SAVINGS HOUSE MOZNOSTI DOO SKOPJE

Financial statements

for the year ended 31 December 2012

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Independent Auditors' report to the owner of Savings House MOZNOSTI DOO, Skopje

We have audited the accompanying financial statements of Savings House MOZNOSTI DOO, Skopje ("the Savings House"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Savings House as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

We draw attention to the fact that we have not audited the accompanying statement of financial position of the Savings House as at 31 December 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, or any of the related notes and accordingly, we do not express an opinion on them.

KPMG Macedonia DOO

KPMG Macedonia DOO
31 July 2013
Skopje

Statement of comprehensive income
For the year ended 31 December

	Note	*in MKD '000* Current year 2012	Previous year 2011
Interest income		214.685	233.644
Interest expense		(73.010)	(86.821)
Net interest income	6	141.675	146.823
Fee and commission income		2.492	3.491
Fee and commission expense		(2.483)	(8.574)
Net fee and commission income/(expense)	7	9	(5.083)
Net foreign exchange (loss)/gain	8	(723)	1.220
Other operating income	9	9.621	7.823
Net impairment loss on financial assets	14, 15	(2.420)	(15.429)
Personnel expenses	10	(67.422)	(65.333)
Depreciation and amortisation	11	(11.606)	(12.451)
Other expenses	12	(61.351)	(56.430)
Profit before tax		7.783	1.140
Income tax expense		-	-
Profit for the year		7.783	1.140
Other comprehensive income		-	-
Total comprehensive income		7.783	1.140

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

Statement of financial position
As at 31 December 2012

	Note	*in MKD '000* Current year 2012	Previous year 2011
Assets			
Cash and cash equivalents	13	175.279	234.285
Loans and advances to banks	14	9.424	48.573
Loans and advances to customers	15	1.274.672	1.484.278
Other assets	16	13.585	3.915
Assets acquired through foreclosure procedure	17	28.365	43.669
Intangible assets	18	779	1.611
Property and equipment	19	59.444	68.348
Total assets		1.561.548	1.884.679
Liabilities			
Deposits from customers	20	519.579	369.784
Other borrowed funds	21	606.675	1.079.373
Employee benefits	22	498	260
Other liabilities	23	9.168	11.954
Total liabilities		1.135.920	1.461.371
Equity			
Issued capital	24	300.152	300.152
Reserves		59.942	58.576
Retained earnings		65.534	64.580
Total equity attributable to the owners of the Saving house		425.628	423.308
Total liabilities and equity		1.561.548	1.884.679

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

Statement of changes in equity

In MKD '000	Issued Capital	Statutory reserves	Retained earnings	Total equity and reserves
Balance at 1 January 2011 (previous year)	300.152	55.852	66.845	422.849
Total comprehensive income for the year				
Profit for the year	-	-	1.140	1.140
Total comprehensive income for the year	-	-	1.140	1.140
Transactions with shareholders, recognized in the equity				
Allocation of statutory reserve	-	2.724	(2.724)	-
Dividends	-	-	(613)	(613)
Tax on dividends paid	-	-	(68)	(68)
Transactions with shareholders, recognized in the equity	-	2.724	(3.405)	(681)
Balance at 31 December 2011 (previous year)	300.152	58.576	64.580	423.308
Balance at 1 January 2012 (current year)	300.152	58.576	64.580	423.308
Total comprehensive income for the year				
Profit for the year	-	-	7.783	7.783
Total comprehensive income for the year	-	-	7.783	7.783
Transactions with shareholders, recognized in the equity				
Allocation of statutory reserve	-	1.366	(1.366)	-
Dividends	-	-	(4.917)	(4.917)
Tax on dividends paid	-	-	(546)	(546)
Transactions with shareholders, recognized in the equity	-	1.366	(6.829)	(5.463)
As of December 31, 2012 (current year)	300.152	59.942	65.534	425.628

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

Statement of cash flow

(all amounts are stated in MKD '000 unless otherwise indicated)

For the year ended 31 December

	Note	in MKD '000 current year 2012	in MKD '000 previous year 2011
Cash flows from operating activities			
Profit before income tax		7.783	1.140
Adjustment for:			
Depreciation and amortisation			
intangible assets	11	1.278	1.696
property and equipment	11	10.328	10.755
Gain on sale from:			
intangible assets	9	(104)	-
assets acquired through foreclosed procedure	9	(1.619)	-
Loss on sale of:			
assets acquired through foreclosed procedure	12	1.127	-
Interest income	6	(214.685)	(233.644)
Interest expenses	6	73.010	86.821
Impairment losses	14,15	2.420	15.429
Employee benefits provision			
Additional	22	244	199
Release	22	(6)	(4)
Interest received		219.166	237.651
Interest paid		(78.297)	(89.489)
Operating profit before changes in operating assets		**20.645**	**30.554**
Change in loans and advances to banks	14	37.754	(47.083)
Change in loans and advances to customers	15	204.100	45.161
Change in assets acquired through foreclosure procedure	17	15.796	(34.893)
Change in other assets	16	(9.670)	1.366
Change in deposits from customers	20	147.216	32.762
Change in other liabilities	23	(2.786)	(19.253)
Net cash used in operating activities		**413.055**	**8.614**
Cash flows from investing activities			
Proceeds from sale of investment securities		-	19.913
Acquisition of intangible assets	18	(446)	(940)
Proceeds from sale of intangible assets	18	-	750
Acquisition of property and equipment	19	(1.669)	(9.283)
Proceeds from sale of property and equipment	19	349	1.568
Net cash used in investing activities		**(1.766)**	**12.008**
Cash flows from financing activities			
Repayment of other borrowed funds	21	(762.111)	(307.831)
Proceeds from other borrowed funds	21	297.279	370.539
Dividends paid	24	(5.463)	(682)
Net cash from financing activities		**(470.295)**	**62.026**
Net (decrease)/increase in cash and cash equivalents		**(59.006)**	**82.648**
Cash and cash equivalents at 1 January		234.285	151.637
Cash and cash equivalents at 31 December	16	**175.279**	**234.285**

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

1. Introduction

a) General information

(i) Name of the Savings House, as per the Savings House Charter and the court registration of the Savings House

Savings House MOZNOSTI DOO, Skopje (hereinafter: the Savings House) is a limited liability company with registered offices in the Republic of Macedonia. The primary organisation and founder of the Savings House is the Moznosti Centre for Education and Entrepreneurship, a partner organisation of Opportunity International. The Savings House operates in line with the regulations of the National Bank of the Republic of Macedonia and conducts all its business operations according to licence 02-14/289-2000

(ii) Address of the Savings House head office

111 Jane Sandanski blvd.
1000 Skopje
Republic of Macedonia

(iii) Primary operations of the Savings House

- Accepting monetary deposits in denars from physical persons
- Approving loans to physical and legal entities in line with the regulations
- Taking loans from local banks
- Placing assets in government securities
- Fx operations

(iv) Date of approval for issuing financial statements from the Savings House founder

The financial statements were authorised for issue by the Savings House founder on July 24, 2013.

(v) Directors

The names of the directors working at top positions during the year are presented hereafter:

CEO	Snežana Andova
Finance, Accounting and Treasury Division Director	Emilija Krajčeva
Business Development and Risk Department Division Director	Ilija Belevski
Branch Network Director	Darko Nedelkovski
Director of the Logistic, Sales and Banking Operations Division	Ana Kuzmanovska

b) Basis of preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

(ii) Functional and presentation currency

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

(iii) Basis of measurement

Financial statements have been prepared on the historical cost basis.

(iv) Use of estimates and judgements

The preparation of financial statements requires management to exercise judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects future periods as well.

Information about judgement by the management and critical estimates in applying accounting policies that have the most significant effect on the financial statements are described in Note d.

c) Significant accounting policies

The accounting policies presented hereafter have been applied for all periods presented in these financial statements.

(i) Financial assets and liabilities

Recognition

The Savings House initially recognises loans and advances, deposits and borrowed funds on the date at which they are originated, at cost. All other financial assets and liabilities are initially recognised on trading date at which the Saving House becomes a party to the contractual provisions of the instruments.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Savings House has transferred its rights to receive cash flows from the asset and all risks and rewards of ownership. Every residual of the transferred financial assets created or withheld by the Savings House is recognized as separate assets or liability.

The Saving house derecognised financial liability when its contractual obligations are discharged, cancelled or expired.

Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS or for gains and losses arising from a group of similar transactions.

Amortized cost measurement

Amortized cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, less the principal repayments, plus or minus accumulated amortization, using the effective interest method of any difference between the initially recognized amount and the maturity amount, less any impairment losses.

Fair value measurement

Fair value of financial assets and financial liabilities is based on quoted market price in an active market. For all other financial instruments fair value is determined using valuation techniques. Techniques include the use of assessment information on recent prices achieved on normal commercial transactions between voluntary parties (if available), reference to the current market value of another instrument that is essentially the same; analysis of discounted cash flows, and other alternative models for determining the price.

Impairment losses

The Savings House assesses at least quarterly whether there is objective evidence that financial asset or group of financial assets is impaired, that are not measured at fair value through the profit or loss. Financial assets are impaired only if there is objective evidence of impairment that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows that can be reliably estimated.

The Savings House considers evidence of impairment for loans and receivables on an individual basis.

(ii) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks and government bills with maturity of less than 3 months. Cash equivalents are short-term, highly liquid investments that mature within three months or less from the day of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position, usually equal to their nominal value, and they are readily converted into cash with insignificant risk of change in value.

(iii) Foreign currency transactions

Transactions in foreign currencies are translated into Macedonian denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Macedonian denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the other comprehensive income.

(all amounts are stated in MKD '000 unless otherwise indicated)

The foreign currencies the Savings House deals with are (EUR), United States Dollars (USD) and Swiss Franc (CHF). The exchange rates used for translation on 31 December 2012 and 2011 were as follows:

	2012 MKD	**2011 MKD**
1 USD	46,65	47,53
1 EUR	61,50	61,50
1 CHF	50,91	50,60

(iv) Loans and advances and impairment

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

Loans and receivables are initially recognized at fair value plus incremental direct costs and are subsequently carried at amortized cost using the effective interest method.

The loans derived from approving money directly to the borrower are categorised as loans approved by the Savings House, and they are recognised in the Statement of financial position less the impairment for loan receivables.

All approved undisbursed loans are stated off-balance.

The financial assets or group of financial assets are impaired only if there is objective evidence of impairment that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows that can be reliably estimated.

Criteria used by the Savings House in order to establish whether there is present objective evidence for impairment include:

- Significant financial difficulties of the issuer of financial instrument or the debtor;
- Factual violation of agreement, such as avoiding payment or being overdue regarding payment per interest or principal;
- Restructuring programme in case of financial difficulties of the creditor, which are not generally provided to the Saving house clients;
- Strong possibility that the debtor will enter a bankruptcy procedure or other type of financial reorganization;
- Disappearance of an active market for the financial asset due to financial difficulties; or
- Information indicating that a measurable decrease in assessed future cash flows from a group of financial assets, since the primary acknowledgement of the stated, even though the decrease cannot be individually linked to the financial assets including:

- negative changes in debtor's solvency (for instance an increased number of overdue payments or increased number of debtors per credit cards reaching their maximum allowed limit while paying minimal monthly amount; or

- national or local economic conditions in proportion to damage of assets (for instance increase of unemployment rate in the geographic region of the debtor, decrease of property prices in the stated region, the latter is used as security, decrease of price of oil for credits of oil producers or negative changes in the industrial conditions affecting the debtors).

