SAVINGS HOUSE MOZNOSTI DOO SKOPJE

Financial Statements

For the year ended
31 December 2015
with the Independent auditor’s report

Contents

Independent Auditor's Report

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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 2015, 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 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Macedonia DOO

KPMG Macedonia DOO

13 July 2016

Skopje

Audited Financial Statements

Statement of comprehensive income
For the year ended 31 December

	Note	Current year 2015 (in MKD '000)	Previous year 2014 (in MKD '000)
Interest income		193.488	196.973
Interest expense		(49.043)	(59.936)
Net interest income	6	144.445	137.037
Fee and commission income		2.493	2.281
Fee and commission expense		(1.726)	(1.644)
Net fee and commission income	7	767	637
Net foreign exchange (losses)/gains	8	(329)	574
Other operating income	9	10.313	7.561
Net impairment loss on financial assets	15,16,18	(1.968)	(3.203)
Net impairment loss on foreclosed assets		(20)	(914)
Personnel expenses	10	(80.106)	(70.873)
Depreciation and amortisation	11	(7.477)	(8.578)
Other expenses	12	(51.553)	(54.870)
Profit before tax		14.072	7.371
Income tax expense	13	(2.568)	(2.893)
Profit for the year		11.504	4.478
Other comprehensive income		-	-
Total comprehensive income		11.504	4.478

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

The accompanying notes are an integral part of these financial statements

Statement of financial position **As at 31 December 2015**	Note	*in MKD '000* Current year 2015	 Previous year 2014
Assets			
Cash and cash equivalents	14	212.554	167.534
Loans and advances to banks	15	-	87.386
Loans and advances to customers	16	1.312.223	1.390.219
Investment securities	17	-	71.028
Other assets	18	3.507	3.937
Assets acquired through foreclosure procedure	19	15.520	18.347
Intangible assets	20	2.226	2.905
Property and equipment	21	47.875	52.956
Total assets		1.593.905	1.794.312
Liabilities			
Deposits from customers	22	640.676	707.733
Other borrowed funds	23	507.144	650.821
Provision for employee benefits	24	696	675
Current tax liabilities		1.772	692
Deferred tax liabilities	13	870	1.433
Other liabilities	25	9.936	8.649
Total liabilities		1.161.094	1.370.003
Equity			
Issued capital	26	300.152	300.152
Reserves		108.259	105.258
Retained earnings		24.400	18.899
Total equity attributable to the owners of the Saving house		432.811	424.309
Total liabilities and equity		1.593.905	1.794.312

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

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

Statement of changes in equity

In MKD '000	Issued Capital	Statutory reserves	Retained earnings	Total equity and reserves
Balance at 1 January 2014	300.152	62.157	61.043	423.352
Total comprehensive income for the year				
Profit for the year	-	-	4.478	4.478
Total comprehensive income for the year	-	-	4.478	4.478
Transactions with owners, recognized in the equity				
Allocation of statutory reserve	-	43.101	(43.101)	-
Dividends paid	-	-	(3.169)	(3.169)
Tax on dividends paid	-	-	(352)	(352)
Transactions with owners, recognized in the equity	-	43.101	(46.622)	(3.521)
Balance at 31 December 2014	**300.152**	**105.258**	**18.899**	**424.309**
Balance at 1 January 2015	300.152	105.258	18.899	424.309
Total comprehensive income for the year				
Profit for the year	-	-	11.504	11.504
Total comprehensive income for the year	-	-	11.504	11.504
Transactions with owners, recognized in the equity				
Allocation of statutory reserve	-	3.001	(3.001)	-
Dividends paid	-	-	(3.002)	(3.002)
Transactions with owners, recognized in the equity	-	3.001	(6.003)	(3.002)
As of December 31 2015	**300.152**	**108.259**	**24.400**	**432.811**

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

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

Statement of cash flows
For the year ended 31 December

		in MKD '000	
	Note	current year 2015	previous year 2014
Cash flows from operating activities			
Profit before income tax		14.072	7.371
Adjustment for:			
Depreciation and amortisation			
intangible assets	11	1.060	1.133
property and equipment	11	6.417	7.445
Gain on sale from:			
property and equipment	9	(105)	(18)
assets acquired through foreclosed procedure	9	-	(911)
Loss on sale of:			
property and equipment	12	15	80
assets acquired through foreclosed procedure	12	448	3,019
Interest income	6	(193.488)	(196.973)
Interest expenses	6	49.043	59.936
Impairment losses on financial assets	15,16,17	1.968	3.203
Impairment loss on foreclosed assets	19	20	914
Employee benefits provision			
additional	24	114	201
release	24	(11)	(58)
Interest received		195.156	196.873
Interest paid		(52.612)	(57.957)
Other		(77)	-
Operating profit before changes in operating assets		**22.020**	**24.258**
Change in loans and advances to banks		87.000	(82.537)
Change in loans and advances to customers		75.381	(130.136)
Change in assets acquired through foreclosure procedure		2.359	(2.449)
Change in other assets		(205)	9.711
Change in deposits from customers		(65.328)	75.790
Change in other liabilities		1.205	(6.694)
		122.432	**(112.055)**
Income taxes paid		(2.051)	(768)
Net cash used in operating activities		**120.381**	**(112.823)**
Cash flows from investing activities			
Proceeds from investment securities		71.028	52.206
Acquisition of intangible assets		(381)	(707)
Acquisition of property and equipment		(1.361)	(3.363)
Proceeds from sale of property and equipment		192	746
Net cash used in investing activities		**69.478**	**48.882**
Cash flows from financing activities			
Repayment of other borrowed funds		(309.367)	(206.316)
Proceeds from other borrowed funds		167.530	185.245
Dividends paid		(3.002)	(3.521)
Net cash from financing activities		**(144.839)**	**(24.592)**
Net increase/(decrease) in cash and cash equivalents		**45.020**	**(88.533)**
Cash and cash equivalents at 1 January		167.534	**256.067**
Cash and cash equivalents at 31 December	14	**212.554**	**167.534**

Signed on behalf of Savings House Moznosti Ltd Skopje:

Snezana Andova
Chief executive officer

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

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 22 June 2016.

