842,785
State	15,983	142,945	14,789	142,945
	53,812	12,755,360	54,045	11,985,730
Current maturity	2,419,369	(2,419,369)	2,260,851	(2,260,851)
	2,473,181	10,335,991	2,314,896	9,724,879

Borrowings by creditors

	2014		2013	
	Short-term	Long-term	Short-term	Long-term
<i>Domestic sources:</i>				
Republic of Macedonia	15,983	142,945	14,789	142,945
	15,983	142,945	14,789	142,945
<i>Foreign sources:</i>				
EIB	37,829	11,769,334	39,256	10,990,622
KfW	-	843,081	-	852,163
	37,829	12,612,415	39,256	11,842,785
Current maturity	2,419,369	(2,419,369)	2,260,851	(2,260,851)
	2,473,181	10,335,991	2,314,896	9,724,879

As at 31 December 2014 most of the borrowings relate to borrowed funds from the European Investment Bank (EIB) credit line which as at 31 December 2014 amounts to Denar 11,769,334 thousand (2013: Denar 10,990,622 thousand). Four contracts were signed with EIB for realization of following fore phases: on 25 June 2009 MBDP signed a first contract with EIB in the amount of EUR 100 million to support small and medium enterprises and priority project – I phase, on 2 November 2011 MBDP signed a new contract with the EIB in the amount of EUR 50 million also to support small and medium enterprises and priority project – II phase; on 10 July 2012 MBDP signed a new contract with the EIB in the amount of EUR 100 million to support small and medium enterprises and priority project -Phase III and on 31 December 2013 MBDP signed a new contract with EIB in total amount of EUR 100 million- IV phase to support small and medium enterprises, mid- cap and priority project.

The interest rate is determined for each tranche of the borrowing at the date of submission of the withdrawal application and interest rates are in the range of 1.4% to 1.8% per annum.

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

Borrowings (continued)

At 31 December 2014, apart of the borrowings from EIB, the Bank has borrowings related to the credit lines by KfW in the amount of Denar 843,081 thousands (2013: Denar 852,163 thousands).

Borrowings from KfW consist of two credit lines. On 15 October 2004 the Bank signed the first agreement with KfW in the amount of 6,184,804 Euros to support micro, small and medium enterprises. The repayment period is 40 years with 10 years grace period. On 15 February 2007 MBDP signed a new agreement with KfW in the amount of EUR 7,668,962 which was withdrawn in one tranche with repayment period of 30 years with 10 years grace period. Interest rates range from 0.75% to 2% p.a.

22 Provisions and special reserve

	Commitments and contingencies
Balance at 01 January 2013	27,891
Additional impairment provision (Note 8)	48,721
(Release) of impairment provision (Note 8)	(65,689)
Effect of exchange rate differences	9
Balance at 31 December 2013 (Note 26)	10,932
Balance at 01 January 2014	10,932
Additional impairment provision (Note 8)	41,331
(Release) of impairment provision (Note 8)	(35,634)
Effect of exchange rate differences	-
Balance at 31 December 2014 (Note 26)	16,629

Special reserve for off-balance credit exposures of the Bank arise from insured receivables on short-term period and issued financial guarantees for loans for commercial banks.

23 Other liabilities

	2014	2013
Fees and commission liabilities	2,875	5,918
Deferred income	3,765	6,183
Liabilities toward suppliers	395	333
Other	445	625
	7,480	13,059

24 Equity and reserves

Share capital

As at 31 December 2014 and 2013, total share capital of the Bank amounts to Denar 1,193,792 thousand and is comprised of 384,103 authorized and fully paid ordinary shares. The nominal value per share is Denar 3,108 thousand.

The Government of the Republic of Macedonia as sole shareholder is entitled to one vote per share at the meetings of the shareholders of the Bank. According to the Law for establishing the Macedonian Bank for Development Promotion, net profit for the year is distributed to the Bank's reserves.

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

Equity and reserves (continued)

Reserves

The Bank's reserves consist of allocation of profit and can be used for loss recovery. Such reserves cannot be distributed to the Shareholder as dividends, except in the case of the Bank's liquidation.