The Savings House primarily carries out an assessment whether the objective evidence for impairment is present for individual financial assets with individual significance, and individually or collectively, for financial assets not individually significant. If the Savings House establishes that no objective evidence for damage is present regarding the individually assessed financial assets, regardless of their significance, it includes the assets within a group of financial assets with similar features of credit risk and carries out a group assessment of their damage.

Impairment loss on assets carried at amortized cost is measured as difference between the book value of financial assets and the present value of expected cash flows, discounted at the original effective interest rate of the assets. Impairment losses are recognized in profit or loss and reflected in the special reserve account for loans and receivables. If in the subsequent period, the amount of impairment loss is decreased, the impairment loss is reversed through profit or loss.

The Savings House writes off receivables that it knows are uncollectible, where all legal remedies for collection have been exhausted. Write-offs are kept on off-balance accounts.

(v) Investments

Investments are initially measured at fair value plus, in case of securities that are not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available for sale.

Investments held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Savings House has the positive intent and ability to hold to maturity.

Held to maturity investments are carried at amortized cost using an effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held to maturity investments as available-for-sale and Savings House will not be able to classify investments as held-to-maturity for the current and next two years.

Available for sale investments

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available for sale investments are carried at fair value except the unquoted equity securities whose fair value cannot be reliably measured, that are carried at cost less impairment loss.

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

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

(vi) Property and equipment

Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Saving house and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the other comprehensive income as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

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

Buildings	2,5%
Furniture and equipment	10 - 25%

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

(vii) Intangible assets

Recognition and measurement

Intangible assets acquired by the Saving House are stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditures

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

Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the intangible assets.

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

Software	25%

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

(viii) Leased assets – lessee

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

Other leases are operating leases and the leased assets are not recognised on the Saving house's statement of financial position.

Impairment losses on non-financial assets

The carrying amounts of the Saving House'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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For asset that do not generates cash flows that largely are independent, the recoverable amount is determined for cash-generating units to which the asset is allocated.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or groups. Impairment losses are recognised in profit or loss.

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

An impairment loss is reversed if there is an indication that the loss no longer exists or 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 amortisation, if no impairment loss had been recognized in the previous years.

(ix) Assets acquired through foreclosed procedures

Foreclosed assets are property and equipment (land, buildings, equipment, and movable property) forecloses on the basis of uncollectible receivables, except the foreclosed securities and shares.

An asset is deemed foreclosed at the time when the legal basis for registering ownership is obtained. The date when the legal basis for foreclosing the asset is obtained is considered the date of foreclosure. The acquisition of ownership of the collateral and the time (date) of acquisition of ownership are registered in Minutes, signed by the notary public handling the foreclosure and the lien creditor (Moznosti).

Initially, at the date of foreclosure the asset is registered in the Savings House books at initial book value. The initial book value is the lesser amount of the following:

1. Appraised value less expected (future) sale costs to be borne by the Savings House, and

2. Purchase value of the foreclosed asset

Along with the recognition of the foreclosed asset, the receivable is derecognized from the statement of financial position. The Savings House assess the value of foreclosed assets at least once during the year.

For the needs of consequent measurement of the foreclosed assets, the amount of the lowest assessment carried out by three authorised appraisers is regarded as the appraised value. In case when the appraised value of the foreclosed asset is lower than the purchase or book value, the Savings House recognised an impairment loss in the profit or loss at the amount of difference between the two values. Foreclosed assets are derecognized either when the assets is sold or upon permanent withdrawal from use. Surplus realized from the sale of the asset is recognized in the profit or loss on the date of sale.

(x) Employee benefits

Defined contribution plans

The Savings House pays employee contributions towards pension and health insurance, employment and personal income tax calculated on the basis of gross salaries, in line with the regulations. The Savings House pays such contributions to the Pension and Disability Insurance Fund of Republic of Macedonia, and to the Health Insurance Fund of Republic of Macedonia, at the legally prescribed rates. The Savings House has no additional liability in respect to these plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

Regulated contributions are part of the personnel expenditure for the current year. The expenditure for such payments is presented in the profit or loss in the same period when the expenditure for employee net salaries is stated.

Other long term employee benefits

In accordance with internal act the Saving House pays three average salaries to its employees at the moment of retirement according the terms determined with the Labour Law and the General collective agreement. The long-term employee benefits are discounted to determine their present value.

(xi) Income tax

According the tax regime established in the Republic of Macedonia the income tax comprises two components:

- **Tax on dividend distribution** – i.e. the tax base is the dividend paid;

- **Tax on non deductable items** – i.e. the tax base is the non deductable items specified the tax Rulebook less any allowable tax credits. The tax on non deductable items is pa each month in monthly advance instalments based on the previous fiscal ye computation of such non deductable differences. At year end a final tax computation prepared with a final tax settlement.

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

Tax on dividend distribution

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

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

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

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

Tax on non deductable items

Tax on non deductable items is not income tax and is out of scope of IAS 12. Accordingly, such tax expense is presented within the other expenses in the statement for comprehensive income and related tax payable/receivable is presented within the other assets or other liabilities in the statement of financial position.

Recognition of tax provisions

In case of tax contingencies, provisions are made in line with International Accounting Standards – *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”). Such provisions are not presented as deferred tax assets or deferred tax liabilities, but as other assets or other liabilities.

(xii) Deposits from customers

The Savings House only accepts denar savings deposits from physical persons. Legal entities and charity organisations may not open savings accounts.

The Moznosti Savings House is a member of the Deposit Insurance Fund, and all savings deposits of the Savings House are insured with the Deposit Insurance Fund.

According to their term, the savings deposits may be:

- Demand deposits
- Term savings deposits

The deposits are initially recorded at their fair value, plus incremental direct costs directly linked to undertaking or issuing of the financial liability, and are subsequently carried at amortised cost using the effective interest method.

(xiii) Other borrowed funds

Other borrowed funds consist of transactions with other parties with whom the Savings House has signed a loan agreement. Other borrowed funds are initially recorded at their fair value, plus incremental direct costs, and are subsequently carried at amortised cost using the effective interest method.

(xiv) Other liabilities

Other liabilities are initially recorded at cost value, which is the fair value of the consideration received on the date that they are originated and are subsequently carried at amortised cost using the effective interest method.

(xv) Provisions

A provision is recognised if, as a result of a past event, the Saving House has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Saving House from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Saving House recognises any impairment loss on the assets associated with that contract.

(xiv) Owner's capital and reserves

Registered owners capital is classified as equity. Incremental costs directly attributable to registering of owner's capital are recognised as a deduction from equity, net of any tax effects. Registered capital is stated on a separate account in the amount registered with the Trade Registry at incorporation, or if change in the value of the capital.

The reserves are stated at nominal value, and separately: legally required reserves, statutory reserves and other reserves.

In the statutory reserves, the Savings House allocates 20% of the profit, until the amount of the statutory reserve reaches 30% of the owner's capital. If the reserve created is reduced, it must be compensated for until it reaches the stipulated minimum.

The legally required reserve may be used to cover loss.

Dividends

Dividends are recognized as a liability in the period in which they are declared by the Saving House's owner.

(xvii) Interest income and expenses

Interest income and expense are recognised in the profit or loss using the effective interest method when:

- it is likely that the economic benefits of the transaction will present revenue/expenditure for the Savings House;

- there is a possibility for reliable measurement of interest revenue/expenditure.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. If an analysis determines that the fees for financial services, related to interest-bearing instruments that are not measured at fair value through profit or loss, are part of the effective interest rate of the financial instrument.

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 the statement of comprehensive income include:

• interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis.

(xviii) Fees and commission income and expenses

Fees and commission income are recognised as the related services are performed. Fees and commission are recognised on an accrual basis.

The first thing to distinguish is whether the fees and commission are:

- A integral part of the effective interest rate - and they are treated as interest income/expenses and recognised as interest income and expenses.

- Earned at the moment of providing the services - such commissions and fees are registered as fees and commission income and expenses at the moment when the respective service has been rendered, and

- Earned during some substantial operation, such commissions and fees are registered as fees and commission income and expenses when the respective operation is performed.

(xix) Lease payments made

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

d) Use of estimates and judgments

(i) Preparation of financial statements is in accordance with the IFRS and requires managerial judgments, estimates and assumptions that impact the application of IFRS and the presentation of assets and liabilities, contingences and the income and expenses at the reporting date. The actual results might differ from theses estimates.

Additional information is stated in the accounting policies and the corresponding notes to the financial statements.

Variability/uncertainties of the accounting estimation

Allowance for impairment of loans and advances

Assets accounted for at amortised cost are assessed for impairment on a basis described in accounting policy (iv).

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

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

e) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Saving house.

2) Risk management disclosures

In its operation, the Savings House is exposed to a variety of financial risks, making adequate risk management a chief objective of the Savings House. There are perpetual efforts to maintain an adequate balance between an acceptable level of risk, on one hand, and stability and profitability in operations, on the other. In this respect, operative risk entails its continuous monitoring, assessment and management.

The most important types of risk are credit risk, liquidity risk, market risk, and operative risk. Market risk includes change of interest rates of financial assets and liabilities (without trading assets) and currency risk.

Risk management framework

The Board of Directors is fully responsible for the establishment and monitoring of the risk management framework. It appoints the management body, the Credit Board, and the Assets and Liabilities Management Committee. These bodies are responsible for monitoring and developing the risk management policies in particular areas.

As regards the organizational structure of the Savings House, the Risk and Bad Loan Management Department is in charge of monitoring, reporting and managing the overall credit risk exposure, whereas the organisational units of the Savings House creating risk exposure are responsible for the acceptance and operative management of credit risk, in line with the Credit Risk Management Policy and the Portfolio Management Policy. Internal Audit is responsible for independent reporting with respect to risk management.

In line with the Savings House risk management policies, including a set of adequate risk limits and controls, certain risks are identified, existing risks are continuously monitored and analysed daily.

2.1 Credit risk

2.1.1 Nature of and exposure to risk

The Savings House is exposed to credit risk, a risk that the client might not be able to settle partially or fully their liabilities when due. Credit risk is the most important risk in the Savings House operation. Therefore, the Savings House manages its exposure to credit risk carefully. In principle, credit exposure arises from lending.

Credit risk follows the operation from the very begging, i.e. from the moment of submission of the loan application, and up until the end, until the client settles their liabilities in full. In the approval process a decision is made whether the Savings House is prepared to accept the risk and place assets under certain terms. The approval process includes several stages, analyses, visits, and is concluded with a decision. All of these stages are an inseparable part of a complex process that needs to be concluded within the shortest time possible in the interest of the client. Any credit exposure represents a risk. All credit exposures are regularly monitored through information systems, contact is established with each and every client, reports are prepared, and corrective actions are taken. Managing the risk portfolio is an inevitable part of regular operations. The purpose of this activity is to reduce the adverse effects and collect the receivables, as well as to introduce corrections in the Savings House Credit Policy on the bases of the established deficiencies.