(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) and are not statutory financial statements.

(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) 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 1. d.

(iv) Changes in accounting policies

Except for the changes below, the Saving House has consistently applied the accounting policies as set out in Note 1.c to all periods presented in these financial statements.

The Saving House has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015.

A. IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

   IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

   The adoption of the above amendment had no impact on Saving House's financial statements.

B. Annual Improvements - 2010 - 2012.

C. Annual Improvements – 2011 - 2013.

As part of the annual improvements project, the International Accounting Standards Board issued amendments to various standards.

The adoption of the above amendments had no impact on the financial statements of the Saving House.

(iv) Changes in accounting estimates

For the year ended 31 December 2015, there were no changes in accounting estimates.

c) Significant accounting policies

The accounting policies presented hereafter, except those explained in 1.b (iv), 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 or in which the Saving House neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.. 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' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Saving House has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Saving House measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Saving House uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Saving House determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Saving House measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Saving House recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Impairment losses

The Savings House assesses at least quarterly whether there is objective evidence that financial asset or group of financial assets is impaired. 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.

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

(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 profit or loss.

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 2015 and 2014 were as follows:

	2015 MKD	**2014 MKD**
1 USD	56,37	50,56
1 EUR	61,59	61,48
1 CHF	56,96	51,12

(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, and which are not designated as at fair value through profit or loss or as available for sale.

Held to maturity investments are carried at amortized cost using 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 include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in assets acquired through foreclosure proceedings. The date when the legal basis for foreclosing the asset is obtained is considered the date of foreclosure.

These assets are initially measured at the lower of the appraised value, less estimated cost to sell, charged to the Saving House, and the cost of the foreclosed asset. After initial recognition, foreclosed assets are measured at the lower of their cost and net realizable value and any write-down is recognized in the income statement.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

(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

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, through other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date of 10%, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, unused tax credit and deductible temporary differences to the extent for which is probable that the future taxable profits against which the asset can be utilized. Deferred tax assets are estimated at the end of each reporting period and reduced to the extent that is no longer probable that these tax revenues will be realized. Any such reduction should be reversed to the extent that it is probable that sufficient taxable profit will be available. Unrecognised deferred tax assets are assessed at the end of each reporting period and recognised to the extent it is probable that future taxable income will be sufficient against which the asset can be utilised.

(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.

(xvi) 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 these estimates.

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

Variability/uncertainties of the accounting estimate

Allowance for impairment of loans and advances

Assets accounted for at amortised cost are assessed for impairment on a basis described in accounting policy 1 c (i).

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

Critical accounting judgment in applying the Saving House 's accounting policies

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

Valuation of financial instruments

The fair value measurements is disclosed in the accounting policy 1 c (i).

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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 2015, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 9 Financial instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue. IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

IFRS 16 will have an impact on the recognition and measurement of leases. The overall impact of this standard is currently being investigated. IFRS 16 is applicable for annual periods beginning on or after 1 January 2019.

The following new or amended standards are not expected to have a significant impact on the Company’s financial statements:

- IFRS 14 Regulatory Deferral Accounts.
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Annual Improvements to IFRSs 2012-2014 Cycle – various standards.
- Disclosure Initiative (Amendments to IAS 1).

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 managed 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 Control of risk exposure limits and risk protection policies

The Savings House manages and controls credit risk concentration on an 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. Types of collateral:

(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

2.1.5 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.

2.1.6 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).

2.1.6.1 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.

2.1.7 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

	Loans and advances to banks		**Loans and advances to customers**	
in MKD '000	Current year 2015	Previous year 2014	Current year 2015	Previous year 2014
Carrying amount	**-**	**87.386**	**1.312.223**	**1.390.219**
Individually impaired				
Grade A	-	87.473	1.285.928	1.243.349
Grade B	-	-	38.491	22.883
Grade C	-	-	7.569	7.912
Grade D	-	-	3.281	3.000
Grade E	-	-	97.714	97.713
Gross amount	-	87.473	1.432.983	1.374.857
Allowance for impairment	-	(87)	(120.760)	(119.512)
Carrying amount	**-**	**87.386**	**1.312.223**	**1.255.345**
Past due but not impaired:				
Up to 30 days	-	-	-	100
30 – 60 days	-	-	-	20.748
60 – 90 days	**-**	**-**	**-**	**7.636**
90 – 180 days	-	-	-	207
180 days +	-	-	-	7.102
Carrying amount	**-**	**-**	**-**	**35.793**
Neither past due nor impaired:				
Restructured	-	-	-	5.877
Not restructured	-	19.016	-	93.204
Carrying amount	**-**	19.016	**-**	**99.081**
Total carrying amount	**-**	**106.402**	**1.312.223**	**1.390.219**

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 banks		**Loans and advances to customers**	
in MKD '000	Gross	Net	Gross	Net
31 December 2015				
Individually impaired				
Grade A	-	-	1.285.928	1.266.780
Grade B	-	-	38.491	36.213
Grade C	-	-	7.569	5.319
Grade D	-	-	3.281	1.793
Grade E	-	-	97.714	2.118
	-	**-**	**1.432.983**	**1.312.223**
31 December 2014				
Individually impaired				
Grade A	87.473	87.386	1.243.349	1.224.923
Grade B	-	-	22.883	21.542
Grade C	-	-	7.912	5.595
Grade D	-	-	3.000	1.571
Grade E	-	-	97.713	1.714
	87.473	**87.386**	**1.374.857**	**1.255.345**

Fair value of collateral held against loans and advances to customers

	Loans and advances to customers	
in MKD '000	Current year 2015	Previous year 2014
Cash collateral	23.131	25.426
Corporate guarantees (other than from banks and from insurance companies)	24.336	9.043
Apartments	170.974	242.676
Business premises	128.850	140.812
Movable lien	3.254	6.503
Total	**350.545**	**424.460**

The table above does not include fair value of collateral such as bills of exchange, since their fair value cannot be determined.