Reserves for Security

According to the Bank's Statute, Macedonian Bank for Development Promotion should maintain reserves for securities. Reserves for security are for risk management regarding insurance and reinsurance of receivables based on export arrangements from commercial and noncommercial risks, as well as insurance and passive reinsurance of foreign investments in the Republic of Macedonia and investments of domestic entities abroad from noncommercial risks. The Bank does not have insurance and passive reinsurance of foreign investments in the Republic of Macedonia.

25 Funds managed on behalf of third parties

	Assets	Liabilities	2014 Net- position	Assets	Liabilities	2013 Net- position
Loans in Denar	1,540,873	1,540,873	-	1,436,541	1,436,541	-
Loans in foreign currencies	348,875	348,875	-	400,464	400,464	-
Total	1,889,748	1,889,748	-	1,837,005	1,837,005	-

The Bank is authorized to act as an agent of the Government of the Republic of Macedonia, placing the loans from the Italian credit line, funds from the Republic of Macedonia for the Project for Self – employment, the funds from International bank for Reconstruction and Development for the Sustainable Energy Project and the Renewable Credit Fund, GMF1, Open Credit Fund and Compensation funds to the final borrowers through intermediary commercial banks from the Republic of Macedonia.

26 Commitments and contingencies

	2014	2013
Other commitments and contingencies- insurance	488,207	303,779
	488,207	303,779
Provision for impairment (Note 22)	(16,629)	(10,932)
	471,578	292,847

As at 31 December 2014, contingent liabilities for factoring included in contingent liabilities amount to Denar 12,525 thousand (2013: Denar 12,661 thousand) and the special reserve for them is nil (2013: nil). Contingent liabilities disclosed in this note are irrevocable.

Litigations

At 31 December 2014, legal proceedings raised against the Bank are in the amount of Denar 24,643 thousand (2013: Denar 2,334 thousand). As at the Statement of financial position date, the Bank did not recognize provision, since professional legal advice show that there is no possibility of significant losses. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Bank believes that no material liabilities are likely to result.

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

Commitments and contingencies (continued)

Guarantees (insurance) for payment of receivables

The Bank has commitments and contingent liabilities in respect of issued insurance policies of receivables. Despite the possibility of insurance against commercial and political risks, the insurers during 2014 are generally insured against commercial risks, i.e.: bankruptcy and continued customers nonpayment. In case of any of the mentioned risks the Bank shall pay the insurer's damage. These commitments and contingent liabilities have off balance credit risk and for them the Bank allocates a separate reserve. Receivables from and liabilities to reinsurers, receivables from insurers based on fees, and receivables from insurers / customers are recognized in the statement of financial position in the event of executed recourse of paid damages, and liabilities to insurers based on paid damages. Appropriate corrections to receivables from insurers and reinsurers are also recognised in the statement of financial position.

Taxation

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

Capital commitments

As at the Statement of financial position date, there are no capital commitments that have been recognized in the financial reports.

27 Pension plans

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

28 Related party transactions

Related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares or that enable a significant influence on the Bank's managing), affiliates and entities, as well as the responsible persons of these shareholders - legal entities, Bank's subsidiaries and other persons related to the Bank.

It is the opinion of the Bank's Management that these transactions are carried out on normal market terms and conditions and during the normal course of business activities.

Sole owner of the Bank is the Government of the Republic of Macedonia. The Bank shall not lend or issue guarantees to the Republic of Macedonia, public enterprises and the institutions users of the Budget funds.

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

Related party transactions (continued)

As at 31 December 2014 and 2013 the balances and volume of transactions with related parties are as follows:

	Sole shareholder		Key management personnel			Total
	2014	2013	2014	2013	2014	2013
Assets						
Loans and other receivables	85,516	87,094	-	-	85,516	87,094
	85,516	87,094	-	-	85,516	87,094
Liabilities						
Borrowings	158,928	157,734	-	-	158,928	157,734
	158,928	157,734	-	-	158,928	157,734
Income						
Interest income	190,939	186,368	-	-	190,939	186,368
Fee and commission income	5,364	4,948	-	-	5,364	4,948
	196,303	191,316	-	-	196,303	191,316
Expenses						
Interest expenses	1,194	1,265	-	-	1,194	1,265
Key management short term benefits	-	-	18,821	18,001	18,821	18,001
	1,194	1,265	18,821	18,001	20,015	19,266

29 Events after the reporting period

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



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