2.1.2 Credit risk management (Goals, policies and processes of the Savings House, and methods for measuring risk)

Credit risk is manages as follows:

1. The Board of Directors is in charge of creating and implementing of the Credit Policy and the procedures for monitoring the implementation of that policy, and the procedures for evaluating loans and their management. All credit exposures in line with the Loan Approval Policy and for operation of the Credit Committee are approved by different types of Credit Committee appointed by the Savings House Board of Directors. The maximum exposure should not exceed 5% of the Savings House own funds, for bank credit exposures, Savings Houses, foundation organizations, insurance companies, leasing companies, local self-government units and other legal persons regulated by special laws, i.e. maximum EUR 200'000 for other physical and legal persons, to persons associated with them, which is within the exposure limit of 10% of

own assets, according to the Decision for operation of Savings Houses.

Risk Management Board within the Savings House is in charge of establishing and following credit risk management policy and proposing its future review, assessment of risk management systems, analysis of statements for exposure of the Savings House to this risk and following the activities undertaken in order to manage credit risks, establishment and regular review of limits of credit risk exposure, defining possible exceptions regarding the defined limits and delegating responsibility when deciding upon application of stated exceptions, granting restructuring of receivables.

Client application credit committee is responsible for making a decision regarding all client applications in relation to contractual assignment of debt to new debtor, collateral replacement, issuing documents and other requests, agreements and documents.

2. The Savings House Credit Committee approves the credit exposure, in line with the decision by the Board of Directors to establish operative Credit Committee allowing functionality, flexibility and promptness in the decision making process.

2.1.3 Credit risk assessment

Loans

When assessing the credit risk involved in approving loans to individual and legal persons, the Savings House uses three components: (1) the probability that the debtor will not settle their liabilities adequately (expected cash flow); (2) assessment of loss at the time liabilities fall due; (3) the value and the quality of the collateral securing the exposure.

(1) The Savings House assesses the probability of default by individuals using internal assessment tools adapted to the various client categories. They have been developed internally and are a combination of statistical analyses and the individual assessment of the loan officer, and, if possible, they are verified by comparison to externally available data. In the process of preparing a loan application, as well as in the loan approval process, there are multiple analyses carried out that allow for the assessment of the credit risk. It implies an analysis of the principal parameters of the applicant, and analysis of official financial statements, an analysis of cash flows, projections of future cash flows and the development component of operations, the attractiveness of the industry and the quality of the collateral.

At this stage of assessing the credit risk, the analysis of the loan application involves:

-analysis of credit exposure to a client for whom the Savings House, based on an creditworthiness assessment, considers the cash flows to be in sufficient to settle due liabilities on time, regardless of the presented current financial weaknesses, provided that there are no signs of future worsening of the client's financial condition;

- analysis of the client's cash flows that would allow them timely settlement of their liabilities;

- analysis of available information, i.e. the necessary documents for maintenance of loan files;

-analysis of clients liquidity and solvency.

(2) The losses in case of untimely settlement of liabilities represent the expectations of the Savings House regarding the level of loss from unpaid receivables. It is calculated as a percentage loss per unit of exposure and it usually varies depending on the type of the client, the type of the receivable, and the availability of collateral or other credit security. Loan receivables are ranked in 5 risk categories.

2.1.4 Internal ranking in the Savings House

Risk category **A** in the Savings House includes:

- Receivables from the National Bank of the Republic of Macedonia and the Republic of Macedonia, the European Central Bank and the governments of the central banks of other countries for which a credit rating is established of at least A- (according to the rating by Standard and Poor’s or Fitch) or A3 (according to the credit rating by Moody’s);

- Credit risk exposure to clients whose present financial condition and projected future cash flows do not jeopardise their future operations and the ability to settle their liabilities to the Savings House in a timely manner.

- Credit exposure to a client who settles their liabilities to the Savings House within the due term or with a delay of up to 30 days;

- client for whom the Savings House has not performed any restructuring of receivables within the last two years.

- Credit exposure which is fully secured with first-rank instruments, in accordance with the Decision for credit risk management.

Risk category **B** in the Savings House includes:

- Credit exposure to a client whose assessed credit worthiness implies that cash flows will be sufficient to cover the outstanding liabilities.

- Credit exposure to a client who settles their liabilities to the Savings House with a delay of 31 to 60 days or with exception of 90 days delay, if such delay is occasional.

- A client for whom the Savings House has not performed any restructuring of receivables within the last six months.

Risk category **C** includes:

- Credit exposure to a client whose cash flows are assessed as insufficient for to settle loan liabilities on time;

- Credit exposure to a client who is not adequately capitalized;

- Credit exposure to customers with inadequate maturity structure of assets and liabilities;

- Credit exposure to a client for whom the Savings House does not possess the necessary and updated information in order to assess the credit worthiness;

- Credit exposure to a client who settles their liabilities to the Savings House with a delay of 61 to 120 days, or with the exception of 180 days, if such delay is occasional

- Credit exposure to clients for which the receivables have been restructured.

- Credit exposure to a client - non-financial entity who has receivables arising from financial credit from an entity whose credit rating is equal to CCC+ or less (according the credit rating by Standard and Poor’s or Fitch) or Caa1 (according the credit rating by

Moody's);

or by a person with a higher credit rating, incorporated in a country whose credit rating is equal to or lower than CCC + (according to the credit rating of Standard and Poor's or Fitch) or Caa1 (according the credit rating of Moody's);

- Credit exposure to a client - non-financial entity who has receivables arising from financial credit from an entity whose a credit rating has not been established, but is incorporated in a country whose credit rating is equal to or lower than B - (according to the credit rating of Standard and Poor's or Fitch) or B3 (according to the credit rating of Moody's); or is incorporated in a country for which a credit rating has not been established.

Notwithstanding, the exposure may not be classified into risk category C, if:

- Exposure is based on a customs guarantee to tender, or

- Financial credit is less than 31'000'000 denars (if the financial loan is given in foreign currency the denar equivalent of the loan is considered), or

- Financial credit is equal to or greater than 31'000'000 denars and Savings House's exposure is greater than the amount of financial credit and the Saving house has made impairment or provision in the amount of at least 25% of the financial loan.

Risk category **D** includes:

- Credit exposure to a client who is insolvent,

- Credit exposure to a client whose creditors have written-off their receivables,

- Credit risk exposure to a client from whom the Savings House expects partial settlement of its receivables;

- Credit risk exposure to clients who are subject to liquidation procedure;

- Credit risk exposure to a client whose settlement depends on guarantee activation;

- Credit exposure to a client who usually settles their liabilities with a delay of 120 to 270 days, or with exception of 270 days delay, if such exception is occasional

- Credit exposure to a client (including governments and central banks) whit a credit rating of CCC+ or lower (according to the credit rating by Standard and Poor's or Fitch) or Caa1 (according the credit rating by Moody's);

- Credit exposure to a client for with a credit rating higher than CCC+ (according the credit rating by Standard and Poor's or Fitch) or Caa1 (according the credit rating by Moody's), but incorporated in a country whose credit rating is equal or lower than CCC+ (according the credit rating by Standard and Poor's or Fitch) or Caa1 (according the credit rating by Moody's),

- Credit exposure to a client for which a credit rating has not been established, but is incorporated in a country whose credit rating is equal to or lower than B - (according the credit rating by Standard and Poor's or Fitch) or B3 (according the credit rating by Moody's); or is incorporated in a country for which a credit rating has not been established.

- Notwithstanding, the Savings House may not classify the exposure of items 7, 8 and 9 of this item in risk category D, if it is an off-balance receivable based on a customs guarantee or tender guarantee.

Risk category **E** includes:

- Credit exposure to a client, where such exposure is subject to a court dispute;

- Credit exposure to a client for whom the Savings House expects firmly that cannot collect at all or major part of its receivables;

- Credit exposure to a client who usually settles their liabilities with a delay of more than 270 days or does not settle them at all.

(3) The value and the quality of the collateral depend on its type (real estate, movable property-inventory, receivables) and the probability for its activation in order to collect the receivables. The Savings House regularly assesses the market value of the property pledge as collateral (real estate or movable) through authorised appraisers.

The classification of exposures that are secured by pledge of movable or immovable property, taking into account the fair value of collateral, the Savings House uses a model for classification and identification of impairment in accordance with international accounting standards. The model is based on the following principles:

- All credit exposures that are secured by pledge of immovable or movable property are classified into risk category and impairment is determined taking into account the expected cash flows from the eventual sale of the collateral, and expected cash flows based on payment of obligations by the client. Other exposures are classified and impairment is determined according to the Decision on credit risk management and internal regulations of the Savings House.
- The model is based on determining the fair value of collateral on one hand and the total credit exposure of the customer in the Savings House on the other hand.

Based on the estimated value of the collateral, the type of collateral and the time value of money, fair value of the collateral are determined. The total credit exposure is classified and impairment is determined based on the fair value of collateral pledge for the exposure, taking into account the expected cash flows from the client for settlement of liabilities.

- The basic assumption of the model is that the determined fair value from collateral together with the expected cash flows from the client, through a series of procedures are the main elements which determine the risk category or level of impairment (impairment) for the particular credit exposure.

2.1.5 Control of risk exposure limits and risk protection policies

The Savings House manages and controls credit risk concentration on a individual and group basis, as well as by sectors.

The Savings House structures the level of accepted credit risk by an analysis of the level of acceptable risk per borrower, or group of borrowers, as well as per geographic and sector segments. Such risks are continuously monitored on the basis of internal databases, and they are the subject to daily analysis.

The management of credit risk exposure is enabled by the regular analysis of the creditworthiness of existing and potential credit regarding the settlement of their liabilities to the Savings House, as well as by altering credit limits, where necessary.

Collateral and conditional liabilities of the client are prescribed in the internal policies of the Savings House for credit activities and procedures as a method for the measurement and specific control for credit risk reduction.

(a) Collateral

The collateral is always considered as a secondary factor in assessing the creditworthiness. The collateral alone, without the ability to generate cash flow, is insufficient to justify the approval of the loan. The principal types of collateral for include:

(1) For legal entities

- Deposits
- Real estate
- Movable property (equipment, motor vehicles)
- Inventory
- Receivables
- Guarantees (bank guarantees and guarantees by legal entities)
- Individuals - guarantors
- Bills of exchange

(2) For individuals

- Deposits
- Movable property (equipment, motor vehicles)
- Real estate
- Guarantees (guarantees by legal entities)
- Physical persons - guarantors
- Bills of exchange

2.1.6 Impairment losses policies

The Savings House has established a method for determination of impairment losses in respect of the consisting of loan portfolio. In line with the Savings House policy, there are five internal credit risk categories. The greater part of the impairment losses originate from the last two categories.

2.1.7 Maximum exposure to credit risk without taking into account collateral

The management is convinced that the credit risk exposure can be controlled and maintained to minimums as a result of the high quality of the credit portfolio (categories A and B).

2.1.7.1 Loans

a) Outstanding loans and Saving House placements not subject to impairment

In line with the procedure for the classification of exposure and the individual assessment of impairment for regular loans, as well when in the process of discounting cash flows there is a negative difference between the book value and the present value of the receivable, the Savings House determines additional allowance for impairment. The Savings House assesses impairment for regular receivables for placements in other banks.

b) Past due, but not impaired

In line with the procedure for the classification of exposure and the individual assessment of impairment, the Savings House, as a rule, assesses impairment for all loans that are fall due. In case when the process of discounting of cash flows there is a negative difference between the book value and the present value of the receivable, and such receivable is ranked in risk category A, the Savings House assesses and determines additional allowance for impairment.

c) Loans subject to individual impairment

Due receivables which are not collected are subject to individual impairment, according to the procedure for classification of exposure and impairment determination on individual bases, according to the legal regulations.

d) Restructured loans

Restructured loans are loans that are restructured as a result of the worsened financial condition of the client, or when the Savings House estimates that the loan exposure cannot be treated differently. Once a loan is restructured, it is placed in risk category C for at least six months following the restructuring, and for an additional eighteen months in risk category B. Following the restructuring a loan may not be placed in risk category A for at least 24 months thereafter.