Financial and non financial assets obtained by taking position of collateral

in MKD '000	Current year 2015	Previous year 2014
Apartments	-	8.430
Total	**-**	**8.430**

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 2015	Previous year 2014	Current year 2015	Previous year 2014
Agriculture, forestry and fisheries	-	-	27.257	20.924
Ore and rock extraction	-	-	703	103
Food industry	-	-	8.437	6.862
Textile industry and production of garments and footwear	-	-	2.945	4.913
Chemical industry, production of construction materials, oil production and processing, pharmaceutical industry	-	-	2.029	3.610
Production of metals, machines, tools and equipment	-	-	1.462	1.828
Other types of processing industry	-	-	3.881	6.461
Supply with water, sewage systems, waste management and environment recovery	-	-	-	99
Construction	-	-	19.124	22.091
Wholesale and retail trade; reparation of motor vehicles and motorcycles	-	-	37.225	59.409
Transport and storage	-	-	17.934	26.509
Accommodation premises and catering service	-	-	4.096	5.353
Information and communication	-	-	1.075	2.025
Financial insurance operations	-	87.386	8.493	11.086
Actitvities for properties	-	-	451	-
Professional, scientific and technical activities	-	-	2.205	3.937
Administration and associated service activities	-	-	4.176	3.453
Operations in compulsory social and health insurance	-	-	4.827	4.889
Other service activities	-	-	1.321	1.321
Individuals	-	-	1.164.582	1.205.346
Total	**-**	**87.386**	**1.312.223**	**1.390.219**

Concentration of credit risk by geographical location

	Loans and advances to banks		**Loans and advances to customers**	
in MKD '000	Current year 2015	Previous year 2014	Current year 2015	Previous year 2014
Concentration by location				
Republic of Macedonia	-	87.386	1.312.223	1.390.219
Total	**-**	**87.386**	**1.312.223**	**1.390.219**

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)

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

The liquidity risk management policy of the Savings House approved by the Shareholder’s Board 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, defined by:

- Liquidity management system;
- Maintaining appropriate liquidity level;
- Reporting to NBRM.

The system contains the following components:

- Organizational structure for liquidity risk management;
- Procedures and policies of internal control and audit;
- Adequate information system;
- Stress tests;
- Plan for emergency situation

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 Shareholder’s Board of the Savings House is responsible for:

- Approves the policies and procedures for liquidity risk management, which are monitored by the Supervisory Board;

- Approves the liquidity risk management policy 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);
- Approves limits on exposure to liquidity risk;
- Approves and revises internal liquidity indicators;
- Approves the internal liquidity ratios.

Supervisory Board is responsible for:

- Reviews the liquidity risk management policies;
- Reviews the liquidity risk reports.

The Risk Management Committee is responsible for:

- Reviews and assesses the liquidity risk and determines the acceptable level of liquidity risk in order to minimize losses;
- Establishing and monitoring the policy for liquidity risk management and making suggestions for its revision;
- Assessment of the system for managing liquidity risk;
- Determines the short term and long term liquidity risk strategies;
- 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;
- Reports to the Supervisory Board on a monthly basis and Audit Committee on a quarterly basis for any amendments of the liquidity risk strategies, liquidity position, effects and undertaken measures.

Maintaining current liquidity of the Savings House is managed by the Assets and liabilities committee.

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

Maturity analysis for financial liabilities

Financial liabilities 2015	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	640.675	(666.719)	(55.687)	(64.004)	(239.295)	(243.465)	(64.268)	-
Other borrowed funds	507.144	(538.218)	(32.530)	(53.016)	(154.146)	(108.875)	(173.337)	(16.313)
Other liabilities	9.938	(9.938)	(6.359)	(29)	(704)	(2.834)	(12)	-
Total financial liabilities	**1.157.757**	**(1.214.875)**	**(94.577)**	**(117.049)**	**(394.144)**	**(355.175)**	**(237.617)**	**(16.313)**

Financial liabilities 2014	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	707.733	(737.154)	(65.124)	(87.730)	(271.108)	(216.579)	(96.613)	-
Other borrowed funds	650.821	(705.307)	(6.671)	(44.702)	(299.361)	(182.660)	(171.914)	-
Other liabilities	8.649	(8.649)	(6.789)	(18)	(1.685)	(115)	(43)	-
Total financial liabilities	**1.367.203**	**(1.451.110)**	**(78.584)**	**(132.450)**	**(572.154)**	**(399.354)**	**(268.570)**	**-**

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

Market risk management

Market risk management includes adequate identification, measurements and control of the changes of the amount of assets and liabilities that may be affected by the market movements of interest rates and foreign exchange rates.
Steps for market risk management are:

- Measurement of market risk:
  - defined stress test procedures
  - adequate internal information system

Measurement of market risk includes assessment of losses during normal market conditions and losses during extra ordinary market conditions. The Saving House analyses the effect of the market movement over the own funds and net profit taking into account the complexity of its financial activities.
The Saving House has established General procedure for stress testing and appropriate information system which allows appropriate measurement and assessment of market risk. The system provides regular reporting to management regarding the market risk.

