

STOPANSKA BANKA AD - SKOPJE

**Audit Financial Statements
for the year ended
December 31, 2012**

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of Stopanska Banka AD - Skopje (the “Bank”) is responsible for ensuring that the financial statements are prepared for each financial year in accordance with Methodology for recording and valuating the accounting items and for preparing the financial statements prescribed by the Central Bank of RM and accounting standards applied in the Republic of Macedonia, which give a true and fair view of the state of affairs and results of the Bank for the year.

After making enquiries, the Management of the Bank has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management of the Bank continues to adopt the going concern basis in preparing the financial statements. In preparing those financial statements, the responsibilities of the Management of the Bank include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management of the Bank is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with accounting standards applied in the Republic of Macedonia. Management of the Bank is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev, Ph.D.
Chief Executive Officer
Chairman of the Board of Directors

Mr. Diomidis Nikolettopoulos
Chief Retail, Finance and Operations Officer
Member of the Board of Directors

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders Assembly and Supervisory Board of Stopanska Banka AD - Skopje

We have audited the accompanying financial statements (page 3 to 128) of Stopanska Banka AD – Skopje (hereinafter referred to as the Bank), which comprise the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting legal regulations implemented in the Republic of Macedonia and the regulations of the Central Bank of RM, as well as for the internal control relevant for preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements of Stopanska Banka AD - Skopje for the year ended on 31 December 2012, have been prepared, in all material respects, in accordance with the accounting legal regulations applied in the Republic of Macedonia.

Deloitte DOO

Skopje, 3 April 2013

Lidija Nanus
Manager
Chartered Auditor

Aleksandar Arizanov
Chartered Auditor

INCOME STATEMENT
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Interest income		4.634.327	4.494.952
Interest expense		(2.066.489)	(2.302.664)
Net interest income	6	2.567.838	2.192.288
Fee and commission income		1.025.772	945.138
Fee and commission expense		(84.388)	(91.136)
Net fee and commission income	7	941.384	854.002
Trading income, net	8	51.477	30.720
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	106.507	133.796
Other operating income	11	219.219	213.413
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(1.039.086)	(743.531)
Impairment losses on non-financial assets, net	13	(74.051)	(6.100)
Personnel expenses	14	(714.768)	(731.202)
Depreciation and amortization	15	(168.399)	(187.862)
Other operating expenses	16	(1.090.320)	(1.108.210)
Share in the loss of associated companies	24	-	-
Profit before tax		799.801	647.314
Income tax	17	(4.322)	(17.569)
Net profit for the year		795.479	629.745
Earnings per share	41		
Basic earnings per share (in MKD)		45,56	36,07
Diluted earnings per share (in MKD)		45,56	36,07

The accompanying notes from page 11 to 128
are an integral part of these financial statements.

The financial statements were approved by the Board of Directors of the Bank on 28 January, 2013 and adopted by the Bank's Supervisory Board.

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Member of the Board of Directors

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

STATEMENT OF COMPREHENSIVE INCOME
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Profit / (loss) for the financial year		795.479	629.745
Other profit/ (losses) in periods not shown in the Income Statement (before taxation)			
Revaluation reserve for assets available-for- sale			
- unrealized net- changes in fair value of assets available-for- sale		(2.502)	594
- realized net-profit/(losses) from assets available- for- sale , re-classified in the Income Statement			
Reserves for cash flow risk protection instruments			
- unrealized net- changes in fair value of cash flow risk protection instruments			
- realized net-profit/(losses) from cash flow risk protection instruments, reclassified in the Income Statement			
Reserve for instruments to protect against the risk of net investments in foreign operations			
Reserve of foreign exchange differences from investment in foreign operations			
Share in other gains / (losses) of affiliated companies not shown in the Income Statement	24		
Other gains / (losses) not shown in the Income Statement			
Income tax from other gains / (losses) not shown in the Income Statement	17		
Total other gains / (losses) in the periods not shown in the Income Statement		(2.502)	594
Comprehensive income /(loss) for the financial year		<u>792.977</u>	<u>630.339</u>

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BALANCE SHEET
As at December 31, 2012
(In thousands of Denars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
ASSETS			
Cash and cash equivalents	18	23.937.430	21.669.816
Trading financial assets	19	181.051	141.828
Financial assets at fair value through Income Statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	296.295	123.280
Loans to customers	22.2	45.597.846	44.225.670
Investments in securities	23	3.394.746	1.835.680
Investments in associates	24	-	-
Receivables for income tax (current)	30.1	4.884	7.536
Other receivables	25	214.365	223.731
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	686.216	802.975
Intangible assets	28	85.053	106.650
Property and equipment	29	952.629	1.018.988
Deferred tax assets	30.2	-	-
Non-current assets held for sale and group for sale	31	-	-
Total assets		<u>75.350.515</u>	<u>70.156.154</u>
LIABILITIES			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through Income Statement determined as such at initial recognition	33	-	-
Derivative obligations held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	264.962	146.172
Deposits from customers	34.2	59.255.539	56.701.616
Issued debt securities	35	-	-
Loans payable	36	2.518.847	832.501
Subordinated debt	37	2.777.163	2.780.212
Special reserve and provisions	38	139.386	152.823
Income tax payable (current)	30.1	-	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	672.806	613.995
Liabilities directly related to group of assets for sale	31	-	-
Total liabilities		<u>65.628.703</u>	<u>61.227.319</u>

BALANCE SHEET (continued)
As at December 31, 2012
(In thousands of Denars)

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
EQUITY AND RESERVES			
Share capital	40	3.511.242	3.511.242
Share premier		-	-
Registered shares		-	-
Other equity instruments		-	-
Revaluation Reserves	40	(2.560)	(58)
Other Reserves	40	831.373	831.373
Retained earnings		<u>5.381.757</u>	<u>4.586.278</u>
Total equity and reserves		<u>9.721.812</u>	<u>8.928.835</u>
Total liabilities and equity and reserves		<u>75.350.515</u>	<u>70.156.154</u>
Contingent liabilities	42	10.666.889	11.347.905
Contingent assets	42	<u>-</u>	<u>-</u>

The accompanying notes from page 11 to 128
are an integral part of these financial statements.

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STOPANSKA BANKA AD - SKOPJE

STATEMENT OF CHANGES IN EQUITY AND RESERVES
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	Equity				Other reserves			Revalued reserves				Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premia	(Registered shares)	Other equity instruments	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Revalued reserve for assets available for sale	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2010 / January 1, 2011	3.511.242	-	-	-	709.889	-	1.083	(652)	-	-	-	802.676	3.274.258	-	8.298.496
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	629.745	-	-	629.745
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	-	-	-	594	-	-	-	-	-	-	594
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized profit/(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive profit/(loss) for the financial year	-	-	-	-	-	-	-	594	-	-	-	629.745	-	-	630.339
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	120.401	-	-	-	-	-	-	(120.401)	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	(246.021)	246.021	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	120.401	-	-	-	-	-	-	(366.422)	246.021	-	-
On December 31, 2011	3.511.242	-	-	-	830.290	-	1.083	(58)	-	-	-	1.065.999	3.520.279	-	8.928.835

STOPANSKA BANKA AD - SKOPJE

STATEMENT OF CHANGES IN EQUITY AND RESERVES (continued)
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	Equity				Other reserves			Revalued reserves				Retained earnings		(Accumulated losses)	Total equity and reserves
	Subscribed capital	Share premia	(Registered shares)	Other equity instruments	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Revalued reserve for assets available for sale	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Available for distribution to shareholders	Limited for distribution to shareholders		
As at December 31, 2011 / January 1, 2012	3.511.242	-	-	-	830.290	-	1.083	(58)	-	-	-	1.065.999	3.520.279	-	8.928.835
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	795.479	-	-	795.479
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	-	-	-	(2.502)	-	-	-	(2.502)	-	-	(2.502)
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized profit/(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive profit/(loss) for the financial year	-	-	-	-	-	-	-	(2.502)	-	-	-	795.479	-	-	792.977
Transactions with shareholders, recognized in the equity and reserves															
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	(246.020)	246.020	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	(246.020)	246.020	-	-
On December 31, 2012	3.511.242	-	-	-	830.290	-	1.083	(2.560)	-	-	-	1.615.458	3.766.299	-	9.721.812

The accompanying notes from page 11 to 128 are an integral part of these financial statements.