2.1.8 Concentration of risk from financial assets with credit risk exposure

a) Industry

Overall credit exposure is analysed and categorised by industry.

b) Location

In line with the legal regulations and the Savings House policies, all credit activities are carried out on the territory of the Republic of Macedonia.

c) Concentration of exposure by target groups, segments, sectors and products

According to internal policies, the Savings House monitors and prepares reports for the exposure concentration and the quality of the portfolio in different categories (target group, segment, sector and product).

2.1 Credit risk

Exposure to credit risk

in MKD '000	**Loans and advances to banks**		**Loans and advances to customers**	
	Current year 2012	Previous year 2011	Current year 2012	Previous year 2011
Carrying amount	**9.424**	**48.573**	**1.274.672**	**1.484.278**
Individually impaired				
Grade A	9.433	48.621	1.049.217	1.159.239
Grade B	-	-	27.653	51.686
Grade C	-	-	8.244	16.482
Grade D	-	-	4.845	11.546
Grade E	-	-	100.658	102.152
Gross amount	9.433	48.621	1.190.617	1.341.105
Allowance for impairment	(9)	(48)	(119.861)	(125.013)
Carrying amount	**9.424**	**48.573**	**1.070.756**	**1.216.092**
Past due but not impaired:				
Up to 30 days	-	-	1.926	-
30 – 60 days	-	-	15.457	20.022
60 – 90 days	**-**	**-**	**-**	**-**
90 – 180 days	-	-	-	-
180 days +	-	-	-	-
Carrying amount	**-**	**-**	**17.383**	**20.022**
Neither past due nor impaired:				
Restructured	-	-	10.102	11.280
Not restructured	-	-	176.431	236.884
Carrying amount			**186.533**	**248.164**
Total carrying amount	**9.424**	**48.573**	**1.274.672**	**1.484.278**

2.1 Credit risk (continued)

Individually impaired assets by risk grade

Set out below in an analysis of the gross and net (of allowance for impairment) of individually impaired assets by risk grade:

	Loans and advances to customers		**Loans and advances to customers**	
in MKD ‘000	Gross	Net	Gross	Net
31 December 2012				
Individually impaired				
Grade A	9.433	9.424	1.049.217	1.036.664
Grade B	-	-	27.653	24.690
Grade C	-	-	8.244	5.943
Grade D	-	-	4.845	2.401
Grade E	-	-	100.658	3.058
	9.433	**9.424**	**1.190.617**	**1.070.756**
31 December 2011				
Individually impaired				
Grade A	48.621	48.573	1.159.239	1.142.458
Grade B	-	-	51.686	46.027
Grade C	-	-	16.482	11.962
Grade D	-	-	11.546	5.712
Grade E	-	-	102.152	9.933
	48.621	**48.573**	**1.341.105**	**1.216.092**

Fair value of collateral held against loans and advances to customers

	Loans and advances to customers	
in MKD ‘000	Current year 2012	Previous year 2011
Cash collateral	31.242	32.518
Bank guarantees	-	232
Corporate guarantees (other than from banks and from insurance companies)	13.009	23.548
Apartments	412.313	587.260
Business premises	137.797	202.953
Movable lien	23.860	36.312
Total	**618.221**	**882.823**

Financial and non financial assets obtained by taking position of collateral

in MKD ‘000	Current year 2012	Previous year 2011
Land	-	2.670
Buildings	3.875	7.745
Apartments	4.951	24.478
Total	**8.826**	**34.893**

2.1 Credit risk (continued)

Concentration of credit risk by industries and activity

	Loans and advances to banks		**Loans and advances to customers**	
in MKD '000	Current year 2012	Previous year 2011	Current year 2012	Previous year 2011
Agriculture, forestry and fisheries	-	-	23.609	25.223
Ore and rock extraction	-	-	599	1.269
Food industry	-	-	6.968	7.447
Textile industry and production of garments and footwear	-	-	3.356	7.355
Chemical industry, production of construction materials, oil production and processing, pharmaceutical industry	-	-	2.876	2.116
Production of metals, machines, tools and equipment	-	-	15.289	6.407
Other types of processing industry	-	-	7.744	23.384
Supply with water, sewage systems, waste management and environment recovery	-	-	1.125	365
Construction	-	-	18.184	23.305
Wholesale and retail trade; reparation of motor vehicles and motorcycles	-	-	77.361	89.911
Transport and storage	-	-	54.187	76.972
Accommodation premises and catering service	-	-	7.652	9.956
Information and communication	-	-	1.814	2.370
Financial insurance operations	9.424	48.573	14.419	15.569
Professional, scientific and technical activities	-	-	6.188	10.678
Administration and associated service activities	-	-	2.196	2.932
Education	-	-	1.794	2.953
Operations in compulsory social and health insurance	-	-	3.988	3.938
Other service activities	-	-	685	4.810
Individuals	-	-	1.024.638	1.167.318
Total	**9.424**	**48.573**	**1.274.672**	**1.484.278**

Concentration of credit risk by geographical location

	Loans and advances to banks		**Loans and advances to customers**	
in MKD '000	Current year 2012	Previous year 2011	Current year 2012	Previous year 2011
Concentration by location				
Republic of Macedonia	9.424	48.573	1.274.672	1.484.278
Total	**9.424**	**48.573**	**1.274.672**	**1.484.278**

2.2 Liquidity risk

2.2.1 Nature and exposure

Liquidity risk is the risk that the Savings House may not be in a position to meet its payment liabilities related to the maturation of financial liabilities and replace the sources of assets when they are withdrawn. A consequence of liquidity risk may be the inability on the part of the Savings House to settle its liabilities for paying out savings deposit holders and the inability to continue to meet borrower requirements.

2.2.2 Management of liquidity risk (Goals, policies and processes of the Savings House, and methods used to measure risk)

The liquidity risk management policy of the Savings House defines the method of managing the liquidity of the Savings House. Assessing and monitoring the liquidity of the Savings House is a prerequisite for its stable and successful operation. The established liquidity policy is executed through a defined risk management process, including projecting and managing cash flows, maintaining an adequate structure of assets and liabilities, defining the financial instruments used for liquidity risk management, adequate diversification of deposits and other liabilities by maturation and clients, monitoring the maturation of assets and liabilities, monitoring off-balance items, monitoring liquidity indicators, testing liquidity by means of stress scenarios and emergency situation plans, informing the competent body in the Savings House and an adequate information system and responsibilities of the organisation units in the Savings House in the processes of liquidity risk management.

Within liquidity risk management, the Savings House has established an appropriate tracking system of its asset resources, starting from its major depositors and persons related to them as well as a system accomplishing certain level of asset resources diversity.

Therefore the Savings House has stipulated Procedures as by sectors;

- Within the Branch Network Division it has established a “Management procedure in relations to major depositors”,

- Within the Transactions and Sales Logistics Sector it has established “Procedure on preparing statements of major depositors per branches”;

- Within the Finance, Accounting and Treasury Sector it has established “Procedure on tracking asset resources and their concentration” (within the Rulebook with procedures on working operations in the department of Treasury) which includes:
  1. Tracking asset resources and their concentration – Major depositors
  2. Tracking asset resources and their concentration – Correspondent banks
  3. Tracking asset resources and their concentration – Important clients and business partners

It is the goal of the Savings House to maximise profitability by applying an optimal combination of maturation and currency structure of assets and liabilities.

The Savings House in line with the regulation of NBRM granted a ‘Liquidity management plan in cases of emergency – annex to the Policy of liquidity risk management.

The Savings House has also defined and quantity internal liquidity indicators in a certain document Annex to the Policy of liquidity risk management, “Defining and Quantifying internal liquidity indicators”.

The appropriate organizational structure for managing liquidity risk includes clearly defined powers and responsibilities of the Savings House bodies, and defining the tasks and responsibilities to appropriate departments in the Savings House in charge of monitoring the liquidity of the Savings House and liquidity risk management.

The Board of directors of the Savings House:

- Approves the policy for liquidity risk management and monitors its implementation;
- Approves and follows the plan for liquidity risk management in extraordinary circumstances;
- Reviews the adequacy of the adopted policy (at least annually);
- Reviews the reports on liquidity risk;
- Approves limits on exposure to liquidity risk;
- Approves and revises internal liquidity indicators;
- Monitors the effectiveness of internal audit as an integral part of the liquidity risk management system.

The Risk Management Committee is responsible for:

- Establishing and monitoring the policy for liquidity risk management and making suggestions for its revision;
- Assessment of the system for managing liquidity risk;
- Analysis of reports on the Saving House's exposure to liquidity risk and monitoring activities undertaken for risk management;
- Determination and regular review of internal liquidity indicators and exposure limits to liquidity risk;
- Defining the possible exceptions to the defined limits and assignment of responsibility for deciding on the application of these exceptions;
- Establishing procedures and manner of performing stress testing;
- Other activities that must be performed in accordance with the Banking Law and the liquidity risk management policy.

The CEO of the Savings House performs at least the following activities:

- Establishing and implementing adequate procedures for managing liquidity risk;
- Establishing and maintaining an effective system of measurement, monitoring, control and reporting on liquidity in different currencies which have a significant influence on the overall liquidity of the Saving House and monitoring the maturity structure of assets and liabilities in foreign currencies and denars;

(all amounts are stated in MKD '000 unless otherwise indicated)

- Providing conditions for monitoring the policy for managing liquidity risk;
- Establishing appropriate reporting system to the Board of directors and the Risk management committee associated with possible exceed of the prescribed limits of exposure to liquidity risk;
- Defining the financial instruments for managing liquidity risk;
- Establishing procedures for determining and monitoring the stability of deposits;
- Establishing procedures for assessing the impact of new products on exposure to liquidity risk;
- Monitoring of potential liabilities and exposure based on off-balance Saving House operations.

Maintaining current liquidity of the Savings House is managed by the **Assets and liabilities committee**, appointed by the Board of Directors of the Savings House, where members of the management team are appointed.

Maturity analysis for financial liabilities

Financial liabilities 2012	Carrying amount	Gross nominal outflow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	**More than 5 years**
Deposits from customers	519.579	(551.443)	(58.657)	(86.093)	(233.522)	(115.418)	(57.753)	-
Other borrowed funds	606.675	(674.669)	(37.036)	(68.230)	(102.569)	(138.065)	(262.707)	(66.062)
Other liabilities	9.168	(9.168)	(7.966)	(370)	(524)	(154)	(110)	(44)
Total financial liabilities	**1.135.422**	**(1.235.280)**	**(103.659)**	**(154.693)**	**(336.615)**	**(253.637**	**(320.570)**	**(66.106)**

Financial liabilities 2011	Carrying amount	Gross nominal outflow	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	**More than 5 years**
Deposits from customers	369.784	(394.850)	(57.088)	(62.401)	(146.483)	(84.814)	(44.064)	-
Other borrowed funds	1.079.373	(1.182.400)	(197.021)	(153.032)	(274.522)	(278.441)	(208.702)	(70.682)
Other liabilities	11.954	(11.954)	(10.273)	(158)	(1.152)	(143)	(185)	(43)
Total financial liabilities	**1.461.111**	**(1.589.204)**	**(264.382)**	**(215.591)**	**(422.157)**	**(363.398)**	**(252.951)**	**(70.725)**

2.3 Market risks

2.3.1 Risk of change in interest rates and the Fx rates in the Saving House operations portfolio

Nature and exposure

Risk of interest rates fluctuations in the Saving House operations portfolio is a risk resulting from loss due to inauspicious interest rates fluctuation that affects the Saving House operations portfolio. The latter risk presents as well a threat for the Savings House not to be able to realize planned interest margins due to market fluctuation of interest rates.