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 %*
2015 (current year)				
Amount prior to analyses of sensitivity/ stress-tests (balance on 31.12.2015)	11.504	408.168	1.683.320	24.25%
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	13.410	410.074	1.683.654	24.36%
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	9.598	408.168	1.682.986	24.25%
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	19.794	416.459	1.684.771	24.72%
Decrease of active and passive interest rates by 100 basic points	3.214	408.168	1.681.869	24.27%

	Profit/(loss)	**Own Funds**	**Risk Weighted Assets**	**Capital adequacy**
	in MKD ‘000	*in MKD ‘000*	*in %*	*in %*
2014(previous year)				
Amount prior to analyses of sensitivity/ stress-tests (balance on 31.12.2014)	4.478	405.015	1.774.093	22,83%
Effects from applied scenarios				
Risk from Fx rate change (state different scenarios separately, including scenario’s basic features)	5.212	405.750	1.774.222	22,87%
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				
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	3.742	405.015	1.773.964	22,83%
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	12.758	413.296	1.775.542	23,28%
Decrease of active and passive interest rates by 100 basic points	3.804	405.015	1.772.644	22,85%

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.

Shareholders Board is responsible for:

- Approves the policies and procedures for interest rate risk management, which are monitored by the Supervisory Board;
- Approves the interest rate risk management policy;
- Reviews the adequacy of the adopted policy (at least annually);
- Approves limits on exposure to interest rate risk;
- Approves and revises internal interest rate risk indicators and ratios;

Supervisory Board is responsible for:

- Reviews the interest rate risk management policies;
- Reviews the interest rate risk reports.

The Risk Management Committee is responsible for:

- Establishing and monitoring the policy for interest rate risk management and making suggestions for its revision;
- Determination and regular review of interest rate risk indicators and exposure limits to the 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;

Reports to the Supervisory Board on a monthly basis and Audit Committee on a quarterly basis for any amendments of the interest rate risk strategies, liquidity position, effects and undertaken measures.

(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**
2015 (current year)							
Financial assets							
Cash and cash equivalents	110.056	83.748	-	-	-	-	193.804
Loans and advances to banks							
Loans and advances to customers	-	-	761.072	544.708	-	-	1.305.780
Investment securities							
Total interest sensitive financial assets	**110.056**	**83.748**	**761.072**	**544.708**	**-**	**-**	**1.499.584**
Financial liabilities							
Deposits from customers	(20.409)	-	(610.107)	-	-	-	(630.516)
Other borrowed funds	(119.925)	(345.553)	(12.319)	-	(28.403)	-	(506.200)
Total interest sensitive financial liabilities	**(140.334)**	**(345.553)**	**(622.426)**	**-**	**(28.403)**	**-**	**(1.136.716)**
Total based position, net	**(30.278)**	**(261.805)**	**138.646**	**544.708**	**(28.403)**	**-**	**362.868**

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**
2014 (previous year)							
Financial assets							
Cash and cash equivalents	134.084	19.000	-	-	-	-	153.084
Loans and advances to banks	-	9.990	76.923	-	-	-	86.913
Loans and advances to customers	-	-	1.376.308	428	-	-	1.376.736
Total interest sensitive financial assets	-	-	71.028	-	-	-	71.028
	134.084	**28.990**	**1.524.259**	**428**	**-**	**-**	**1.687.761**
Financial liabilities							
Deposits from customers							
Other borrowed funds	(24.638)	-	(671.204)	-	-	-	(695.842)
Total interest sensitive financial liabilities	(126.520)	(303.069)	(122.963)	-	(95.006)	-	(647.558)
Total based position, net	**(151.158)**	**(303.069)**	**(794.167)**	**-**	**(95.006)**	**-**	**(1.343.400)**

2.3.3 Currency risk

Nature and exposure

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 (same as for other risks explained above).

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

2.3 Market risk

2.3.3 Currency risk

in MKD '000	MKD	EUR	USD	Total
2015 (current year)				
Financial assets				
Cash and cash equivalents	181.372	31.182	-	212.554
Loans and advances to banks	-	-	-	-
Loans and advances to customers	951.505	360.717	-	1.312.223
Investments securities	-	-	-	-
Other assets	3.507	-	-	3.507
Total monetary assets	**1.136.384**	**391.899**	**-**	**1.528.284**
Liabilities				
Deposits from customers	(640.676)	-	-	(640.676)
Other borrowed funds	(127.250)	(379.894)	-	(507.144)
Other liabilities	(11.232)	(1.346)	-	(12.579)
Total liabilities	**(779.158)**	**(381.240)**	**-**	**(1.160.399)**
Net balance	**357.226**	**10.659**	**-**	**367.885**

in MKD '000	MKD	EUR	USD	Total
2014 (previous year)				
Financial assets				
Cash and cash equivalents	160.957	6.365	212	167.534
Loans and advances to banks	87.386	-	-	87.386
Loans and advances to customers	1.059.627	330.592	-	1.390.219
Investments securities	71.028	-	-	71.028
Other assets	3.937	-	-	3.937
Total monetary assets	**1.382.935**	**336.957**	**212**	**1.720.104**
Liabilities				
Deposits from customers	(684.397)	(23.336)	-	(707.733)
Other borrowed funds	(189.696)	(461.125)	-	(650.821)
Other liabilities	(10.659)	(791)	-	(11.450)
Total liabilities	**(884.752)**	**(485.252)**	**-**	**(1.370.004)**
Net balance	**498.183**	**(148.295)**	**212**	**350.100**

2.4 Other operating risks

2.4.1 Nature and exposure

Operational risk is 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. Operational 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 operational 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 operational 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 National Bank of the Republic of Macedonia (NBRM). Namely, in the above policy, the Savings House prescribes regular monitoring of regulations concerning capital and capital adequacy according to changes prescribed by the NBRM.

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 20%. 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 internal rate limit of capital adequacy of the Savings House should be minimum 20%.

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 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 capital adequacy rate 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 capital adequacy rate 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 capital adequacy for the next year is determined by quarters.