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STATEMENT OF CASH FLOW
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	Note	2012	2011
Cash flows (used in)/ generated from operating activities			
Profit before taxation		799.801	647.314
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	40.435	38.661
- property and equipment	15/29	127.964	149.201
Gain on sale of:			
- intangible assets		-	-
- property and equipment	11	(2.495)	(2.619)
- assets acquired through foreclosures	11	-	(17.461)
Loss on sale of:			
- intangible assets		-	-
- property and equipment		-	-
- assets acquired through foreclosures	16	-	4.717
Interest income	6	(4.634.327)	(4.494.952)
Interest expense	6	2.066.489	2.302.664
Net trading expense / (income)	8	(51.477)	(30.720)
Value adjustment of financial assets, on a net basis			
- Additional value adjustment	12	1.396.643	1.265.911
- Release of value adjustment	12	(357.557)	(522.380)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	74.051	6.100
- Release of impairment loss		-	-
Special reserves:			
- additional provisions	38	26.708	67.606
- release of provisions	38	(40.145)	(76.548)
Dividend income		(4.520)	(3.070)
Share in profit/(loss) of associates		-	-
Other rectifications – gains from sale of available for sale assets	11	(5.000)	-
Interest receipts		4.635.192	4.480.057
Interest paid		(2.083.487)	(2.306.758)
Operating profit before changes in operating assets		1.988.275	1.507.723
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		(39.223)	(20.966)
Derivative assets held for risk management		-	-
Due from banks and financial institutions		(173.208)	(2.931)
Loans to customers		(2.389.378)	(2.706.853)
Pledged assets		-	-
Assets acquired through foreclosure proceedings		116.759	35.014
Reserve requirements in foreign currency		199.566	(61.069)
Obligatory deposit with NBRM in accordance with special legislative		(24.369)	-
Other receivables		(11.094)	(40.108)
Deferred tax assets		-	15.504
Non-current assets held for sale and group for sale		-	-
<i>Increase/(decrease) of operating liabilities:</i>			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks and financial institutions		118.790	(2.174.041)
Deposits from customers		2.553.923	3.194.448
Other liabilities		58.811	111.006
Liabilities directly related to group of assets for sale		-	-
Net cash flows (used in)/ generated from operating activities before tax		2.398.852	(142.273)
(Paid)/Return on income tax		(1.670)	(4.800)
Net cash flows (used in)/ generated from operating activities		2.397.182	(147.073)

STATEMENT OF CASH FLOW (continued)
for the period from January 1, 2012 to December 31, 2012
(In thousands of Denars)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Cash flows from investing activities			
(Investments in securities)		(2.891.449)	(677.060)
Inflows from sale of investments in securities		1.336.957	1.817.874
(Outflows for investments in subsidiaries and affiliates)		-	-
Inflows from sale of investments in subsidiaries and affiliates		-	-
(Acquisition of intangible assets)		(18.838)	(20.369)
Inflows from sale of intangible assets		-	-
(Acquisition of property and equipment)		(36.138)	(52.895)
Inflows from sale of property and equipment		2.599	2.619
(Outflows for non-current assets held for sale)		-	-
Inflows from non-current assets held for sale		-	-
(Other outflows from investing activities)		-	-
Other inflows from investing activities		1.802	3.765
Net cash flows from investing activities		(1.605.067)	1.073.934
Cash flows from financing activities			
(Repayment of issued debt securities)		-	-
Inflows from issued debt securities		-	-
(Repayment of loan payables)		(192.275)	(71.829)
Increase in loan payables		1.875.572	425.748
(Repayment of issued subordinated debt)		-	-
Inflows from issued subordinated debt		-	-
Inflows from issued shares/equity instruments within the period		-	-
(Acquisition of registered shares)		-	-
Sold registered shares		-	-
(Paid dividends)		(6.555)	(8.139)
(Other outflows from financing activities)		-	-
Other inflows from financing activities		-	-
Net cash flows from financing activities		1.676.742	345.780
Effects from adjustment of value of cash and cash equivalents		(26.046)	-
Effects from foreign exchange gains/losses of cash and cash equivalents		-	-
Net-increase/(decrease) of cash and cash equivalents		2.442.811	1.272.641
Cash and cash equivalents as at January 1		18.786.841	17.514.200
Cash and cash equivalents as at December 31		21.229.652	18.786.841

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are an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. INTRODUCTION

a) General Information

Stopanska Banka AD - Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 64 branches (2011: 64 branches).

The Bank is registered as a universal type of commercial bank in accordance with Macedonian laws. The principal activities of the Bank are as follows:

- Collecting deposits and other recurrent sources of funds;
- Financing in the country and abroad, including factoring and financing commercial transactions;
- Issuance and administration of payment instruments (cards, checks, bills of exchange);
- Domestic and international payment operations, including purchase/sale of foreign currency funds;
- Fast money transfer;
- Trading in instruments at the money market (bills of exchange, certificates of deposit);
- Trading in foreign currency funds, securities and financial derivatives;
- Financial leasing;
- Foreign exchange operations;
- Purchase/sale, guaranteeing and placement of securities issue;
- Economic and financial consulting;
- Providing services in collection of invoices, keeping records;
- Issuing payment guarantees, backing guarantees and other forms of security;
- Managing assets and securities portfolio at order and for account of clients;
- Rendering services as custody bank;
- Intermediating in concluding agreements for loans and borrowings and in selling insurance policies;
- Providing services of renting safe deposit boxes, depositories and depot;
- Other financial services defined by law, which can be performed only by a bank.

The Bank is controlled by National Bank of Greece, headquartered in Greece, which owns 94.64% (2011: 94.64%) of the capital of the Bank and represents its ultimate parent company.

The shares of the Bank quote at the regular market of the Macedonian Stock Exchange, at the market of joint-stock companies with special liability for reporting, and the code under which they are quoted is:

<u>Code of the security</u>	<u>ISIN number</u>
STB (common share)	MKSTBS101014
STBP (preferred share)	MKSTBS120014

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. INTRODUCTION (continued)

a) General Information (continued)

The financial statements of the Bank for the year ended December 31, 2012 were approved by the Board of Directors of the Bank on 28 January, 2013 and adopted by the Bank's Supervisory Board.

b) Bases for preparing the financial statements

Standards on the basis of which the financial statements were prepared

The data in the enclosed financial statements of the Bank were prepared in accordance with Company Law, Banking Law, the bylaws provided by the Central Bank of RM (hereinafter referred to as "Central Bank"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter referred to as "Methodology") ("Official Gazette of RM" no. 196/10) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no.169/10, 152/11 and 54/12), as prescribed by the Central Bank, and applied from December 31, 2011.

On December 20, 2012 was announced a Decision on amendments to the Decision on the Methodology for recording and valuation of accounting items and preparation of financial statements ("Official Gazette of RM" no.165/2012), which will be applied starting from January 1, 2013.

Presentation of financial statements

The accompanying financial statements of the Bank are presented in accordance with the form and contents of the balance sheet schemes referred to in the Decision on the types and contents of banks' financial statements ("Official Gazette of RM" Nos. 169/2010, 152/2011 and 54/2012), (hereinafter referred to as "Decision"), which in certain separate parts differ from the manner of presenting certain positions of the financial statements in accordance with the provisions of the International Accounting Standard (IAS) 1 - Presentation of financial statements. Namely, certain reclassifications of separate positions were made in order to present the financial statements in form required according to the Decision, and which potentially significantly differ with regard to IAS 1 in the following:

- Presentation of "Investments in real estate" (IAS 40) with net present value as at December 31, 2012 in the amount of MKD 114,421 thousand (2011: MKD 62,947 thousand) is included in Property and equipment and Assets acquired in foreclosures in the amount of MKD 37,591 thousand and MKD 76,830 thousand, respectively (2011: MKD 40,479 thousand and MKD 22,468 thousand, respectively).

The Bank management estimates the effects of the changes in IAS, new IFRS and their interpretations on the financial statements as well as the requirements for the form and contents of certain balance sheet schemes under the Decision and the valuations of assets, liabilities, income and expenditures under the Methodology requirements. As a result, the Bank management does not express explicit and unconditional statement on the compliance of the financial statements both with IAS and IFRS, applied during the period presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. INTRODUCTION (continued)

b) Bases for preparing the financial statements (continued)

Presentation of financial statements (continued)

These financial statements have been prepared under the historical cost convention, except for the valuation of investment in financial assets available for sale assessed at fair value, as well as other financial assets and financial liabilities assessed at fair value through the income statement based on the going concern assumption.

The presentation of the financial statements in conformity with the accounting standards applied in the Republic of Macedonia requires the Bank management to make the best possible estimates and reasonable assumptions that affect the reported amounts of assets and liabilities, as well as the income and expenditure arising within the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The presented financial statements are expressed in thousands of Macedonian Denars. The Denar represents functional and reporting currency of the Bank for the reporting purposes to the Central Bank of RM.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of estimation and future periods if the revised estimation affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying the accounting policies that have the most significant effect on the amounts disclosed in the financial statements are described in Note 1.d) to the financial statements.

The financial statements of the Bank are prepared in accordance with the accounting policies disclosed in Note 1.c) to the financial statements.