The methodology applied by the Savings House in management of interest rates fluctuation in the Savings House operations portfolio, comprises:

- Establishing an adequate management system for this risk,

- Establishing the economic value of the Saving House operations portfolio, as the most acceptable assessment and measurement risk for interest rates fluctuation model, as well as creating a model to establish probability and frequency of interest rates fluctuation in the Savings House.

The Savings House assesses and manages this risk of interest rates fluctuation in the Saving House operations portfolio, conducts stress tests in order to enable depreciation of the effect resulting from the occurrence of fluctuation.

A sensitive analysis of interest rate variations has been carried out on 31 December 2012, assuming that in the event of an increase/reduction of lending and borrowing interest rates by 100 base points, the potential effect on the 2012 profit and loss sheet would be positive by MKD 4.345.000, i.e. negative (2011: MKD 3.216.000 positive, i.e. negative). Interest rate variations have no impact on equity.

The sensitive analysis of Fx rates fluctuation has been conducted on the occasion of changes in the exchange rates of certain currencies, based on statistical data indicating the stability of the exchange rate of the euro to the denar, and the variability of the exchange rate of the US dollar. On 31 December 2012, if there is an 0.50% increase/reduction of the exchange rate of the euro to the denar; 3.00% increase/reduction of the exchange rate of the US dollar to the denar; the impact on the 2012 profit and loss sheet would be MKD 1.132.000 negative, i.e. positive (2011: MKD 84.000 positive, i.e. negative).

2.3 Market risk

2.3.1. Analysis of assets and liabilities sensitive to fluctuations in market risk

	Profit/(loss)	**Own Funds**	**Risk Weighted Assets**	**Capital adequacy**
	in MKD '000	*in MKD '000*	*in %*	*in %*
2012 (current year)				
Amount prior to analyses of sensitivity/ stress-tests (balance on 31.12.2012)	7.783	392.044	1.337.516	29,31%
Effects from applied scenarios				
Risk from Fx rate change (state different scenarios separately, including scenario's basic features)				
Change of middle MKD rate to foreign currencies, i.e. increase of middle Fx rate by: - 0,5% increase of middle Fx rate of MKD to EUR - 3% increase of middle Fx rate of MKD to US Dollar	8.915	393.176	1.337.799	29,39%
Change of middle Fx rate of MKD to foreign currencies, i.e. decrease of middle Fx rate by: - 0,5% decrease of middle Fx rate of MKD to EUR - 3% decrease of middle Fx rate of MKD to US Dollar	6.651	392.044	1.337.233	29,32%
Risk from interest rates change (state different scenarios separately, including basic scenario's features)				
Increase of active and passive interest rates by 100 basic points	12.128	396.389	1.338.602	29,61%
Decrease of active and passive interest rates by 100 basic points	3.438	392.044	1.336.430	29,34%

	Profit/(loss)	**Own Funds**	**Risk Weighted Assets**	**Capital adequacy**
	in MKD '000	*in MKD '000*	*in %*	*in %*
2011 (previous year)				
Amount prior to analyses of sensitivity/ stress-tests (balance on 31.12.2012)	1.140	390.006	1.550.162	25,16%
Effects from applied scenarios				
Risk from Fx rate change (state different scenarios separately, including scenario's basic features)				
Change of middle MKD rate to foreign currencies, i.e. increase od middle Fx rate by: - 0,5% increase of middle Fx rate of MKD to EUR - 3% increase of middle Fx rate of MKD to US Dollar	1.056	390.006	1.550.141	25,16%
Change of middle Fx rate of MKD to foreign currencies, i.e. decrease of middle Fx rate by: - 0,5% decrease of middle Fx rate of MKD to EUR - 3% decrease of middle Fx rate of MKD to US Dollar	1.224	390.090	1.550.183	25,16%
Risk from interest rates change (state different scenarios separately, including basic scenario's features)				
Increase of active and passive interest rates by 100 basic points	4.356	393.222	1.550.966	25,35%
Decrease of active and passive interest rates by 100 basic points	(2.076)	390.006	1.549.358	25,17%

2.3.2 Managing the risk of interest rate fluctuations in the portfolio of the banking activities

The Savings House has established a management system of fluctuation of interest rates risk in the Saving House operations portfolio, in line with the scale, nature and complexity of the financial activities it carries out. The stated system comprises the following:

- Organizational structure of managing the fluctuation of interest rates risk in the Saving House operations portfolio, Policy and procedures to manage fluctuation of interest rates risk in the Saving House operations portfolio
- Assessment, monitoring and control of fluctuation of interest rates risk in the Saving House operations portfolio and reporting as well as including an appropriate information system and
- Actions and procedures on internal control and audit

The management of the Savings House through an adequate analysis and reporting processes, on regular basis follows the interest rates fluctuation due to market movements and internal decisions, and their impact on interest-bearing assets and liabilities and the interest margin. The goal of the Savings House is to maximise stability and profitability by applying and optimal combination of the Fx structure and the interest rate of assets and liabilities. The Savings House is exposed to risk from the fluctuation of interest rates by virtue of the fact that interest-bearing assets (including investments) and interest-bearing liabilities mature or their interest rate fluctuates in various periods or in various amounts.
The appropriate organizational structure implies:

- Clearly defined powers and responsibilities of the bodies of the Savings House,

- Defining the tasks and responsibilities of the respective organizational units responsible for measuring, monitoring and controlling the risk of fluctuations in interest rates,

- Clear separation and independence of the function of measuring and monitoring the risk of fluctuations in interest rates from the function of investment in items that represent exposure to risk from fluctuations in interest rates.

The Board of directors of the Savings House:

- Approves and monitors the implementation of the policy for managing risk of interest rate fluctuations in the portfolio of banking activities;
- Reviews the adequacy of the adopted policy (at least annually);
- Examines the reports on the risk of interest rate fluctuations in the portfolio of banking activities;
- Approves limits on exposure to the risk of interest rate fluctuations in the portfolio of banking activities;
- Monitors the effectiveness of internal audit as an integral part of the risk of interest rate fluctuations in the portfolio of banking activities management system.

The Risk Management Committee is responsible for:

- Establishing, implementing and revising the policy for managing the risk of interest rate fluctuations in the portfolio of banking activities;
- Assessment of the process for managing the risk of interest rate fluctuations in the portfolio of banking activities;
- Analysis of reports on the Saving House's exposure to the risk of interest rate fluctuations in the portfolio of banking activities;
- Confirming exposure limits to the risk of interest rate fluctuations in the portfolio of banking activities,
- Defining the possible exceptions to the defined exposure limits and assignment of responsibility for deciding on the application of these exceptions;
- Establishing procedures and manner of performing stress testing;

The CEO of the Savings House performs the following activities

- Establishing and implementing adequate procedures for managing the risk of interest rate fluctuations;
- Providing conditions for measurement, monitoring and control of the the risk of interest rate fluctuations in different significant currencies;
- Establishing an appropriate information and reporting system to the Board of directors, the Risk management committee and the Assets and liabilities committee associated with possible exceed of the prescribed limits of exposure;
- - Establishing procedures for assessing the impact of new products on exposure to the risk of interest rate fluctuations in the portfolio of banking activities;

The CEO of the Savings House performs the following activities

- Establishing and implementing adequate procedures for managing the risk of interest rate fluctuations;
- Providing conditions for measurement, monitoring and control of the risk of interest rate fluctuations in different significant currencies;
- Establishing an appropriate information and reporting system to the Board of directors, the Risk management committee and the Assets and liabilities committee associated with possible exceed of the prescribed limits of exposure;
- Establishing procedures for assessing the impact of new products on exposure to the risk of interest rate fluctuations in the portfolio of banking activities;

(all amounts are stated in MKD '000 unless otherwise indicated)

2.3 Market risk
2.3.2 Exposure to interest rate risk
Summary of interest rate gap position is as follows:

in MKD '000	**up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total interest-bearing assets/liabilities**
2012 (current year)							
Financial assets							
Cash and cash equivalents	71.975	92.100	-	-	-	-	164.075
Loans and advances to banks	-	-	9.321	-		-	9.321
Loans and advances to customers	-	-	-	1.274.672	-	-	1.274.672
Total interest sensitive financial assets	**71.975**	**92.100**	**9.321**	**1.274.672**	**-**	**-**	**1.448.068**
Financial liabilities							
Deposits from customers	(13.906)	-	(497.722)	-	-	-	(511.628)
Other borrowed funds	-	(444.336)	-	(55.022)	(41.761)	(61.447)	(602.566)
Total interest sensitive financial liabilities	**(13.906)**	**(444.336)**	**(497.722)**	**(55.022)**	**(41.761)**	**(61.447)**	**(1.114.194)**
Total based position, net	**58.069**	**(352.236)**	**(488.401)**	**1.219.650**	**(41.761)**	**(61.447)**	**333.874**

in MKD '000	**up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**over 5 years**	**Total interest-bearing assets/liabilities**
2011 (previous year)							
Financial assets							
Cash and cash equivalents	156.797	65.000	-	-	-	-	221.797
Loans and advances to banks	35.200	-	-	-	11.884	-	47.084
Loans and advances to customers	91.030	101.903	399.805	408.919	366.627	115.994	1.484.278
Total interest sensitive financial assets	**283.027**	**166.903**	**399.805**	408.919	**378.511**	**115.994**	**1.753.159**
Financial liabilities							
Bank deposits	(60.295)	(59.768)	(135.463)	(72.249)	(36.638)	-	(364.413)
Issued debt securities	-	(594.524)	(153.763)	(153.763)	(104.196)	(61.447)	(1.067.693)
Total interest sensitive financial liabilities	**(60.295)**	**(654.292)**	**(289.226)**	**(226.012)**	**(140.834)**	**(61.447)**	**(1.432.106)**
Total based position, net	**222.732**	**(487.389)**	**110.579**	**182.907**	**237.677**	**54.547**	**321.053**

2.3.3 Currency risk

Nature and exposure

The Savings House is exposed to currency risk. The currency risk is a result of the open positions of currencies exposed to general and specific market fluctuations. The Savings House assesses this risk of its own positions, as well as the highest anticipated loss on the basis of certain assumptions regarding the market conditions.

Currency risk is the assessment of the negative impact of currency fluctuations on net revenue. The more varied the operations in the institution, the more sensitive the currency risk exposure analysis is.

Currency risk management (goals, policies and processes of the Savings House, and method used to measure risk)

Risk management policy implies anticipation of risk by establishing and function of an effective risk management system. It should enable protection from unforeseen events and possible threats towards prevented planned policy.

Currency risk management includes continuous following the institution’s exposure for certain currencies.