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)

Capital adequacy	**Amount**	**Amount**
Report on the Saving house’s own funds	**31.12.2015**	**31.12.2014**
Principal capital		
Paid up and registered ordinary and non-cumulative preference shares and premium for such shares	300.152	300.152
Nominal value	300.152	300.152
Nominal value of ordinary shares	300.152	300.152
Nominal value of non-cumulative preference shares	-	-
Premium	-	-
Ordinary shares premium	-	-
Non-cumulative preference shares premium	-	-
Provisions and retained profit or loss	108.259	105.258
Reserve fund	108.259	105.258
Retained profit limited to distribution to shareholders	-	-
Accumulated loss from previous years	-	-
Current profit	-	-
Positions as a result of consolidation	-	-
Minority share	-	-
Provisions for Fx rate differences	-	-
Other margins	-	-
Deductible items	243	395
Loss at the year-end or current loss	-	-
Treasury shares	-	-
Intangible assets	243	395
Net negative revaluation provisions	-	-
Margin between the amount of required and effected impairment/special reserve	-	-
Amount of unallocated impairment and special reserves	-	-
Ordinary shares, provisions and retained profit and deductible items	408.168	405.015
Amount of other positions		-
PRINCIPAL CAPITAL	**408.168**	**405.015**
Additional capital	**-**	**-**
Paid up and registered cumulative preference shares and the premium for such shares	-	-
Nominal value	-	-
Premium	-	-
Revaluation reserve	-	-
Hybrid capital instruments	-	-
Subordinated instruments	**-**	**-**
Amount of subordinated instruments	-	-
Deductible items from principal capital and additional capital		
Investments in the equity of other banks or financial institutions exceeding 10% of the capital of such institutions	-	-
Investments in subordinated and hybrid capital instruments and other instruments of the institutions	-	-
Sum of investments in equity, subordinated and hybrid instruments, and other instruments exceeding 10%	-	-
Direct investments in the equity of insurance companies and pension fund management companies	-	-
DEDUCTABLE ITEMS	**-**	**-**
Principal capital after deductible items	**408.168**	**405.015**
Additional capital I after deductible items		**-**
Principal capital	**408.168**	**405.015**
Own funds	**408.168**	**405.015**
Risk weighted assets	**1.683.320**	**1.774.093**
CAPITAL ADEQUACY	**24.25%**	**22.83%**

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

5 Fair value of financial assets and financial liabilities and clasification of financial assets and liabilities

Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
Assets					
Cash and cash equivalents	-	212.554	-	212.554	212.554
Loans and advances to banks	-	-	-	-	-
Loans and advances to customers	-	1.484.806	-	1.484.806	1.312.223
Held-to-maturity investment securities	-	-	-	-	-
Liabilities					
Deposits from customers	-	640.676	-	640.676	640.676
Other borrowed funds	-	507.144	-	507.144	507.144

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime and market interest rates.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

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

Financial asset and liability classification

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	Note	Loans and receivables	Held to maturity	Other amortized cost	Total carrying amount
31 December 2015					
Cash and cash equivalents	*14*	212.554	-	-	212.554
Loans and advances to banks	*15*	-	-	-	-
Loans and advances to customers	*16*	1.312.223	-	-	1.312.223
Investments securities	*17*	-	-	-	-
Other assets		-		3.507	3.507
Total assets		1.524.777	-	3.507	1.528.284
	21				
Deposits from customers	*22*	-	-	640.676	640.676
Other borrowed funds	*24*	-	-	507.144	507.144
Other liabilities	*25*	-	-	9.936	9.936
Total liabilities		**-**	**-**	**1.157.756**	**1.157.756**
31 December 2014					
Cash and cash equivalents	*14*	167.534	-	-	167.534
Loans and advances to banks	*15*	87.386	-	-	87.386
Loans and advances to customers	*16*	1.390.219	-	-	1.390.219
Investments securities	*17*	-	71.028	-	71.028
Other assets		-	-	3.937	3.937
Total assets		1.645.139	71.028	3.937	1.720.104
	21				
Deposits from customers	*22*	-	-	707.733	707.733
Other borrowed funds	*24*	-	-	650.821	650.821
Other liabilities	*25*	-	-	8.649	8.649
		-	**-**	**1.367.203**	**1.367.203**

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

6. Net interest income

	in MKD ‘000	
	Current year 2015	Previous year 2014
Interest income		
Cash and cash equivalents	845	2.085
Loans and advances to banks	1.394	1.163
Loans and advances to customers	183.967	186.166
Investments securities	1.214	3.437
(Impairment of interest income, net based)	(980)	(1.209)
Collected previously written off interest	7.048	5.331
Total interest income	**193.488**	**196.973**
Interest expense		
Deposits from customers	20.687	29.985
Other borrowed funds	28.356	29.951
Total interest expenses	**49.043**	**59.936**
Net interest income	**144.445**	**137.037**

7. Net fee and commission income

	in MKD ‘000	
	Current year 2015	Previous year 2014
Fee and commission income		
Lending	2.493	2.281
Total fee and commission income	**2.493**	**2.281**
Fee and commission expense		
Lending operations	23	40
Payment operations in the country	1.307	1.387
Letters of credit and guarantees	266	14
Other	130	203
Total fee and commission expense	**1.726**	**1.644**
Net fee and commission income	**767**	**637**

8. Net foreign exchange gain/(loss)

	in MKD '000	
	Current year 2015	Previous year 2014
Realised net foreign exchange gain/losses	139	243
Unrealised net foreign exchange gain/losses	(468)	331
Net foreign exchange gain/(loss)	**(329)**	**574**

9. Other operating income

	in MKD '000	
	Current year 2015	Previous year 2014
Capital gain from sale of:		
Property and equipment	105	18
Assets acquired through foreclosed procedure	-	911
Income from court cases won	281	174
Collected previously written off receivables	2.134	1.954
Other		
Discount for premature closing of credit line - Habitat	3.446	-
Income from savings deposits	-	203
Income from premature liquidation of savings deposits	594	927
Income from collected written off receivables	1.215	-
Other	2.538	3.374
Total other operating income	**10.313**	**7.561**