The accompanying financial statements are the Bank's stand-alone financial statements.

c) Significant accounting policies

Interest income and expense

Interest income and expense is recognized in the Income Statement for all interest-bearing instruments on a calculation basis, by amortized cost value using the effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

The effective interest rate method is for calculating the amortized cost value of financial assets or financial liabilities through the allocation of interest income and expenditure for the relevant interest in the relevant period. By the effective interest rate are discounted the estimated future cash inflows or outflows over the expected life of the financial instrument or, where appropriate, for a shorter period to the net carrying value of financial asset or financial liability. When calculating the effective interest rate, the Bank assesses the cash flows taking into account the agreed terms of financial instruments (for example, prepayment options), but does not take into account future impairment losses. Integral part of the calculation of effective interest rate are also all paid and collected fees and commissions between the contractual parties, as well as transaction costs and all other premiums or discounts when granting loans.

Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis over the period of service rendering. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized by using the effective interest rate method.

Dividend income

Dividend income is recognized when the right to receive payment is established for all shareholders that participate in the Bank's capital.

Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at exchange rates set by the Central Bank and applied on the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are included in the income statement in the period of their occurrence.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates on the balance sheet date.

Financial assets

Financial assets are classified into the following specified categories: trading securities, available-for-sale financial assets, held-to-maturity financial assets, and loans to banks and customers. The classification depends on the nature and the purposes of the financial assets and is determined at the time of initial recognition. Financial assets are recognized and derecognized on the trade date where the purchase or sale of an investment is under a contract which terms require delivery of the investment within the agreed timeframe.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Securities held-for-trading

Securities held-for-trading, which comprise bonds issued in local currency by the Ministry of Finance and equity securities issued by banks, are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at cost and subsequently measured at fair value as determined based on their market price.

All the respective realized and unrealized gains and losses are included under net trading income. Interest, if realized during the held-for-trading securities management, is recorded as interest income. The sale of securities held-for-trading is recognized on the trading date, which is the date when the Bank is obliged to buy/sell the asset.

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. This portfolio comprises quoted and unquoted equity investments in shares of banks and other financial institutions and enterprises, where the Bank does not exercise control.

Available-for-sale financial assets are initially recognized at cost, and subsequently re-measured at fair value based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments.

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative unrealized gain or loss previously recognized in equity should be recognized in net profit or loss for the period. However, interest calculated using the effective interest rate method, as well as contingent impairment losses and foreign exchange gains and losses are recognized in the income statement.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. If the Bank is to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. These securities are measured at amortized cost by using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)****Loans originated by the Bank**

Loans originated by the Bank include loans where cash is provided directly to the borrower. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost by using the effective interest rate method. Interest on loans originated by the Bank is included in interest income and is recognized on an accrual basis. Loans to customers and financial institutions are stated at their net amount reduced by provisions for impairment.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, if there is a significant or prolonged decline in the fair value of the security below its cost, they are considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

The amount of the impairment loss for financial assets carried at amortized cost is calculated as the difference between the asset carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Impairment losses on loans and advances

Allowances for losses on impairment and uncollectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to increase the credit limit. The provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items it is presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Impairment losses on loans and advances (continued)

The allowances for losses on impairment and uncollectability and for other active on-balance sheet and off-balance sheet items are determined in accordance with the regulations prescribed by the Central Bank with validity on each balance sheet date, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet items into groups on the basis of the degree (size) of the risk and assess the amount of contingent impairment losses calculated by application of objective and subjective criteria as at December 31, 2012 and December 31, 2011 with the following percentages:

<u>Risk category</u>	<u>Percentage</u>
A	0%-10%
B	10%-25%
C	25%-50%
D	50%-75%
E	75%-100%

The allowances for losses on impairment and uncollectability are determined on the basis of the degree (size) of the risk of uncollectability or specific country risk on the basis of the following principles:

- Separate loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and uncollectability are measured and determined for the difference between the carrying value of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by effective loan interest rate.
- If there is objective proof of uncollectability of loans in the loan portfolio that may not be identified on a specific basis, the allowances for losses on impairment and uncollectability are determined at level of risk for overall loan portfolio. These losses are determined on the basis of historical data on loan classification of borrowers and express the current economic environment of the borrowers.
- Losses on impairment and uncollectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing, since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and uncollectability are reviewed and tested at least once a quarter, and any further changes in the amount and timing of expected future cash flows in comparison with previous assessments result in changes in allowances for losses on impairment and uncollectability recorded as credit or debit of impairment losses in the income statement.
- The loan which is believed that is impossible to be collected is written off against the relevant allowance for losses on impairment and uncollectability. Further collections are recorded as reduction of losses on impairment and uncollectability in the income statement.
- In case of loans granted to borrowers in countries with increased risk of difficulties for servicing external debt, the political and economic circumstances are assessed and additional allowances for sovereign risk are allocated.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)****Derecognition of financial assets**

The Bank derecognizes financial assets when the rights to receive cash from the financial asset have expired or have been transferred to another entity, thus transferring as well substantially all the risks and rewards of ownership of the assets.

Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities are classified as deposits from banks, financial institutions and customers, loans payable, other payables and derivative financial instruments.

Deposits from banks and other financial institutions and clients

These financial liabilities are initially recognized at fair value net of transaction costs incurred, and they are subsequently measured at amortized cost.

Loans payable

Loans payable are initially recognized at fair value net of transaction costs incurred. Subsequent measurement is at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the loan using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Other payables

Other payables are stated at their nominal amounts.

Derivative financial instruments

The derivative financial instruments include contracts subject to exchange rate fluctuations and are initially and consequently valued at fair value. These contracts are not qualified for hedging accounting in accordance with the specific criteria of IAS 39 – “Financial instruments: recognition and measurement” and are accordingly treated as derivative instruments held for trading, i.e. gains and losses are recognized in net trading income.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or have expired.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the income statement as an expense as incurred. Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates are as follows:

Buildings	2.5% -5%
Furniture and equipment	10% - 25%

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss.

The Bank annually reviews its property and equipment for impairment. Where the carrying amount of an asset is higher than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Intangible assets

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses, if there are such. Intangible assets include computer software and software that was acquired apart from hardware. Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is 5 years. The Bank annually reviews the carrying amounts of its intangible assets and assesses whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

The Bank management regularly reviews the carrying amounts of its tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognized as an expense in the current period. The reversal of an impairment loss is immediately recognized as income.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and is reported in foreclosed assets. Initially, these assets are measured at the lower than cost value of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arise) and the fair value less estimated cost to sell, as determined by local certified appraiser on the date of asset foreclosure.

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand and nostro accounts, which represent unrestricted demand deposits and placements with other banks and financial institutions, unrestricted account balances with the Central Bank, and other financial assets such as treasury and other eligible bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

Managed funds

The Bank provides fiduciary and trust services to legal entities and citizens, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customers. The Bank receives fee income for providing these services. Managed funds are not assets of the Bank and are not recognized in the financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Employment benefits**

Health, pension and social insurance contributions from gross and net wages and salaries are being paid by the Bank during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay to its employees a termination lump sum upon retirement equal to two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (there are currently no plan assets recognized), together with adjustments for unrecognized actuarial gains or losses less past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Income tax

The Bank's liability for current tax is calculated using the prescribed tax rates that have been enacted or substantively enacted by the balance sheet date.

Due to amendments to the Macedonian tax regulations, which entered into force as of January 1, 2009, and additional amendments in the course of 2010 and 2011, the tax rate of undistributed profit was effectively reduced to zero, because tax is only paid when the profit is distributed. According to IAS 12.52A, deferred tax assets and liabilities should be measured using the tax rate applied on undistributed profit.

Amendments to local tax regulations resulted in cancellation of all deferred tax assets and liabilities on December 31, 2011.

Leases

The Bank rents and leases out real estate under operating lease. Rental income and expenditures from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates**

The most significant areas, for which judgments, estimates and assumptions are required, are:

Fair value of financial instruments

The fair value of the financial instruments that are not quoted in active markets is determined by using internal valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by qualified personnel independent of the area that created the model. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar instruments, and with actual values when realized, in order to further validate and standardize models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, and market conditions and liquidity. The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

There is no sufficient market experience, stability and liquidity in the Republic of Macedonia for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

The Management assesses the overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a provision. In the opinion of management, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions.

Allowance for loan losses

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. INTRODUCTION (continued)

d) Critical accounting judgments and estimates (continued)

Useful lifetime of tangible and intangible assets

The Bank management determines estimated useful lives and related depreciation and amortization charges for its tangible and intangible assets. The appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the underlying assumptions, such as anticipated technological developments and changes in the broad economic and industry factors.

Actuarial assumptions in respect of defined benefit plan

The eventual costs to Bank depend on actual future experience and in particular change in discount rate and pay increase. Other factors will also change the overall liability such as the number of employees leaving service before the retirement and the number of new employees.

Financial crisis

Escalation of the Greek economic crisis resulted in losses in the parent company – the National Bank of Greece due to decreased value of several classes of assets, such as Greek government bonds and other loans and debt securities from Greece which negatively affected the financial standing, operating results, cash flows and regulatory indicators of the National Bank of Greece in the financial statements for 2011 and 2012. Moreover, the crisis limited the National Bank of Greece Group access to liquid assets from other financial institutions. The National Bank of Greece relies on the liquidity provided by the European Central Bank (“ECB”) and the Bank of Greece (“BoG”) jointly called Eurosystem Liquidity Facilities.