The Savings House has established a currency risk management system which includes:

- Analysis of the effects of currency risk management on results from the Savings House operations
- Analysis of reports regarding the Savings House’s exposure to currency risk and following activities undertaken for risk management
- Following economic and other conditions of the Savings House operations as well as economic events in its environment

Identification, measurement and control of currency risk comprises all activities and transactions which are registered in the balance and off-balance evidence in Fx and denars indexed by Fx clause and which according to the book regulations are being rated on regular basis.

Basic indicators for currency risk exposure are as follows:

- Ratio of Fx and denar exposure of the Savings House
- Ratio of Fx and denar exposure of the Savings House regarding equity
- Ratio of aggregated Fx position with the Savings House’s own assets

As regards the management and measurement of this risk, the Savings House management regularly follows by means of adequate analysis and reporting processes: the changes in the foreign exchange rates as regards the assets and liabilities presented in foreign exchange and the maintenance of an adequate structure regarding Fx risk exposure

The goal of the Savings House is to maximise stability and profitability by applying an optimal combination of the Fx structure and interest rate of assets and liabilities.

The appropriate organizational structure for managing currency risk includes clearly defined powers and responsibilities of the Savings House bodies, and defining the tasks and responsibilities to appropriate departments in the Savings House in charge of monitoring the currency risk of the Savings House and its management.

- **The Board of directors of the Savings House**:

- Approves the policy for currency risk management and monitors its implementation;
- Reviews the adequacy of the adopted policy (at least annually);
- Examines the reports on currency risk;
- Monitors the effectiveness of internal audit as an integral part of the currency risk management system.

The Risk Management Committee is responsible for:

- Establishing and monitoring the policy for currency risk managment and making suggestions for its revision;
- Assessment of the system for managing currency risk;
- Analysis of reports on the Savings House's exposure to currency risk and monitoring activities undertaken for risk management;
- Establishing procedures and manner of performing stress testing;

The CEO of the Savings House performs at least the following activities

- Establishing and implementing adequate procedures for managing currency risk;
- Establishing and maintaining an effective system of measurement, monitoring, control and reporting on currency risk in different currencies which have a significant influence on the overall liquidity of the Saving House and monitoring the maturity structure of assets and liabilities in foreign currencies and denars;
- Providing conditions for monitoring the policy for managing currency risk;
- Establishing appropriate reporting system to the Board of directors and the Risk management committee associated in relation to currency risk;
- - The definition of financial instruments for managing currency risk;
- - Establishing procedures for assessing the impact of new products on exposure to currency risk;
-

Maintaining the currency position of the Savings is managed by the **Assets and liabilities committee**, appointed by the Board of Directors of the Savings House, where members of the management team are appointed.

2.3 Market risk

2.3.3 Currency risk

in MKD '000	**MKD**	**EUR**	**USD**	**Total**
2012 (current year)				
Financial assets				
Cash and cash equivalents	172.662	2.168	449	175.279
Loans and advances to banks	-	-	9.424	9.424
Loans and advances to customers	550.443	724.229	-	1.274.672
Other receivables	13.585	-	-	13.585
Total monetary assets	**735.690**	**726.397**	**9.873**	**1.472.960**
Liabilities				
Deposits from customers	(502.279)	(17.300)	-	(519.579)
Other borrowed funds	(111.800)	(487.685)	(7.190)	(606.675)
Other liabilities	(8.503)	(665)	-	(9.168)
Total liabilities	**(622.582)**	**(505.650)**	**(7.190)**	**(1.135.422)**
Net balance	**114.108**	**220.747**	**2.683**	**337.538**

in MKD '000	**MKD**	**EUR**	**USD**	**Total**
2011 (previous year)				
Financial assets				
Cash and cash equivalents	230.706	3.291	288	234.285
Loans to and receivables from banks	36.635	-	11.938	48.573
Loans to and receivables from other clients	515.216	969.062	-	1.484.278
Other receivables	3.915	-	-	3.915
Total assets	**788.4722**	**972.353**	**12.226**	**1.771.051**
Liabilities				
Deposits from customers	(352.193)	(17.591)	-	(369.784)
Other borrowed funds	(115.682)	(951.503)	(12.188)	(1.079.373)
Other liabilities	(10.491)	(1.463)	-	(11.954)
Total liabilities	**(478.366)**	**(970.557)**	**(12.188)**	**(1.461.111)**
Net balance	**308.106**	**1.796**	**38**	**309.940**

2.4 Other operating risks

2.4.1 Nature and exposure

Operative risks are risk of the possibility for the occurrence of negative effects upon the financial result and the capital of the Savings House due to flaws in the work of employees, inadequate, weak internal procedures and processes, inadequate management of the information and other systems in the Savings House, as well as of unpredictable external events.

Operational risk is the risk of loss due to misfits, inadequate or week internal processes and systems or external events. Operative risk also encompasses legal risk. Legal risk is the current or future risk on the profit from the Savings House equity, caused by an infringement or non-compliance of laws and bylaws, agreements, stipulated practices, ethical standards and other legal documents. Also, operational risk includes the risk of money laundering and terrorist financing, the risk of using outsourcing, using the business continuity plan and the contingency plan, and the establishment of regulations for physical security in the Savings House.

The sources of operative risks are many and they are present at all decision making and executive levels in the business processes, with every enforcer and in every segment of business transactions and operations.

In the policy for operative risk management, they are broken up in four groups:
1. Risks caused by a human factor;
2. Process risks;
3. System risks; and
4. External risks.

2.4.2 Organizational structure and responsibilities for operational risk management

Effective operational risk management largely depends on the involvement of different bodies of supervision and management of the Savings House, in order to establish and implement appropriate policies, procedures and practices to manage this risk. According to the policy for the management of operational risk, the Savings House defines the role and responsibilities of the Board of directors, Risk Management Committee, the CEO of the Savings House, the Risk management unit and other organizational units in the Savings House.

2.4.3 Identifying operational risk

The process of identifying the operational risk provides coverage of the greatest number of risk events that the Savings House is exposed to, whether it comes to events that may or may not be easily quantified. The established way of identifying operational risk provides coverage of all future events and risk factors such as internal and external factors that can have a negative impact on the risk profile of the Savings House, the changes in its organizational structure, quality and change of human resources, system of introducing new products or activities, investments in new application solutions and software, the use of outsourcing, economic and political situation in the country, changes in banking operations and technology development. The internal and external factors that can have a negative impact on the risk profile of the Savings House, the changes in its organizational structure, quality and change of human resources, the system of introducing new products or activities, investments in new application solutions and software, use services from outsiders, economic and political situation in the country, changes in banking operations and technology development.

2.4.4 Evaluation of operational risk

Besides identifying operational risk, the Savings House assess the sensitivity of this risk, enabling better understanding of its own risk profile and better allocation of resources needed to manage operational risk. In the Savings House operational risk assessment is carried out through the model of self-assessment, or through own risk assessment. This model is based on an internal assessment of one's own work in the Savings House and own activities that are performed, to identify potential risk events.

2.4.5 System for monitoring operational risk

Regular monitoring of operational risk enables timely identification of problems or shortcomings in policies, procedures or practices for the management of this risk. It is the basis for taking timely measures to eliminate identified problems / deficiencies and contributes to reducing the number and size of realized losses. Efficient monitoring of operational risk involves developing and monitoring risk indicators (factors), determining the limits of these risk indicators and identification of early warning indicators.

2.4.6 Reporting system

The Savings House has developed a system of reporting to the relevant persons or authorities. The system involves the preparation of quarterly reports at department / unit level to the Risk management unit, which based on the submitted separate reports, prepares a general quarterly report on operational risk, for the entire Savings Houses, which is submitted to the Board of directors, the CEO and the Risk management committee. Reports on exposure to operational risk include different data that present a picture of the areas (sectors / units, transactions, operations or other events) where operational risk is present.

2.5 Capital adequacy

(1) Within the Savings House, the system for capital adequacy management and its coverage is according to the nature, size and complexity of the financial activities performed.

The system for capital adequacy management includes:

1. Policy for capital adequacy management
2. Appropriate organizational structure for managing capital adequacy,
3. Process of internal assessment and evaluation of the required capital adequacy ratio of the Savings House.

2.5.1. Policy for capital adequacy management

The policy for managing capital adequacy regulates the scope of activities of the Savings House in this area.

The policy is regularly reviewed in accordance with changes in decisions on the methodology for determining capital adequacy issued by the Central Bank. Namely, in the above policy, the Savings House prescribes regular monitoring of regulations concerning capital and capital adequacy according to changes prescribed by the Central Bank.

2.5.2 Appropriate organizational structure for managing capital adequacy

The organizational structure for managing capital adequacy is comprised of several elements:

1. Clear organizational structure,
2. Efficient process for the management and analysis of required capital adequacy,
3. An effective system of internal control and audit.

2.5.3. Process of internal assessment and evaluation of the required capital adequacy of the Savings House

In accordance with the Law on Banks, Article 65, the Savings House is obliged to maintain continuously a capital adequacy rate no lower than 8% (SS / APSR ≥ 16%).

According to the nature, type and scope of activities performed by the Savings House and risks it is exposed to, and also in accordance with the commitments to creditors, the Savings House has set internal limits on the annual rate of capital adequacy.

The annual internal rate limit of capital adequacy must not be less than the statutory limit on the rate of capital adequacy.

The prescribed annual internal rate limit of capital adequacy of the Savings House for the year 2012 is, or must be not lower than 16% (SS / APSR ≥ 16%).

Internal rate of capital adequacy established by the Savings House is revised by the Risk management committee at least annually, and is adopted by the Board of directors

The amount of capital adequacy is projected and planned in short-and long-term financial projections and the business policy of the Savings House.

Compliance with legislation

The Savings House is fully compliant with legal regulations regarding this part, which is provided with regular monitoring of regulations concerning capital and capital adequacy, and regularly reviewing the policy on capital adequacy and the Internal assessment process of required capital adequacy, which is attached to the policy.

2.5.3.1. Process of internal assessment, measurement and evaluation of the required capital adequacy of Savings House Moznosti

The process of internal assessment, measurement and evaluation of the required capital adequacy of Savings House Moznosti is defined in the following way:

1 Process of determining the annual internal rate of capital adequacy

Process of determining the annual rate of capital adequacy means determining the minimum capital adequacy rate for the next year. The determination of the minimum capital adequacy rate is closely related with the covenants with lenders from CA minimum of 16% annually, and according to the volume and type of work of the Savings House and the appropriate management of risks the Savings House faces in its operations.

The proposal for a minimum rate of capital adequacy is submitted to the Risk management committee and the Board of director.

The internal annual rate of capital adequacy is compared to the realized in the past year and deviation is determined, if any, i.e. the reasons that contributed for the AC to be greater than the determined one are defined and analysed.

The internal annual rate of capital adequacy is compared to the business for the respective year and deviation is determined, if any, i.e. the reasons that contributed for the AC to be greater or lower than the one determined in the financial projections of the Savings House, are defined and analysed

The annual capital adequacy rate determination form is prepared by the Finance, accounting and treasury department, specifically by the treasury operations unit. It is submitted for consideration to the Risk management committee and is approved by the Board of Directors of the Savings House.

2 Process of internal measurement and assessment of capital adequacy rate on a quarterly basis

Process of internal measurement and assessment of capital adequacy rate means calculating the rate of capital adequacy on a quarterly basis in accordance with the legislation and its measurement in relation to the projected rate of capital adequacy as per the annual financial projections of the Savings House adopted by the Board of directors. Within the financial projections capital adequacy rate is projected on quarterly basis. From the projected data for quarters the projected rate of CA for the next year is determined by quarters.