10. Personnel expenses

	in MKD '000	
	Current year 2015	Previous year 2014
Short-term employee benefits		
Wages and salaries	55.106	49.341
Compulsory social security contributions	20.099	17.730
	75.205	67.071
Other	4.901	3.802
Total personnel expenses	**80.106**	**70.873**

11. Depreciation and amortisation

	in MKD '000	
	Current year 2015	Previous year 2014
Amortisation of intangible assets		
Software purchased from external suppliers	908	778
Other intangible assets	152	355
	1.060	**1.133**
Depreciation of property and equipment		
Buildings	1.292	1.287
Transport vehicles	444	507
Office equipment and furniture	885	1.261
Other equipment	2.505	2.894
Other property and equipment	504	547
Leasehold improvements	787	949
	6.417	**7.445**
Total depreciation and amortisation	**7.477**	**8.578**

12. Other expenses

	in MKD '000	
	Current year 2015	Previous year 2014
Software licensing costs	868	1.001
Deposit insurance premiums	3.203	3.928
Property and employee insurance premiums	1.123	1.093
Materials and services	27.716	23.032
Administrative and marketing costs	1.150	923
Other taxes and contributions	45	99
Rents	13.504	14.122
Court dispute costs	421	1.139
Provision for employee benefits	103	143
Loss from sales of:		
Property and equipment	15	80
Assets acquired through foreclosed procedure	448	3.019
Other	2.957	6.291
Total other expenses	**51.553**	**54.870**

13. Income tax expense

	Current year 2015	Previous year 2014
	in MKD '000	
Current tax expense		
Current year	3.131	1.460
Deferred tax expense		
Origination of temporary differences	(563)	1.433
Total income tax expenses	**2.568**	**2.893**

Reconciliation of effective tax rate:

	%	Current year 2015	%	Previous year 2014
	in MKD '000			
Profit before income tax		14.072		7,371
Income tax using the domestic corporation tax rate	10.00%	1.407	10.00%	737
Non-deductible expenses	8.25%	1.161	9.69%	714
Change in taxable temporary differences	-	-	19.44%	1.433
Other	-	-	0.12%	9
Total income tax expenses	**18.25%**	**2.568**	**39.25%**	**2.893**

In 2014 a change in the concept of income tax was introduced, abandoning the concept of taxation of non-deductible expenses, applicable up to 2013, and shifting towards taxation of accounting profit and is within the scope of IAS 12. Income tax comprises of current and deferred tax. The change was implemented prospectively.

Movements in deferred tax balances

	Net balance at 1 January	Recognized profit or loss	Recognized in OCI	Balance at 31 December: Net	Balance at 31 December: Deferred tax liabilities
2015					
in MKD '000					
Loans and advances to customers and other financial assets	(833)	833	-	-	-
Assets acquires through foreclosure procedure	(600)	(270)	-	(870)	(870)
Tax assets/(liabilities)	(1.433)	563	-	(870)	(870)

	Net balance at 1 January	Recognized profit or loss	Recognized in OCI	Balance at 31 December: Net	Balance at 31 December: Deferred tax liabilities
2014					
in MKD '000					
Loans and advances to customers and other financial assets	-	(833)	-	(833)	(833)
Assets acquires through				(600)	(600)
foreclosure procedure	-	(600)	-		
Tax assets/(liabilities)		(1.433)		(1.433)	(1.433)

14. Cash and cash equivalents

	in MKD ‘000	
	Current year 2015	Previous year 2014
Cash on hand	10.400	9.362
Account and deposits with the NBRM, except obligatory deposits in foreign currency	15.025	16.882
Current accounts with domestic banks	81.795	122.274
Government bills tradable at the secondary market	66.548	-
Term deposits with maturity up to three months	38.758	19.000
Interest receivables	28	16
Total	**212.554**	**167.534**

15. Loans and advances to banks

	in MKD ‘000	
	Current year 2015	Previous year 2014
Term deposits with maturity over three months in domestic banks	-	87.473
(Allowances for impairment)	-	(87)
Total loans and advances to banks less allowances for impairment	**-**	**87.386**

	in MKD ‘000	
	Current year 2015	Previous year 2014
Specific allowances for impairment		
Balance at 1 January	87	4
Impairment loss for the year		
Additional impairment	1	88
(Release of impairment)	(88)	(5)
Balance at 31 December	**-**	**87**

At 31 December 2014 MKD 87.386 thousand denars of loans and advances to banks were expected to be recovered in less than 12 months after the reporting date.

16. Loans and advances to customers

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

	in MKD ‘000	
	Current year 2015	Previous year 2014
Corporate customers	168.804	202.274
Retail customers		
Housing	69.252	109.191
Consumer loans	659.078	633.686
Other loans	535.849	564.580
Total loans and advances to customers before allowances for impairment	1.432.983	1.509.731
(Allowances for impairment)	(120.760)	(119.512)
Total loans and advances to customers less allowances for impairment	**1.312.223**	**1.390.219**

16. Loans and advances to customers (continued)

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

	in MKD '000	
	Current year 2015	Previous year 2014
Specific allowances for impairment		
Balance at 1 January	119.512	118.503
Impairment loss for the year		
Additional impairment	1.420	4.918
(Assets acquired through foreclosed procedure)	-	(1.025)
(Written off receivables)	(172)	(2.884)
Balance of 31 December	**120.760**	**119.512**

At 31 December 2015 MKD 786.980 thousand (2014: MKD 930.829 thousand) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

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

	in MKD '000	
	Current year 2015	Previous year 2014
Current carrying amounts of loans and advances		
Cash deposits (depot and/or restricted at bank's account)	23.130	25.426
Bank guarantees	-	-
Corporate guarantees (excluding guarantees from banks and insurance companies)	45.802	15.554
Property for personal use (apartments, houses)	46.464	89.834
Property for business operations	23.081	44.327
Pledge on movable lien	-	1.484
Other types of collateral	1.173.746	1.213.594
Total loans and advances to customers less allowance for impairment	**1.312.223**	**1.390.219**

Other types of collateral includes bills of exchange and administrative ban on salary.