The ability of NBG S.A. to continue as a going concern is dependent on raising sufficient funds to restore the NBG S.A. financial position, which is currently negative, and to maintain adequate levels of capital; and on the continuing reliance upon and the continuation of the Eurosystem liquidity facilities.

The NBG Group management’s position is that NBG S.A (and the Group) can continue to operate for the foreseeable future given that the specific requirements of Company Law 2190/1920 were covered by the recapitalization plan for Greek banks and that the recapitalization plan for Greek banks forms an integral part of the financial assistance under the second economic adjustment program for Greece, which was ratified by the Greek Parliament on 14 February 2012 and adopted by the Council of EU (the “Eurogroup”) on 21 February 2012 and 13 March 2012 (the “Program”).

The Program, which has already been approved by the Troika (European Commission, European Central Bank and International Monetary Fund) along with a specific sequence of disbursements, commits funds for the recapitalization plan, amounting up to €50 billion and is now in the implementation phase under the auspices of the Bank of Greece.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates (continued)****Financial crisis (continued)**

Despite the negative global trends in the financial services industry, Stopanska Banka AD-Skopje remained well-capitalized, highly liquid, and funded primarily by domestic deposits. The Bank has neither exposure to foreign European debt securities nor significant placements or significant potential financial commitments with its Parent NBG Group. The recent stress test, performed by using strict criteria, demonstrated that the Bank is adequately capitalized and sufficiently liquid and the Management is convinced that a possible deposit withdrawal by the parent company will not affect significantly the Bank liquidity. As disclosed in Note 37 and Note 44, the Bank utilizes two subordinated loans from the parent company in the amount of EUR 20 million and EUR 25 million as at December 31, 2012 (which is 4.23% of the Bank total liabilities). The subordinated debt is used as supplementary capital reserves, and the maturity of subordinated debt is until December 2016 and November 2018, and these loans cannot be withdrawn by the parent company without prior approval of the Central Bank of RM. The strong capital base of the Bank with capital adequacy ratio of 19.43%, as disclosed in Note 3, enables the Bank to face any reasonably foreseeable adversity. The Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

e) Change of accounting policies, accounting estimates and correction of errors

Except as stated in Note 1.b), there are no other changes in the accounting policies in preparing the enclosed financial statements. According to mentioned in Note 1.b) in the section Presentation of financial statements, certain Notes in enclosed financial statements are presented in compliance with the presentation method in the Decision.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. INTRODUCTION (continued)

f) Compliance with legislation

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

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

In the course of 2012, the Central Bank supervised the Bank's compliance in the segment of credit risk management process as well as status control of undertaken remediation actions stipulated by the previous year audit covering the overall risk management process.

The Bank prepared relevant remediation actions for identified non-compliance in the form of action plan that was fully implemented except in the part for providing control by the Bank internal audit, which deadline is March 31, 2013.

g) Risk management disclosure

Qualitative and quantitative information on separate types of risks are provided in Notes 2 and 3.

h) Events after the Balance Sheet date

After the Balance Sheet preparing date, consequently no material events have occurred which might require disclosing them in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. Therefore, the Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems in order to reflect the changes in markets, products and the best practices.

The Bank's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, Board of Directors, Executive and Senior Management, as well as between the Bank and NBG Group, its clients and all other related parties. Within the Bank, risk management activities broadly take place at the following levels:

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk strategy, ascertaining the Bank's risk definitions, profile and appetite, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors, Executive and Senior Management. These include the approval of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as other critical support functions, fall into this category.
- Operational (business line) level which involves management of risks at the point of direct performance of Bank activities. The relevant activities are performed by individuals who undertake risk on behalf of the organization. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant policies, procedures and guidelines defined by the management.

The most important types of risk are credit risk, liquidity risk, operational risk and market risk.

2.1 Credit risk

Credit risk is the most important risk for the Bank business defined as current or future risk on the financial result and capital arising from a counter party's failure to meet the terms of any contract with the Bank or otherwise fail to perform as agreed. The exposure to this risk arises principally from retail and corporate lending activities, as well as activities related to off-balance sheet financial instruments (loan commitments, L/G and L/C).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)**2.1 Credit risk (continued)****2.1.1 Credit risk measurement, limits and mitigation policies**

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by relevant organization units of the Bank. The Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The Bank has internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of clients to which the Bank is exposed to is reviewed at least on annual basis. The Bank has implemented a system of early warning signals for the purpose of identifying timely possible downward trends in the client's creditworthiness and for mitigating the credit risk.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt and equity securities;
- Pledges over movables such as automobiles and equipment and other;

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits regarding an individual borrower, related parties, exposure to Bank internal persons, and large exposures, exposures by business sectors as well as other internal limits are set in the Risk Strategy, as well as in the Policies and Procedures regulating the credit risk management. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

2.1.2 Impairment and provisioning policies

The impairment losses are identified losses of the Bank credit portfolio that incurred until the Balance Sheet date and for which there is objective evidence of impairment. The Bank calculates the impairment provision after making the classification of credit exposure in the appropriate risk category.

The classification is made according to the following criteria:

- client's creditworthiness;
- client's regularity in settling the liabilities, and
- collateral quality.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)**2.1 Credit risk (continued)****2.1.2 Impairment and provisioning policies (continued)**

According to the Bank policies, impairment and provisioning are defined on individual and collective base.

The individual approach encompasses the individually significant exposures that are above materiality thresholds set by the Bank. The materiality threshold is 0.007% of the total exposure to credit risk of the Bank. Impairment provision of individually assessed items on individual base are determined by evaluation of generated loss on the Balance Sheet date, which represents difference between the carrying and current value of projected future cash flows. Effective interest rate is used at discounting the future cash flows that include also the collateral value.

All non-performing loans are covered by the impairment on an individual basis.

The estimated losses for impairment on a group basis are provided for portfolios with homogeneous assets that are individually below the materiality thresholds. Impairment and provisions are calculated by using parameters derived from historical data on the rate of non-payment of certain portfolios. The following parameters are used at collective calculation of impairment and provisions:

- EAD (Exposure at Default) – Carrying value of certain group of loans;
- PD (Probability of Default) – Average probability that the loan in the group will be impaired during its lifetime;
- LGD (Loss Given Default) – Expected average loss per loan in the group (shown as % of EAD);
- LIP (Loss Identification Period) – Factor reflecting the period between the loss occurrence and its identification.

Individually important exposures for which there is no identified adjustment on individual basis, and which can be grouped in homogenous portfolios according to credit risk similarity, are included in the collective approach of adjustment calculation.

Calculated impairment provision moves within the following limits:

- 0-10% of credit risk exposure classified into A risk category
- 10-25% of credit risk exposure classified into B risk category
- 25-50% of credit risk exposure classified into C risk category
- 50-75% of credit risk exposure classified into D risk category
- 75-100% of credit risk exposure classified into E risk category

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
I. Carrying amount of exposures for which value adjustment/special reserve has been allocated																		
<i>Carrying amount of separate significant exposures before value adjustment and special reserve on an individual basis</i>																		
A risk category	296.295	123.280	11.890.529	2.864.206	144.453	94.789	1.201.478	1.741.696	17.506.246	13.217.114	2.152	12.100	19.151	80.028	1.007.061	2.047.492	32.067.365	20.180.705
B risk category	-	-	1.859.418	2.519.962	-	-	-	-	-	-	916	411	-	2.617	37.745	89.552	1.898.079	2.612.542
C risk category	-	-	2.061.414	1.740.964	-	-	-	-	-	-	372	2.414	7.761	20.447	6.681	31.351	2.076.228	1.795.176
D risk category	-	-	396.352	418.072	-	-	-	-	2.457	-	3.479	3.759	21	281	5.033	2.197	407.342	424.309
E risk category	23.519	23.712	4.423.072	3.525.622	282.557	293.460	-	-	-	-	24.001	21.060	54.293	32.497	74.673	78.478	4.882.115	3.974.829
	<u>319.814</u>	<u>146.992</u>	<u>20.630.785</u>	<u>11.068.826</u>	<u>427.010</u>	<u>388.249</u>	<u>1.201.478</u>	<u>1.741.696</u>	<u>17.508.703</u>	<u>13.217.114</u>	<u>30.920</u>	<u>39.744</u>	<u>81.226</u>	<u>135.870</u>	<u>1.131.193</u>	<u>2.249.070</u>	<u>41.331.129</u>	<u>28.987.561</u>
(Value adjustment and special reserve on an individual basis)	(23.519)	(23.712)	(4.913.786)	(4.129.755)	(283.361)	(294.265)	-	-	(1.231)	(26.046)	(23.885)	(22.466)	(53.203)	(37.769)	(84.001)	(97.411)	(5.382.986)	(4.631.424)
Carrying amount of separate significant exposures less value adjustment and special reserve on an individual basis	<u>296.295</u>	<u>123.280</u>	<u>15.716.999</u>	<u>6.939.071</u>	<u>143.649</u>	<u>93.984</u>	<u>1.201.478</u>	<u>1.741.696</u>	<u>17.507.472</u>	<u>13.191.068</u>	<u>7.035</u>	<u>17.278</u>	<u>28.023</u>	<u>98.101</u>	<u>1.047.192</u>	<u>2.151.659</u>	<u>35.948.143</u>	<u>24.356.137</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
<i>Carrying amount of exposures assessed on a group basis before value adjustment and special reserve on a group basis</i>																		
- separate insignificant exposures (small loans portfolio)	-	-	16.452.830	15.464.463	-	-	-	-	-	-	106	686	-	-	6.085.332	5.576.464	22.538.268	21.041.613
- separate significant exposures not impaired on a separate basis	-	-	13.530.177	21.958.531	-	-	-	-	-	-	2.220	5.806	2.636	6.728	2.915.387	2.787.052	16.450.420	24.758.117
(Value adjustment and special reserve on a group basis)	-	-	(102.160)	(136.395)	-	-	-	-	-	-	(3)	-	-	-	(20.007)	(17.861)	(122.170)	(154.256)
Carrying amount of exposures assessed on a group basis less value adjustment and special reserve on a group basis	-	-	29.880.847	37.286.599	-	-	-	-	-	-	2.323	6.492	2.636	6.728	8.980.712	8.345.655	38.866.518	45.645.474