Measuring CA quarterly and is made with respect to internally determined AC coefficient.

The annual capital adequacy rate assessment form is prepared by the Finance, accounting and treasury department, specifically by the treasury operations unit. It is submitted for consideration to the Risk management committee and is approved by the Board of Directors of the Savings House.

(all amounts are stated in MKD '000 unless otherwise indicated)

3B	**Capital adequacy**		
	Report on the Saving house's own funds		
No.	**Description**	**Amount**	**Amount**
1	**2**	**3**	**4**
		31.12.2012	**31.12.2011**
A	**Principal capital**		
A01	Paid up and registered ordinary and non-cumulative preference shares and premium for such shares	300.152	300.152
A01.1	Nominal value	300.152	300.152
A01.1.1	Nominal value of ordinary shares	300.152	300.152
A01.1.2	Nominal value of non-cumulative preference shares	-	-
A01.2	Premium	-	-
A01.2.1	Ordinary shares premium	-	-
A01.2.2	Non-cumulative preference shares premium	-	-
A02	Provisions and retained profit or loss	92.727	91.361
A02.1	Reserve fund	59.942	58.576
A02.2	Retained profit limited to distribution to shareholders	32.785	32.785
A02.3	Accumulated loss from previous years	-	-
A02.4	Current profit	-	-
A02.5	Uneffected losses from equity securities available for sale	-	-
A03	Positions as a result of consolidation	-	-
A03.1	Minority share	-	-
A03.2	Provisions for Fx rate differences	-	-
A03.3	Other margins	-	-
A04	Deductible items	835	1.507
A04.1	Loss at the year-end or current loss	-	-
A04.2	Own shares	-	-
A04.3	Intangible assets	835	1.507
A04.4	Net negative revaluation provisions	-	-
A04.5	Margin between the amount of required and effected impairment/special reserve	-	-
A04.6	Amount of unallocated impairment and special reserves as a result of accounting delay	-	-
A05	Ordinary shares, provisions and retained profit and deductible items	392.044	390.006
A06	Amount of other positions that may be included in the	-	-
AI	**PRINCIPAL CAPITAL**	**392.044**	**390.006**
B	**Additional capital I**	**-**	**-**
B07	**Paid up and registered cumulative preference shares and the premium for such shares**	-	-
B07.1	Nominal value	-	-
B07.2	Premium	-	-
B08	Revaluation provisions	-	-
B09	Hybrid capital instruments	-	-
B10	Subordinated instruments	**-**	**-**
B11	Amount of subordinated instruments that may be part of	-	-
BII	additional capital I	**-**	**-**

C	**Deductible items from principal capital and additional capital I**		
C12	Investments in the equity of other banks or financial institutions exceeding 10% of the capital of such institutions (except for the institutions under 14)	-	-
C13	Investments in subordinated and hybrid capital instruments and other instruments of the institutions under 11	-	-
C14	Total	-	-
C15	Sum of investments in equity, subordinated and hybrid instruments, and other instruments exceeding 10% of (I+II)	-	-
C16	Direct investments in the equity of insurance companies and pension fund management companies	-	-
C17	Investments in financial instruments issued by under number 14 that participate in their equity	-	-
C18	Amount exceeding the limits for investing in	-	-
CIII	**DEDUCTABLE ITEMS**	**-**	**-**
CIV	**Principal capital after deductible items**	**392.044**	**390.006**
CV	**Additional capital I after deductible items**	**-**	**-**
D	**Additional capital II**	**-**	**-**
D19	Subordinated instruments from additional capital II	-	-
D20	Additional capital I and II	-	-
D21	Allowed amount of additional capital I and II	-	-
D21.1	Additional capital I	-	-
D21.2	Additional capital II	-	-
D22	Surplus principal capital	285.043	265.944
D22.1	Surplus principal capital (150%)	427.565	398.915
D22.2	Surplus principal capital (250%)	712.608	664.859
D23	**Allowed amount of additional capital II**	-	-
E	**Equity**	**-**	**-**
EVII	**Principal capital**	**392.044**	**390.006**
EVIII	**Additional capital I**	**-**	**-**
EX.0	**Additional capital II**	**-**	**-**
EX.1	**Own funds**	**392.044**	**390.006**
D.IV	**Risk-weighted assets**	**1.337.516**	**1.550.162**
D13	**Risk coverage capital**	**107.001**	**124.013**
E.V	**Own funds**	**392.044**	**390.006**
F.VI	**CAPITAL ADEQUACY (V/IV)**	**29.31%**	**25.16%**

5 Fair value of financial assets and financial liabilities

Loans and advances to customers

Loans and receivables to customers are measured by depreciated purchase value, decreased by their impairment. The assessed objective value of loans to and receivables from other clients is established by using a current market interest rate.

Investments in securities

Investments in securities include interest-bearing assets kept for maturity. The objective value of the stated securities kept for maturity, due to their short-term nature present their book value.

Other receivables

The objective value of other financial assets, including cash and cash equivalents, profit tax receivables and other receivables, due to their short-term nature does not differ significantly from their book value.

Deposits from customers

The objective value of deposits by demand presents their value paid on demand. The objective value of term deposits with fluctuating interest rates is equal to the book value of the balance sheet.

Other borrowed funds

In Loan liabilities with fluctuating interest rates, the objective value does not differ significantly from the book value due to adjustment of interest rates. The objective value of credit lines for which on the market do not exist other financial instruments with same or similar features, does not differ significantly from their book value.

Other liabilities

The objective value of other financial liabilities due to their short-term nature does not differ significantly from their book value.

5 Fair value of financial assets and financial liabilities

	Current year 2012		Previous year 2011	
	book value	fair value	book value	fair value
in MKD '000				
Financial assets				
Cash and cash equivalents	175.279	175.279	234.285	234.285
Loans and advances to customers	1.274.672	1.268.088	1.484.278	1.476.775
Other receivables	13.585	13.585	3.915	3.915
Financial liabilities				
Deposits by customers	519.579	519.579	369.784	369.784
Other borrowed funds	606.675	606.675	1.079.373	1.079.373
Other liabilities	9.168	9.168	11.954	11.954

6. Net interest income

	in MKD '000	
	Current year 2012	Previous year 2011
Interest income		
Cash and cash equivalents	4.499	3.177
Loans and advances to banks	215	2.299
Loans and advances to customers	204.941	222.380
(Impairment of interest income, net based)	(2.381)	(4.313)
Collected previously written off interest	7.411	10.101
Total interest income	**214.685**	**233.644**
Interest expense		
Deposits from customers	25.844	22.760
Other borrowed funds	47.159	64.035
Other liabilities	7	26
Total interest expenses	**73.010**	**86.821**
Net interest income	**141.675**	**146.823**

7. Net fee and commission income

	in MKD '000	
	Current year 2012	Previous year 2011
Fee and commission income		
Lending	2.492	3.491
Total fee and commission income	**2.492**	**3.491**
Fee and commission expense		
Credit operations	1.046	6.919
Payment operations in the country	997	1.261
Letters of credit and guarantees	164	148
Other	276	246
Total fee and commission expense	**2.483**	**8.574**
Net fee and commission income	**9**	**(5.083)**

8. Net foreign exchange gain/(loss)

	in MKD '000	
	Current year 2012	Previous year 2011
Realised net foreign exchange gain/losses	239	776
Unrealised net foreign exchange gain/losses	(962)	444
Net foreign exchange gain/(loss)	**(723)**	**1.220**

9. Other income

	in MKD '000	
	Current year 2012	Previous year 2011
Capital gain from sale of:		
Property and equipment	104	-
Assets acquired through foreclosed procedure	1.619	-
Income from court cases won	225	248
Collected previously written off receivables	3.101	2.787
Release of provisions for:		
pension and other employee benefits	6	4
Other		
Income from savings deposits	231	243
Additionally determined income	123	391
Income from premature liquidation of savings deposits	523	591
Income from collected damages	114	550
Income from liquidated loans	51	691
Other	3.515	2.318
Total other income	**9.621**	**7.823**

10. Personnel expenses

	in MKD '000	
	Current year 2012	Previous year 2011
Short-term employee benefits		
Wages and salaries	46.528	44.370
Compulsory social security obligations	16.252	14.925
	62.780	59.295
Post employment benefits		
Retirement benefits	244	64
Other	4.398	5.974
Total personnel expenses	**67.422**	**65.333**

11. Depreciation and amortisation

	in MKD '000	
	Current year 2012	Previous year 2011
Amortisation of intangible assets		
Software purchased from external suppliers	380	449
Other intangible assets	898	1.247
	1.278	**1.696**
Depreciation of property and equipment		
Buildings	1.278	1.232
Transport vehicles	1.161	1.449
Office equipment and furniture	2.299	2.411
Other equipment	4.237	4.253
Other property and equipment	543	523
Leasehold improvements	810	887
	10.328	10.755
Total depreciation and amortisation	**11.606**	**12.451**

12. Other expenses

	in MKD '000	
	Current year 2012	Previous year 2011
Software licensing costs	776	-
Deposit insurance premiums	3.121	2.530
Property and employee insurance premiums	1.956	716
Materials and services	30.791	28.647
Administrative and marketing costs	1.814	1.316
Other taxes and contributions	1.753	823
Rents	14.530	15.522
Court dispute costs	1.599	1.079
Other provisions, net	432	-
Loss from sales of:		
Property and equipment	-	57
Intangible assets	-	750
Assets acquired through foreclosed procedure	1.127	-
Other	3.452	4.990
Total other expenses	**61.351**	**56.430**

13. Cash and cash equivalents

	in MKD '000	
	Current year 2012	Previous year 2011
Cash on hand	10.684	11.287
Account and deposits with the NBRM, except obligatory deposits in foreign currency	11.708	9.015
Current accounts with domestic banks	30.919	92.081
Government bills tradable at the secondary market	49.669	64.582
Term deposits with maturity up to three months	72.200	57.100
Interest receivables	99	220
Total	**175.279**	**234.285**

14. Loans and advances to banks

	in MKD '000	
	Current year 2012	Previous year 2011
Term deposits with maturity over three months in domestic banks	9.433	48.621
(Allowances for impairment)	(9)	(48)
Total loans and advances to banks less allowances for impairment	**9.424**	**48.573**

	in MKD '000	
	Current year 2012	Previous year 2011
Specific allowances for impairment		
Balance at 1 January	48	-
Impairment loss for the year		
Additional impairment	-	96
(Release of impairment)	(39)	(48)
Balance at 31 December	**9**	**48**

15. Loans and advances to customers

A Portfolio of loans and advances to customers according the type of the debtor

	in MKD '000	
	Current year 2012	Previous year 2011
Corporate customers	273.438	338.573
Retail customers		
Housing	145.148	161.952
Consumer loans	399.783	393.924
Other loans	576.164	714.842
Total loans and advances to customers before allowances for impairment	1.394.533	1.609.291
(Allowances for impairment)	(119.861)	(125.013)
Total loans and advances to customers less allowances for impairment	**1.274.672**	**1.484.278**

	in MKD '000	
	Current year 2012	Previous year 2011
Specific allowances for impairment		
Balance at 1 January	125.013	120.346
Impairment loss for the year		
Additional impairment	2.459	15.382
(Release of impairment)		
(Written off receivables)	(7.611)	(10.715)
Balance of 31 December	**119.861**	**125.013**