17. Investments securities

	in MKD '000	
Held to maturity investments securities	Current year 2015	Previous year 2014
Government bills	-	71.028
Total	**-**	**71.028**

18. Other assets

	in MKD '000	
	Current year 2015	Previous year 2014
Trade receivables	2.641	2.841
Prepayments	1.902	1.717
Receivables from employees	785	629
Advances for property and equipment	41	-
Other	226	203
Total other assets	**5.595**	**5.390**
(Allowances for impairment)	(2.088)	(1.453)
Total other assets less allowances for impairment	**3.507**	**3.937**

	in MKD '000	
	Current year 2015	Previous year 2014
Specific allowances for impairment		
Balance at 1 January	1.453	3.251
Impairment loss for the year		
Additional impairment	637	544
(Release of impairment)	(2)	(2.342)
Balance of 31 December	**2.088**	**1.453**

19. Assets acquired through foreclosure procedure

in MKD '000	**Buildings**	**Apartments**	**Total**
Balance at 1 January 2014	10.425	11.273	**21.698**
Acquired during the year	-	8.430	**8.430**
(Sold during the year)	(3.875)	(4.214)	**(8.089)**
Balance at 31 December 2014	**6.550**	**15.489**	**22.039**
Impairment losses			
Balance at 1 January 2014	(1.193)	(1.585)	**(2.778)**
Impairment loss	(92)	(822)	**(914)**
Balance at 31 December 2014	**5.265**	**13.082**	**18.347**
Balance at 1 January 2015	6.550	15.489	**22.039**
(Sold during the year)	(3.670)	-	**(3.670)**
Balance at 31 December 2015	**2.880**	**15.489**	**18.369**
Impairment losses			
Balance at 1 January 2015	(1.285)	(2.407)	**(3.692)**
Impairment loss	-	(20)	**(20)**
(Sold during the year)	**863**	**-**	**863**
Balance at 31 December 2015	**2.458**	**13.062**	**15.520**

20. Intangible assets

in MKD '000	Software purchased from external suppliers	Other intangible assets	**Total**
Cost			
Balance at 1 January 2014	7.309	5.916	**13.225**
increase through new acquisitions	392	315	**707**
Balance at 31 December 2014	**7.701**	**6.231**	**13.932**
Balance at 1 January 2015	7.701	6.231	**13.932**
increase through new acquisitions	381	-	**381**
Balance at 31 December 2015	**8.082**	**6.231**	**14.313**
Amortisation and impairment			
Balance at 1 January 2014	4.357	5.537	**9.894**
amortisation for the year	778	355	**1.133**
Balance at 31 December 2014	**5.135**	**5.892**	**11.027**
Balance at 1 January 2015	5.135	5.892	**11.027**
amortisation for the year	908	152	**1.060**
(disposals and write-offs)			
Balance at 31 December 2015	6.043	6.044	**12.087**
Carrying amount			
Balance at 1 January 2014	**2.952**	**379**	**3.331**
Balance at 31 December 2014	**2.566**	**339**	**2.905**
Balance at 31 December 2015	**2.039**	**187**	**2.226**

21. 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 2014	51.107	12.743	18.988	42.702	4.592	584	9.753	**140.469**
increase	584	655	43	2.061	20	-	-	**3.363**
(disposals and write-offs)	-	9	(394)	(2.982)	(215)	(584)	-	**(4.166)**
Balance as of 31 December 2014	**51.691**	**13.407**	**18.637**	**41.781**	**4.397**	**-**	**9.753**	**139.666**
Balance as of 1 January 2015	51.691	13.407	18.637	41.781	4.397	-	9.753	**139.666**
Increase	-	590	226	353	192	-	-	**1.361**
(disposals and write-offs)	-	(635)	(259)	(277)	(19)	-	-	**(1.190)**
Balance as of 31 December 2015	**51.691**	**13.362**	**18.604**	**41.857**	**4.570**	**-**	**9.753**	**139.837**
Depreciation and impairment								
Balance as of 1 January 2014	9.826	12.008	15.659	34.919	2.751	-	7.460	**82.623**
Depreciation for the year	1.287	507	1.261	2.894	547		949	**7.445**
(Disposals and write-offs)	-	-	(392)	(2.793)	(173)	-	-	**(3.358)**
Balance as of 31 December 2014	**11.113**	**12.515**	**16.528**	**35.020**	**3.125**	**-**	**8.409**	**86.710**
Balance as of 1 January 2015	11.113	12.515	16.528	35.020	3.125	-	8.409	**86.710**
Depreciation for the year	1.292	444	885	2.505	504	-	787	**6.417**
(Disposals and write-offs)	-	(635)	(251)	(268)	(11)	-	-	**(1.165)**
Balance as of 31 December 2015								
Carrying amounts								
As of 1 January 2014	**41.281**	**735**	**3.329**	**7.783**	**1.841**	**584**	**2.293**	**57.846**
As of 31 December 2014	**40.578**	**892**	**2.109**	**6.761**	**1.272**	**-**	**1.344**	**52.956**
As of 31 December 2015	**39.286**	**1.038**	**1.442**	**4.600**	**952**	**-**	**557**	**47.875**

Carrying amounts of the property and equipment which are pledged as collateral for the Savings House's borrowed funds are building in the amount of MKD 33.668 thousand (2014: in the amount of MKD 33.246 thousand) (refer to note 23).

22. Deposits from customers

	in MKD ‘000	
	Current year 2015	Previous year 2014
Retail		
Demand deposits	20.409	24.638
Term deposits	597.136	657.669
Restricted deposits	23.131	25.426
Total	**640.676**	**707.733**

At 31 December 2015 MKD 286.897 thousand (2014: MKD 290.014 thousand) of deposits from customers are expected to be settled more than 12 months after the reporting date.