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
	II. Carrying amount of exposures for which there has been no value adjustment/special reserve allocated																	
mature claims	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Maturity structure of mature claims for which no value adjustment has been allocated</i>																		
up to 30 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of mature claims for which no value adjustment has been allocated</i>																		
non-mature claims																		
Restructured claims	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other claims	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying amount of non-mature claims for which no value adjustment has been allocated</i>																		
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of maximum exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Total carrying amount of claims with credit risk before value adjustment and special reserve	319.814	146.992	50.613.792	48.491.820	427.010	388.249	1.201.478	1.741.696	17.508.703	13.217.114	33.246	46.236	83.862	142.598	10.131.912	10.612.586	80.319.817	74.787.291
(Total value adjustment and special reserve)	(23.519)	(23.712)	(5.015.946)	(4.266.150)	(283.361)	(294.265)	-	-	(1.231)	(26.046)	(23.888)	(22.466)	(53.203)	(37.769)	(104.008)	(115.272)	(5.505.156)	(4.785.680)
Total carrying amount of claims with credit risk less value adjustment and special reserve	296.295	123.280	45.597.846	44.225.670	143.649	93.984	1.201.478	1.741.696	17.507.472	13.191.068	9.358	23.770	30.659	104.829	10.027.904	10.497.314	74.814.661	70.001.611

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) taken for protection against credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
<i>Value of collateral for credit exposure assessed for impairment on an individual basis</i>																
First-class security instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	707.138	35.063	-	-	-	-	-	-	-	-	352	-	707.490	35.063
government securities	-	-	11.797	-	-	-	-	-	-	-	-	-	-	-	11.797	-
government unconditional guarantees	-	-	-	1.845.150	-	-	-	-	-	-	-	-	-	-	-	1.845.150
bank guarantees	-	-	186.775	100.561	-	-	-	-	-	-	-	-	28.256	1.257.330	215.031	1.357.891
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	1.220.652	1.482.270	-	-	-	-	-	-	-	-	-	-	1.220.652	1.482.270
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:																
private property (flats, houses)	-	-	9.174.525	771.161	-	-	-	-	-	-	-	-	8.101	1.074	9.182.626	772.235
commercial property	-	-	18.125.213	6.032.112	-	-	-	-	-	-	-	-	18.427	443.321	18.143.640	6.475.433
Pledge over movables	-	-	8.378.279	1.449.304	-	-	-	-	-	-	-	-	5.769	274.131	8.384.048	1.723.435
Other types of security	-	-	3.757.079	1.574.037	-	-	-	-	-	-	-	-	2.860	377	3.759.939	1.574.414
Total value of collateral for credit exposure assessed for impairment on an individual basis	-	-	41.561.458	13.289.658	-	-	-	-	-	-	-	-	63.765	1.976.233	41.625.223	15.265.891

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) taken for protection against credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
<i>Value of collateral for credit exposure assessed for impairment on a group basis</i>																
First-class security instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	609.125	814.960	-	-	-	-	-	-	-	-	38.207	33.668	647.332	848.628
government securities	-	-	1.749	11.798	-	-	-	-	-	-	-	-	-	-	1.749	11.798
government unconditional guarantees	-	-	1.845.000	-	-	-	-	-	-	-	-	-	-	-	1.845.000	-
bank guarantees	-	-	-	53.679	-	-	-	-	-	-	-	-	19.250	44.347	19.250	98.026
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	664.419	1.135.802	-	-	-	-	-	-	-	-	13.926	75.606	678.345	1.211.408
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	20.495.442	26.132.489	-	-	-	-	-	-	-	-	126.466	151.541	20.621.908	26.284.030
commercial property	-	-	8.250.574	17.531.629	-	-	-	-	-	-	-	-	1.205.757	1.293.941	9.456.331	18.825.570
Pledge over movables	-	-	2.892.974	10.610.126	-	-	-	-	-	-	-	-	281.101	1.150.104	3.174.075	11.760.230
Other types of security	-	-	1.239.868	3.587.577	-	-	-	-	-	-	-	-	516.566	357.877	1.756.434	3.945.454
Total value of collateral for credit exposure assessed for impairment on a group basis	-	-	35.999.151	59.878.060	-	-	-	-	-	-	-	-	2.201.273	3.107.084	38.200.424	62.985.144

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by industries and activities

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Non-residents	-	-	-	-	-	-	-	-	-	-	-	2.150	-	16	-	9.993	-	12.159
Agriculture, Forestry and Fishing	-	-	735.042	764.127	-	-	-	-	-	-	268	9	47	10	11.206	-	746.563	764.146
Mining and quarrying	-	-	142.211	168.420	-	-	-	-	-	-	9	37	11	142	21.961	83.362	164.192	251.961
Food industry	-	-	1.509.883	1.324.462	-	-	-	-	-	-	85	73	278	1	44.326	60.786	1.554.572	1.385.322
Textile industry and clothing and footwear production	-	-	595.115	652.326	-	-	-	-	-	-	19	22	1	43	29.573	629.760	624.708	1.282.151
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	554.031	643.279	-	-	-	-	-	-	9	66	69	-	620.624	416.059	1.174.733	1.059.404
Production of metals, machinery, tools and equipment	-	-	3.063.152	2.671.212	-	-	-	-	-	-	413	1.108	25.091	31.460	282.443	53.104	3.371.099	2.756.884
Other manufacturing industries	-	-	672.276	471.033	-	-	-	-	-	-	1.247	-	-	-	7.830	15.529	681.353	486.562
Electricity, gas, steam and air conditioning supply	-	-	1.975.314	1.698.080	-	-	-	-	-	-	11	1	-	2	75.347	482.830	2.050.672	2.180.913
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	9.906	5.473	-	-	-	-	-	-	10	102	-	1	264	892.889	10.180	898.465
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1.553.898	1.504.570	-	-	-	-	-	-	-	224	-	133	1.218.631	162.493	2.772.529	1.667.420
Transportation and storage	-	-	4.752.358	4.988.377	1.137	890	-	-	-	-	94	132	1.520	60.608	318.132	178.400	5.073.241	5.228.407
Facilities for accommodation and food service activities	-	-	653.033	754.852	-	-	-	-	-	-	540	619	125	3	168.717	702	822.415	756.176
Information and Communications	-	-	353.679	345.447	-	-	-	-	-	-	1.109	6	4	-	1.474	226	356.266	345.679
Financial and insurance activities	-	-	35.861	52.467	-	-	-	-	-	-	-	-	-	-	289	1.259.787	36.150	1.312.254
	296.295	123.280	81.733	56.826	91.205	93.094	-	-	11.133.875	11.341.185	78	1	-	-	32.721	55.281	11.635.907	11.669.667