15. Loans and advances to customers

B Portfolio of loans and advances to customers according the type of the collateral

	in MKD '000	
	Current year 2012	Previous year 2011
Current carrying amounts of loans and advances		
Cash deposits (depot and/or restricted at bank's account)	31.242	32.518
Bank guarantees	-	359
Corporate bonds (excluding guarantees from banks and insurance companies)	24.388	46.362
Property for personal use (apartments, houses)	137.504	185.019
Property for business operations	57.194	69.128
Pledge on movable lien	9.951	16.275
Other types of collateral	1.014.393	1.134.617
Total loans and advances to customers less allowance for impairment	**1.274.672**	**1.184.278**

16. Other assets

	in MKD '000	
	Current year 2012	Previous year 2011
Trade receivables	11.523	173
Prepayments	1.566	2.449
Receivables from employees	329	117
Advance for property and equipment	-	330
Receivables on tax on not recognised expenses	-	471
Other	167	375
Total other assets	**13.585**	**3.915**

17. Assets acquired through foreclosure procedure

in MKD '000	**Land**	**Buildings**	**Apartments**	**Total**
Balance at 1 January 2011	-	6.736	2.040	**8.776**
Acquired during the year	2.670	7.745	24.478	**34.893**
Balance at 31 December 2011	**2.670**	**14.481**	**26.518**	**43.669**
Balance at 1 January 2012	2.670	14.481	26.518	**43.669**
Acquired during the year	-	3.875	4.951	**8.826**
(Sold during the year)	(2.670)	(2.955)	(18.505)	**(24.130)**
Balance at 31 December 2012	**-**	**15.401**	**12.964**	**28.365**

18. Intangible assets

in MKD '000	Software purchased from external suppliers	Other intangible assets	**Total**
Cost			
Balance at 1 January 2011	3.588	6.318	**9.906**
increase through new acquisitions	359	581	**940**
(disposals and write-offs)	-	(1.201)	**(1.201)**
Balance at 31 December 2011	**3.947**	**5.698**	**9.645**
Balance at 1 January 2012	3.947	5.698	**9.645**
increase through new acquisitions	276	170	**446**
Balance at 31 December 2012	**4.223**	**5.868**	**10.091**
Amortisation and impairment			
Balance at 1 January 2011	3.394	3.395	**6.789**
amortisation for the year	449	1.247	**1.696**
(disposals and write-offs)	-	(451)	**(451)**
Balance at 31 December 2011	**3.843**	**4.191**	**8.034**
Balance at 1 January 2012	3.843	4.191	**8.034**
amortisation for the year	380	898	**1.278**
Balance at 31 December 2012	**4.223**	**5.089**	**9.312**
Carrying amount			
Balance at 1 January 2011	**194**	**2.923**	**3.117**
Balance at 31 December 2011	**104**	**1.507**	**1.611**
Balance at 31 December 2012	**-**	**779**	**779**

19. Property and equipment

in MKD ‘000	Buildings	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment under construction	Leasehold improvements	**Total**
Cost								
Balance as of 1 January 2011	49.286	12.346	16.061	36.185	3.843	2.286	7.586	**127.593**
increase	1.821	946	1.661	1.710	560	451	2.134	**9.283**
(disposals and write-offs)	-	(369)	(6)	(462)	-	(1.003)	(792)	**(2.632)**
Balance as of 31 December 2011	**51.107**	**12.923**	**17.716**	**37.433**	**4.403**	**1.734**	**8.928**	**134.244**
Balance as of 1 January 2012	51.107	12.923	17.716	37.433	4.403	1.734	8.928	**134.244**
Increase		-	106	2.528	33		155	**2.822**
(disposals and write-offs)	-	(643)		(399)	-			**(1.042)**
other transfers	-	-	-	-	-	(1.153)	-	(1.153)
Balance as of 31 December 2012	**51.107**	**12.280**	**17.822**	**39.562**	**4.436**	**581**	**9.083**	**134.871**
Depreciation and impairment								
Balance as of 1 January 2011	6.038	9.994	9.459	23.779	1.149	-	5.699	**56.118**
Depreciation for the year	1.232	1.449	2.410	4.341	523	-	887	**10.842**
(Disposals and write-offs)	-	(239)	(6)	(27)	-	-	(792)	**(1.064)**
Balance as of 31 December 2011	**7.270**	**11.204**	**11.863**	**28.093**	**1.672**	**-**	**5.794**	**65.896**
Balance as of 1 January 2012	7.270	11.204	11.863	28.093	1.672	-	5.794	**65.896**
Depreciation for the year	1.278	1.161	2.299	4.237	543	-	810	**10.328**
(Disposals and write-offs)	-	(643)		(166)	-	-		**(809)**
Other transfers	-	-	-	12	-	-	-	**12**
Balance as of 31 December 2012	**8.548**	**11.722**	**14.162**	**32.176**	**2.215**	**-**	**6.604**	**75.427**
Carrying amounts								
As of 1 January 2011	**43.248**	**2.352**	**6.602**	**12.319**	**2.694**	**2.286**	**1.887**	**71.388**
As of 31 December 2011	**43.837**	**1.719**	**5.853**	**9.340**	**2.731**	**1.734**	**3.134**	**68.348**
As of 31 December 2012	**42.559**	**558**	**3.660**	**7.386**	**2.221**	**581**	**2.479**	**59.444**

Carrying amounts of the property and equipment where there are a restriction of the ownership and/or are pledged as collateral for the Savings House's borrowed funds are building in the amount of MKD ‘000 35.379 (2011: in the amount of MKD ‘000 36.446) (refer note 21).

20. Deposits from customers

	in MKD '000	
	Current year 2012	Previous year 2011
Retail		
Demand deposits	13.906	14.262
Term deposits	474.430	323.004
Restricted deposits	31.243	32.518
Total	**519.579**	**369.784**

21. Other borrowed funds

	in MKD '000	
	Current year 2012	Previous year 2011
Domestic sources:		
NLB TB - Ministry of Finance – Fund ZKDF	34.508	29.619
NLB TB - Habitat Macedonia	71.429	74.670
NLB TB - Taiwanese credit line	7.190	12.188
NLB Tutunska Banka	105.586	119.881
NLB TB - MRFP	203.355	203.369
	422.068	**439.727**
Foreign sources:		
MBDP - KfW	123.021	17.007
NLB TB - DWM	61.586	437.881
NLB TB - EBRD	-	184.758
	184.607	**639.646**
Total	**606.675**	**1.079.373**

In the course of 2012 Moznosti Savings House has not concluded contracts with new creditors, i.e. the credit resources come from already existing creditors. Until the end of 2018, active credit entered on 31.12.2012 lines will mature. Repayment of credit liabilities is carried out on a regular basis in line with the contractual maturity dates.

Credit lines being currently used by the Savings House are partly with fixed and partly with fluctuating interest rates**.** Fixed interest rates fluctuate on the scale of 1% to 10% annually. Fluctuating interest rates are connected to the EURIBOR rate and their amount depends on the EURIBOR rate on the designated maturity date of liabilities per interests.

Besides credit obligations shown in the balance sheet, based on approved credit lines used, Savings House Moznosti has shown off-balance approved and unused revolving credit limits, in Denars denominated in Euro, as per the average exchange rate of the NBRM. The amount of unused and approved revolving credit limits is 10,198 thousand Denars on 31.12.2012.

22. Employee benefits

in MKD '000	Provisions for pensions and other employee benefits
Balance as of 1 January 2011	199
Additional provisions during the year	65
(Released provisions during the year)	(4)
Balance as of 31 December 2011	**260**
Balance as of 1 January 2012	260
Additional provisions during the year	244
(Released provisions during the year)	(6)
Balance as of 31 December 2012	**498**

23. Other liabilities

	in MKD '000	
	Current year 2012	Previous year 2011
Trade payables	770	1.211
Fees and commission liabilities	-	292
Accrued expenses	1.709	1.092
Allocated expenditure from the previous year	861	1.760
Short-term liabilities to employees	2.716	4.170
Other		
Received advanced payments	1.849	2.151
Liabilities for tax on not recognised expenses	341	-
Other liabilities	922	1.278
Total other liabilities	**9.168**	**11.954**

24. Capital and reserves

A. Issued capital	*In MKD '000*	
	Total registered capital	
	Current year 2012	Previous year 2011
Balance as of 1 January - paid up in full	300.152	300.152
Balance as of 31 December - paid up in full	**300.152**	**300.152**

24. Capital and reserves (continued)

B Dividends

B.1 Declared dividends and dividends paid by the Saving house

	in MKD '000	
	Current year 2012	Previous year 2011
Declared dividends and dividends paid	5.463	681

B.2 Declared dividends after the reporting date (the dividend liabilities are not presented in the statement of financial position)

	in MKD '000	
	Current year 2012	Previous year 2011
Declared dividends after 31 December	8.859	5.463

The Parent and only founder of the Savings House is Centre for Education and Entrepreneurship Moznosti, partner – organization of Opportunity International.

25. Contingent liabilities

	in MKD '000	
	Current year 2012	Previous year 2011
Loan commitments and unused loan limits	-	1.199
Other contingent liabilities	1.741	1.540
Total contingent liabilities before provisions	**1.741**	**2.739**

Savings House Moznosti has recorded savings deposits off-balance which can potentially cause outflows of funds at the request of the client, in the amount previously recorded as income, as well as interest as for demand deposits under dynamic calculation. Recording income from savings deposits is done in accordance with the Decision for recording income from savings deposits.

The off-balance recorded savings deposits on 31 December 2013 amounts to 1.741 MKD '000.

26. Related parties

in MKD '000	Parent	Management	Other related parties	**Total**
Balance as of 31 December 2012				
Assets				
Consumer loans	-	1.243	608	**1.851**
Other loans and receivables	14.492	2.639	-	**17.131**
(Impairment)	(73)	(17)	(4)	**(94)**
Other assets	-	4	-	**4**
Total	**14.419**	**3.869**	**604**	**18.892**
Liabilities				
Deposits	-	1.371	711	**2.082**
Total	**-**	**1.371**	**711**	**2.082**
Balance as of 31 December 2011				
Assets				
Consumer loans	-	2.307	1.851	**4.158**
Other loans and receivables	15.909	7.933	5.792	**29.634**
(Impairment)	(79)	(161)	(114)	**(354)**
Total	**15.830**	**10.079**	**7.529**	**33.438**
Liabilities				
Deposits	-	4.852	12.493	**17.345**
Total	**-**	**4.852**	**12.493**	**17.345**

In MKD '000	Parent	Management	Other related parties	**Total**
2012				
Revenue				
Interest income	919	843	411	**2.173**
Total	919	**843**	**411**	**2.173**
Expenses				
Interest expense	-	256	693	**949**
Other expense	4.465	-	-	**4.465**
Total	**4.465**	**256**	**693**	**5.414**
2011				
Revenue				
Interest income	1.008	922	604	**2.534**
Total	1.008	**922**	**604**	**2.534**
Expenses				
Interest expense	-	252	799	**1.051**
Other expense	5.866	-	-	**5.866**
Total	**5.866**	**252**	**799**	**6.917**

26. Related parties (continued)

Transaction with key management personnel

	In MKD '000	
	Current year 2012	Previous year 2011
Short-term employee benefits	26.955	22.805
Benefits following termination of employment	80	17
Other	5.011	1.928
Total	**32.046**	**24.750**

27. Subsequent events

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