23. Other borrowed funds

	in MKD ‘000	
	Current year 2015	Previous year 2014
Domestic sources:		
NLB TB - Ministry of Finance – Fund ZKDF	28.439	33.598
NLB TB - Habitat Macedonia	12.573	64.885
NLB Tutunska Banka	128.417	126.186
NLB TB - MRFP	185.793	179.892
		404.561
Foreign sources:		
MBDP - KfW	123.198	122.963
CEP - Responsability	28.724	123.297
Total	**507.144**	**650.821**

At 31 December 2015 MKD 283.389 thousand (2014: MKD 328.096 thousand) of other borrowed funds are expected to be settled more than 12 months after the reporting date.

In the course of 2015 Moznosti Savings House has concluded contracts and has used additional funds from the frame loan with NLB Tutunska Banka.

Borrowings from NLB Tutunska Banka are secured with business premises owned by the Saving House and business premises owned by the Parent – CEP (see Note 20).
Active borrowings on 31 December 2015 will mature until the end of 2018 (2014: Until the end of 2018). Repayment of liabilities is carried out on a regular basis in line with the contractual maturity dates.

Credit lines used by the Savings House are partly with fixed and partly with variable interest rates**.** Fixed interest rates range from 1% to 6,50% annually (2014: from 1% to 7,51% annually). Variable 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 approved and unused revolving credit limits, in Denars denominated in Euro, as per the average exchange rate of the NBRM. As at 31 December 2015 the amount of unused and approved revolving credit limits is 2.567 thousand Denars (2014: 123thousand Denars).

24. Provision for employee benefits

in MKD '000	Provisions for pensions and other employee benefits
Balance as of 1 January 2014	532
Additional provisions during the year	201
(Released provisions during the year)	(58)
Balance as of 31 December 2014	**675**
Balance as of 1 January 2015	675
Additional provisions during the year	114
(Used provisions during the year)	(82)
(Released provisions during the year)	(11)
Balance as of 31 December 2015	**696**

25. Other liabilities

	in MKD '000	
	Current year 2015	Previous year 2014
Trade payables	1.066	492
Advances	2.060	1.380
Accrued expenses	626	918
Accruals	892	1.225
Received advanced payments	4.022	3.184
Other liabilities	1.270	1.450
Total other liabilities	**9.936**	**8.649**

26. Capital and reserves

A. Issued capital	*In MKD '000*	
	Total registered capital	
	Current year 2015	Previous year 2014
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**

26. Capital and reserves (continued)

B Dividends

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

	in MKD '000	
	Current year 2015	Previous year 2014
Dividends paid	3.002	3.521

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 2015	Previous year 2014
Declared dividends after 31 December	13.257	3.001

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

27. Related parties

in MKD '000	Parent	Key management personnel	Other related parties	**Total**
Balance as of 31 December 2015				
Assets				
Consumer loans	-	822	711	**1.533**
Other loans and receivables	8.519	-	2.364	**10.883**
(Impairment)	(26)	(8)	(77)	**(111)**
Total	**8.493**	**814**	**2.998**	**12.305**
Liabilities				
Deposits	-	155	2.433	**2.588**
Loan liabilities	28.724	-	199.534	**228.258**
Other liabilities	-	-	171	**171**
Total	**28.724**	**155**	**202.138**	**231.017**
Balance as of 31 December 2014				
Assets				
Consumer loans	-	950	995	**1.945**
Other loans and receivables	9.905	-	2.475	**12.380**
(Impairment)	(40)	(8)	(39)	**(87)**
Total	**9.865**	**942**	**3.431**	**14.238**
Liabilities				
Deposits	-	533	2.345	**2.878**
Loan liabilities	122.963	-	245.188	**368.151**
Other liabilities			362	**362**
Total	**122.963**	**533**	**247.895**	**371.391**

27. Related parties (continued)

In MKD '000	Parent	Key management personnel	Other related parties	**Total**
2015				
Revenue				
Interest income	559	73	236	**868**
Other income	-	**-**	139	**139**
Total	**559**	**73**	**375**	**1.007**
Expenses				
Interest expense	7.580	2	9.095	**16.677**
(Impairment)	10	(3)	-	**7**
Other expense	3.924	-	2.711	**6.635**
Total	**11.514**	**(1)**	**11.806**	**23.319**
2014				
Revenue				
Interest income	641	263	253	**1.157**
Other income	319	**-**	689	1.008
Total	960	**263**	**942**	**2.165**
Expenses				
Interest expense	-	4	20.426	**20.430**
(Impairment)	1	63	2	**66**
Other expense	3.927	-	2.851	**6.778**
Total	**3.928**	**67**	**23.279**	**27.274**

Transaction with key management personnel

	In MKD '000	
	Current year 2015	Previous year 2014
Short-term employee benefits	24.524	15.227
Benefits following termination of employment	13	22
Total	**24.537**	**15.249**

28. Operating leases

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows

	Total	**up to 1 year**	**from 1 to 5 years**	**up to 1 year**
2015	2.261	2.261	-	-
2014	2.354	2.354	-	-

29. Subsequent events

Saving House Moznosti has concluded a contract for sub-award of Project assistance with MFO (Non-government association of microfinance organizations), signed on 01/21/2016 in the amount of 353.645 USD. Maturity of the project is 09/27/2018. Received funds from MFO will not be returned by the Saving House, if it complies with conditions attached to the contract.

The main objective of the project is improved access to finance, tailored to the needs of low income households, entrepreneurs and medium and small enterprises.

In June 2016 the Saving House has signed a contract for subordinate loan with the Parent in the amount of EUR 200.000 (or MKD 12.339 thousand). Interest rate of the subordinated loan is 3%. The subordinated loan was included in the Saving House's own funds calculation as of 30 June 2016, which resulted with increase of the capital adequacy ratio from 24,34% to 25,07%.

On 24 June 2016 the Saving House has paid a dividend to the Parent in the amount of MKD 13.257 thousand.