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by industries and activities (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Activities related to real estate	-	-	241.996	194.850	-	-	-	-	-	-	-	354	-	-	511.337	39.247	753.333	234.451
Professional, scientific and technical activities	-	-	310.166	426.017	-	-	-	-	-	-	250	7	875	-	65.993	81.389	377.284	507.413
Administrative and support service activities	-	-	111.075	172.843	-	-	-	-	-	-	2	-	-	-	14.882	-	125.959	172.843
Public administration and defence, compulsory social security	-	-	-	-	51.307	-	1.201.478	1.741.696	6.373.597	1.849.883	-	981	-	-	-	-	7.626.382	3.592.560
Education	-	-	134.846	160.033	-	-	-	-	-	-	-	-	-	-	24.327	-	134.846	184.360
Activities of Health and Social Care	-	-	26.562	144.004	-	-	-	-	-	-	-	27	-	-	-	-	26.562	144.031
Arts, entertainment and recreation	-	-	74.216	85.730	-	-	-	-	-	-	37	12	-	1	12.307	467	86.560	86.210
Other service activities	-	-	24.808	21.295	-	-	-	-	-	-	21	-	2	-	599	-	25.430	21.295
Activities of households as employers; activities of households that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extraterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	27.986.685	26.919.947	-	-	-	-	-	-	5.156	12.024	2.636	12.409	6.589.248	6.050.683	34.583.725	32.995.063
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	5.815	-	-	-	-	-	5.815
Total	296.295	123.280	45.597.846	44.225.670	143.649	93.984	1.201.478	1.741.696	17.507.472	13.191.068	9.358	23.770	30.659	104.829	10.027.904	10.497.314	74.814.661	70.001.611

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by geographical region

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011	current year 2012	previous year 2011
<i>Geographical region</i>																		
Republic of Macedonia	-	-	45.597.846	44.225.670	143.618	93.953	1.201.478	1.741.696	14.481.167	8.795.853	9.358	23.770	30.659	104.829	9.995.185	9.251.838	71.459.311	64.237.609
EU member countries	237.236	64.184	-	-	31	31	-	-	2.820.404	3.297.794	-	-	-	-	13.654	-	3.071.325	3.362.009
Europe (other)	-	-	-	-	-	-	-	-	88.971	745.440	-	-	-	-	15.375	1.245.476	104.346	1.990.916
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	116.930	351.981	-	-	-	-	-	-	116.930	351.981
Other (more than 10% of total credit exposure)	59.059	59.096	-	-	-	-	-	-	-	-	-	-	-	-	3.690	-	62.749	59.096
Total	296.295	123.280	45.597.846	44.225.670	143.649	93.984	1.201.478	1.741.696	17.507.472	13.191.068	9.358	23.770	30.659	104.829	10.027.904	10.497.314	74.814.661	70.001.611

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**2. RISK MANAGEMENT (continued)****2.2 Liquidity risk**

Liquidity risk represents a risk of Bank's inability to provide sufficient monetary assets to settle its short-term liabilities when they come due, i.e. a risk that the necessary liquid assets will be provided at much higher cost.

2.2.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

- Application of operating standards related to the Bank's liquidity risk, including appropriate policies, procedures and resources for controlling and limiting the liquidity risk.
- Maintenance of stock of liquid assets appropriate for the cash flow profile of the Bank which can be readily converted into cash without incurring undue capital losses.
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources.
- Preparing contingency plans of the Bank for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost.
- Monitoring liquidity risk limits and ratios, taking into account the Bank's risk appetite and profile, as well as the regulatory requirements for prescribed minimum level of liquidity rates.

The process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to funding the cash outflows. During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

Monitoring of the Bank's liquidity is performed by the Treasury Division. The Treasury Division reconciles all inflows and/or outflows in all currencies along with money orders, checks, bank transfers and account transfers.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

Analysis according to the maturity of financial assets and liabilities (remaining maturity)

December 31, 2012	In thousands of Denars						
	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	20.563.394	3.375.267	-	-	-	-	23.938.661
Trading assets	165.177	-	5.703	5.420	4.751	-	181.051
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	83.391	-	183.045	-	-	96.215	362.651
Loans to customers	3.374.514	3.836.641	15.140.377	11.510.854	9.047.892	9.408.301	52.318.581
Investment securities	136.876	131.955	2.738.897	532.837	50.000	92.341	3.682.906
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	4.884	-	-	-	-	-	4.884
Other receivables	291.455	-	-	-	-	-	291.455
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	24.619.691	7.343.863	18.068.022	12.049.111	9.102.643	9.596.857	80.780.187
FINANCIAL LIABILITIES							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	125.009	-	139.953	-	-	-	264.962
Deposits from customers	21.410.706	7.600.370	24.188.659	4.222.453	1.707.574	125.777	59.255.539
Loans payable	1.577.688	-	169.770	217.473	333.931	219.985	2.518.847
Subordinated debt	-	9.663	-	-	2.767.500	-	2.777.163
Income tax liabilities (current)	-	-	-	-	-	-	-
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	672.806	-	-	-	-	-	672.806
Total financial liabilities	23.786.209	7.610.033	24.498.382	4.439.926	4.809.005	345.762	65.489.317
Off balance items							
Off balance assets	-	-	-	-	-	-	-
Off balance liabilities	7.535.218	435.394	1.589.014	403.114	354.003	454.154	10.770.897
Net liquidity gap	(6.701.736)	(701.564)	(8.019.374)	7.206.071	3.939.635	8.796.941	4.519.973

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

Analysis according to the maturity of financial assets and liabilities (remaining maturity)
(continued)

		In thousands of Denars						
December 31, 2011		Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
FINANCIAL ASSETS								
Cash and cash equivalents		20.638.638	1.079.997	-	-	-	-	21.718.635
Trading assets		110.356	-	8.812	8.429	15.868	-	143.465
Financial assets at fair value through the income statement determined as such at initial recognition		-	-	-	-	-	-	-
Derivative assets held for risk management		-	-	-	-	-	-	-
Placements with, and loans to banks		609	-	-	125.644	-	63.575	189.828
Loans to customers		3.070.538	3.902.368	14.230.567	10.860.811	9.213.659	9.124.373	50.402.316
Investment securities		143.387	131.965	402.432	533.396	533.397	391.801	2.136.378
Investments in affiliates		-	-	-	-	-	-	-
Income Tax receivable (current)		7.536	-	-	-	-	-	7.536
Other receivables		287.270	-	-	-	-	-	287.270
Collateralized assets		-	-	-	-	-	-	-
Deferred tax assets		-	-	-	-	-	-	-
Total financial assets		24.258.334	5.114.330	14.641.811	11.528.280	9.762.924	9.579.749	74.885.428
FINANCIAL LIABILITIES								
Trading liabilities		-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition		-	-	-	-	-	-	-
Derivative liabilities held for risk management		-	-	-	-	-	-	-
Deposits from banks		146.172	-	-	-	-	-	146.172
Deposits from customers		21.185.584	7.789.031	22.276.863	4.341.152	934.867	174.119	56.701.616
Loans payable		68.973	-	125.152	164.041	304.068	170.267	832.501
Subordinated debt		-	12.487	-	-	-	2.767.725	2.780.212
Income tax liabilities (current)		-	-	-	-	-	-	-
Differed tax liabilities		-	-	-	-	-	-	-
Other liabilities		613.995	-	-	-	-	-	613.995
Total financial liabilities		22.014.724	7.801.518	22.402.015	4.505.193	1.238.935	3.112.111	61.074.496
Off balance items								
Off balance assets		-	-	-	-	-	-	-
Off balance liabilities		721.170	2.070.834	7.836.035	206.971	66.389	561.778	11.463.177
Net liquidity gap		1.522.440	(4.758.022)	(15.596.239)	6.816.116	8.457.600	5.905.860	2.347.755

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**2. RISK MANAGEMENT (continued)****2.2 Liquidity risk (continued)****2.2.1 Liquidity risk management process (continued)****Analysis according to the maturity of financial assets and liabilities (remaining maturity) (continued)**

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2012 and 2011, except for loans and claims on other clients and unutilized limits – potential credit exposure where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, allowed overdrafts etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products, i.e. the amount of utilization of funds under the approved limits. There are indications for significant non-reconciliation for the period up to one year. Although the primary analysis reason shows unreconciled amounts for the period up to one year, the Bank possesses a significant part of sound deposits - a deposit core in the amount of MKD 45,940,684 thousand (2011 – MKD 43,605,326 thousand) which helps the maturity non-reconciliation to be overcome.

2.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, interest rate, and equity products, all of which are exposed to market movements and changes in the level of volatility of market rates or prices (such as interest rates, credit spreads, foreign exchange rates and equity prices).

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2012 and 2011.

Risk from changes in interest rates

The Bank is exposed to effects arising from movements at level of interest rates in the market that affect its financial position and cash flows. Taking into account the fact that the trading portfolio of the Bank is inconsiderable and refers mainly to government securities, the interest rate risk exposure is assessed from the aspect of Banking Book. The risk from change in interest rates in the Banking Book is the current or possible risk for profit (net interest income) and/or capital that arises from negative movements in interest rates, which affect the positions in the Banking Book. The assuming of this risk is part of banking activities and may be a significant source for profitability and shareholders value. Nonetheless, excessive risk from change in interest rates may represent a significant threat to the profit and capital base of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

Risk from changes in interest rates (continued)

The Bank has established a framework for managing this risk in order to minimize the effects of negative changes in future interest rates by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk from changes in interest rates in Banking Book.

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2012 and 2011.

Operational risk

The operational risk is defined as risk of loss that arises from inappropriate or unsuccessful internal processes and systems, human factor or external events. The Bank has established an operational risk management framework based on Strategy and Policy and methodology for managing this risk. It ensures, within the various processes in the Bank, that there are identified risks originating from these processes, that they are measured and that there is undertaking of remedial actions in order to avoid potential negative effect over the financial result and capital position of the Bank.

2.3.1. Analysis of the sensitivity of assets and liabilities to changes in market risk

A. Analysis of the sensitivity to changes in market risk to assets and liabilities

	Profit/loss	Own assets	Assets weighted acc.to risks	Rate of capital adequacy
December 31, 2012				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2012)				
Effects from application of scenarios	-	10.467.464	53.859.180	19,43%
Risk from foreign exchange rate change				
MKD depreciate by 10% in relation of all other F/X	245.735	10.713.199	54.106.826	19,80%
MKD appreciate by 10% in relation of all other F/X	(245.735)	10.221.729	53.611.534	19,07%
MKD depreciate by 20% in relation of all other F/X	491.470	10.958.934	54.354.472	20,16%
MKD appreciate by 20% in relation of all other F/X	(491.470)	9.975.994	53.363.888	18,69%
Risk from interest rate change				
Increasing of ir by 200 b.p.	(18.463)	10.449.001	53.859.180	19,40%
Decreasing of ir by 200 b.p.	18.463	10.485.928	53.859.180	19,47%
Increasing of ir by 400 b.p.	(36.927)	10.430.538	53.859.180	19,37%
Decreasing of ir by 400 b.p.	36.927	10.504.391	53.859.180	19,50%
Cumulative	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Analysis of the sensitivity to changes in market risk to assets and liabilities (continued)

A. Analysis of the sensitivity to changes in market risk to assets and liabilities (continued)

	Profit/loss	Own assets	Assets weighted acc.to risks	Rate of capital adequacy
December 31, 2011				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2011)	-	10.469.652	59.359.156	17,64%
Effects from application of scenarios				
Risk from foreign exchange rate change				
MKD depreciate by 10% in relation of all other F/X	508.550	10.978.202	60.114.932	18,26%
MKD appreciate by 10% in relation of all other F/X	(508.550)	9.961.102	58.603.380	17,00%
MKD depreciate by 20% in relation of all other F/X	1.017.101	11.486.753	60.870.708	18,87%
MKD appreciate by 20% in relation of all other F/X	(1.017.101)	9.452.551	57.847.604	16,34%
Risk from interest rate change				
Increasing of ir by 200 b.p.	(50.930)	10.418.722	59.359.156	17,55%
Decreasing of ir by 200 b.p.	50.930	10.520.582	59.359.156	17,72%
Increasing of ir by 400 b.p.	(101.860)	10.367.792	59.359.156	17,47%
Decreasing of ir by 400 b.p.	101.860	10.571.512	59.359.156	17,81%
Cumulative	-	-	-	-

The Bank has established a frame for conducting stress test on the basis of which stress testing is made at least once a year in order to analyze the sensitivity of the Bank to a set of extreme but realistic shocks, which also takes into consideration analysis of the assets and liabilities sensitivity to changes in the foreign exchange rate and in the interest rates from aspect of the banking activities portfolio. In due course, the scenarios which take into consideration the risk from the change of the foreign exchange rate estimate the effect of the possible appreciation and depreciation of the Denar foreign exchange rate in relation to other currencies, and at all other factors unchanged, the effect is observable through the realized foreign exchange gain/loss. On the other hand, the purpose of the stress test analysis of the interest rate risk in the banking activities portfolio is to examine the sensitivity of the Bank balance sheets to the interest rate changes, by examining the influence of interest shocks in the assumed scenarios on the net interest income.

In both sensitivity analyses, the change in capital adequacy is estimated through the effect of scenarios over the amount of own funds (if assuming that the profit is zero), and by that also over the capital adequacy of the Bank.

The table presents analysis of assets and liabilities sensitivity to market risk changes as at 31 December 2012 and 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Analysis of the sensitivity of assets and liabilities to changes in market risk (continued)

B. Analysis of the value exposed to market risk of the trading portfolio

	2012				In thousands of Denars 2011			
	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)
Value exposed to risk at interest- bearing instruments								
Value exposed to risk at instruments in foreign currency	-	-	-	-	-	-	-	-
Value exposed to risk at equity instruments	-	-	-	-	-	-	-	-
Variants (effects on netting)	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

The Bank does not make analysis of the risk exposed value according to the above disclosure in Table B due to the fact that the Bank does not determine capital required for covering the market risks for the trading portfolio according to the “Decision on the methodology for determining the capital adequacy”, and consequently the table referred to in this Note is not filled in.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Analysis of the interest rate risk on financial assets and liabilities (without trading funds)

A Interest rate sensitivity analysis

	Currency	2012	2011
NET WEIGHTED POSITION FOR EUR (FKS+VKS+PKS)	EUR	(24.464)	25.171
NET WEIGHTED POSITION FOR MKD (FKS+VKS+PKS)	MKD	38.237	(30.126)
NET WEIGHTED POSITION FOR MKDcEUR (FKS+VKS+PKS)	MKDcEUR	60.658	87.621
NET WEIGHTED POSITION FOR other (FKS+VKS+PKS)	Other	<u>(12.938)</u>	<u>(7.974)</u>
TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK ACTIVITIES PORTFOLIO		<u>61.493</u>	<u>74.692</u>
OWN FUNDS		10.713.497	10.469.652
TOTAL WEIGHTED VALUE / OWN FUNDS		<u>0,57%</u>	<u>0,71%</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Analysis of interest rates risk of financial assets and liabilities (without trading portfolio) (continued)

B. Analysis of compliance of interest rates

In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
December 31, 2012							
ASSETS							
Cash and cash equivalents	18.728.846	3.375.045	-	-	-	-	22.103.891
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and claims of banks	96.980	-	139.953	-	-	-	236.933
Loans and claims from other customers	1.025.469	16.761.800	21.973.340	1.768.225	2.663.248	893.132	45.085.214
Investments in securities	-	1.187.590	2.054.178	5.017	50.000	-	3.296.785
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive funds	19.851.295	21.324.435	24.167.471	1.773.242	2.713.248	893.132	70.722.823
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	56.497	-	139.953	-	-	-	196.450
Deposits of other customers	22.891.980	5.121.523	27.102.812	3.383.503	455.781	47.055	59.002.654
Issued debt securities	-	-	-	-	-	-	-
Loans based liabilities	1.574.167	-	169.664	217.473	333.931	70.586	2.365.821
Subordinated liabilities and hybrid instruments	-	2.767.500	-	-	-	-	2.767.500
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	24.522.644	7.889.023	27.412.429	3.600.976	789.712	117.641	64.332.425
Net - balance position							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
Net positions - off-balance sheet position	-	-	-	-	-	-	-
Total net-position	(4.671.349)	13.435.412	(3.244.958)	(1.827.734)	1.923.536	775.491	6.390.398

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Analysis of interest rates risk of financial assets and liabilities (without trading portfolio) (continued)

B. Analysis of compliance of interest rates (continued)

In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
December 31, 2011							
ASSETS							
Cash and cash equivalents	19.260.146	1.071.386	-	-	-	-	20.331.532
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and claims of banks	63.575	-	-	-	-	-	63.575
Loans and claims from other customers	905.553	16.674.002	20.371.359	1.516.513	2.714.495	915.389	43.097.311
Investments in securities	-	1.715.547	4.149	4.558	5.018	-	1.729.272
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive funds	20.229.274	19.460.935	20.375.508	1.521.071	2.719.513	915.389	65.221.690
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	51.612	-	-	-	-	-	51.612
Deposits of other customers	22.508.138	5.092.492	25.072.915	3.508.068	179.452	141.829	56.502.894
Issued debt securities	-	-	-	-	-	-	-
Loans based liabilities	86.638	-	119.959	153.963	299.029	20.868	680.457
Subordinated liabilities and hybrid instruments	-	2.767.725	-	-	-	-	2.767.725
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	22.646.388	7.860.217	25.192.874	3.662.031	478.481	162.697	60.002.688
Net - balance position							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
Net positions - off-balance sheet position	-	-	-	-	-	-	-
Total net-position	(2.417.114)	11.600.718	(4.817.366)	(2.140.960)	2.241.032	752.692	5.219.002

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

	In thousands of Denars 31 December 2012				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	17.733.998	4.571.835	285.688	1.345.909	23.937.430
Trading assets	-	29.589	151.462	-	181.051
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	25.275	243.422	27.598	296.295
Placement with and loans to customers	20.140.187	24.068.490	1.364.337	24.832	45.597.846
Investments in securities	2.193.237	1.201.509	-	-	3.394.746
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	4.884	-	-	-	4.884
Other receivables	190.356	20.399	3.479	131	214.365
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	40.262.662	29.917.097	2.048.388	1.398.470	73.626.617
MONETARY LIABILITIES					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	-	38.310	145.050	81.602	264.962
Deposits from customers	32.300.304	23.829.235	1.895.111	1.230.889	59.255.539
Issued Debt Securities	-	-	-	-	-
Loans payable	1.672.799	831.163	14.885	-	2.518.847
Subordinated debt	-	2.777.163	-	-	2.777.163
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	459.264	209.766	2.752	1.024	672.806
Total monetary liabilities	34.432.367	27.685.637	2.057.798	1.313.515	65.489.317
Net – position	5.830.295	2.231.460	(9.410)	84.955	8.137.300

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

	In thousands of Denars 31 December 2011				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	13.264.479	5.974.151	1.246.740	1.184.446	21.669.816
Trading assets	-	38.456	103.372	-	141.828
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	-	23.867	70.914	28.499	123.280
Placement with and loans to customers	18.732.850	24.843.590	620.867	28.363	44.225.670
Investments in securities	93.953	1.741.727	-	-	1.835.680
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	7.536	-	-	-	7.536
Other receivables	194.614	24.950	3.990	177	223.731
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	<u>32.293.432</u>	<u>32.646.741</u>	<u>2.045.883</u>	<u>1.241.485</u>	<u>68.227.541</u>
MONETARY LIABILITIES					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	-	75.175	4.845	66.152	146.172
Deposits from customers	29.339.686	24.256.660	1.998.828	1.106.442	56.701.616
Issued Debt Securities	-	-	-	-	-
Loans payable	183.175	624.084	25.242	-	832.501
Subordinated debt	-	2.780.212	-	-	2.780.212
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	437.640	176.355	-	-	613.995
Total monetary liabilities	<u>29.960.501</u>	<u>27.912.486</u>	<u>2.028.915</u>	<u>1.172.594</u>	<u>61.074.496</u>
Net – position	<u>2.332.931</u>	<u>4.734.255</u>	<u>16.968</u>	<u>68.891</u>	<u>7.153.045</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**3. CAPITAL ADEQUACY****Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' presented in the balance sheet, are:

- to comply with the capital requirements set by NBRM;
- to safeguard the Bank's ability to continue functioning as successful company and to continue providing returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support further successful activity.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the directives set by the regulator, for supervisory purposes. The required information is sent to NBRM on a quarterly basis.

The Bank's regulatory capital (own assets) is divided into two tiers:

- Tier 1 capital: share capital, retained earnings limited for distribution among shareholders and reserves created by retained earnings. The Bank's uncovered loss from previous years, the current loss, purchased equity shares, intangible assets, difference between the amount of required and the conducted impairment/ special reserve and unrealized loss from equity instruments available for sale are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan, cumulative preferred shares and premium from cumulative preferred shares sold, revaluation reserves of 80% from unrealized loss from revaluation of equity and debt instruments available for sale, measures according to the objective value, hybrid capital instruments.

Investments in banks, financial institutions, insurance companies and reinsurance companies are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

In 2012 the National Bank of the Republic of Macedonia adopted a new Decision on the methodology for determining the capital adequacy, according to which the manner is prescribed for calculating the capital required for banks to cover the credit risk, operational risk, market risks and the currency risk.

The calculation of the capital required for covering the credit risk is based on the so called standardized approach according to Basel II. The Bank is obliged to distribute the on-balance sheet and off-balance sheet claims in appropriate categories of exposure and to provide them with a risk weight depending on the credit quality degree of the debtor or the claim. In 2012 the Bank was obliged for the first time to allocate capital to cover the operational risk. The calculation of the capital for currency risk was amended and is made to the net amount of aggregate foreign currency position taking into consideration the impairment at making calculation. Furthermore, as was previously the case, in accordance with the new regulations the Bank is not obliged to determine and dispose of the capital required for covering the market risks.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

3. CAPITAL ADEQUACY (continued)

According to the methodology in force in 2011, the risk weighted assets are classified according to the mature of each asset and the contracting party and are measured by applying five risk weights. These weights reflect the credit risk and take into consideration each qualified security of warranty. Similar treatment is applied at off-balance sheet exposures, with minor corrections in order to reflect more unpredictable nature of possible losses.

Own assets

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2012 and 2011.

	In thousands of Denars	
	current	previous
	year	year
	2012	2011
Paid-in and subscribed common and non-cumulative preferred shares and premium under these shares	3.511.242	3.511.242
Nominal value	3.511.242	3.511.242
Nominal value of common shares	3.511.242	3.511.242
Nominal value of non-cumulative preferred shares	-	-
Premium	-	-
Premium under ordinary shares	-	-
Premium under non-cumulative preferred shares	-	-
Reserves and retained profit or loss	4.596.589	4.350.569
Reserve fund	830.291	830.291
Retained earnings restricted for distribution to shareholders	3.766.298	3.520.278
Accumulated loss from previous years	-	-
Current profit	-	-
Positions as a result of consolidation	-	-
Minority share	-	-
Reserves under foreign exchange gains/losses	-	-
Other differences	-	-
Deducted items	(23.983)	(23.983)
Loss at the year-end or current loss	-	-
Purchased own shares	-	-
Intangible assets	-	-
Difference between the amount of required and made impairment/special reserves	(23.983)	(23.983)
Amount of allocated impairment and special reserves as a result of accounting delay	-	-
Unrealized loss from own instruments available for sale	-	-
Other deducted items	-	-
Initial capital	8.083.848	7.837.828

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

	In thousands of Denars	
	current year 2012	previous year 2011
Additional capital I		
Paid-in and subscribed cumulative preferred shares and premium under these shares	90.978	90.978
Nominal value	90.978	90.978
Premium	-	-
Revaluation reserves	17.138	19.141
Hybrid capital instruments	-	-
Subordinated instruments	2.275.500	2.521.705
Amount of cumulative preferred shares and subordinated instruments that can be part of the additional capital I	2.366.478	2.612.683
Additional capital I	2.383.616	2.631.824
Deducted items		
Investments in capital of other banks or financial institutions that are over 10% of the capital of those institutions	-	-
Investments in subordinated and hybrid capital instruments and other instruments of the abovementioned institutions	-	-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of of initial and additional capital	-	-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies	-	-
Amount of exceeding the limits for investments in non-financial institutions	-	-
Positions as a result of consolidation (negative amounts)	-	-
Deducted items	-	-
Initial capital under deducted items	8.083.848	7.837.828
Additional capital I under deducted items	2.383.616	2.631.824
OWN ASSETS	10.467.464	10.469.652

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

2. CAPITAL ADEQUACY (continued)

Own assets

Capital adequacy ratio

The table below presents a survey of the Statement of the capital adequacy ratio (Form CA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2012 and 2011.

	In thousands of Denars	
	current year 2012	previous year 2011
Credit risk weighted assets		
Credit risk weighted assets by applying standardized approach	45.085.849	51.801.398
Capital required for covering the credit risk	3.606.868	4.144.112
Currency risk weighted assets		
Currency risk weighted assets	2.476.462	7.557.758
Aggregate foreign currency position	-	-
Net position in gold	198.117	604.621
Capital required for covering the currency risk	2.476.462	7.557.758
Operational risk weighted assets		
Capital required for covering the operational risk by applying the basic indicator approach	-	-
Capital required for covering the operational risk by applying the standardized approach	503.750	-
Operational risk weighted assets	6.296.869	-
Other risk weighted assets		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the positional risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity instruments	-	-
Capital required for covering the general risk of investments in equity instruments	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
Other risk weighted assets	-	-
Risk weighted assets	53.859.180	59.359.156
Capital required for covering the risks	4.308.734	4.748.732
Own assets	10.467.464	10.469.652
Capital adequacy ratio	19,43%	17,64%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

4. NOTIFICATION ACCORDING TO SEGMENTS

A. Operating segments

In thousands of Denars
December 31, 2012

	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Investme nt banking</u>	<u>All other significant operating segments</u>	<u>Unalloca ted</u>	<u>Total</u>
Net interest income /(expense)	1.044.367	987.385	536.086	-	-	2.567.838
Net fees and commissions income / (expense)	403.821	528.785	2.347	6.431	-	941.384
Net trading income	-	-	51.477	-	-	51.477
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	158.448	9.785	-	-	157.493	325.726
Income realized between segments	-	-	-	-	-	-
Total income by segments	<u>1.606.636</u>	<u>1.525.955</u>	<u>589.910</u>	<u>6.431</u>	<u>157.493</u>	<u>3.886.425</u>
Adjustment of value of financial assets, on net basis	(422.607)	(399.550)	(216.929)	-	-	(1.039.086)
Impairment loss of non-financial assets, on net-basis	(30.117)	(28.474)	-	-	(15.460)	(74.051)
Depreciation	(68.489)	(64.753)	-	(15.791)	(19.366)	(168.399)
Restructuring costs	-	-	-	-	-	-
Costs for investment in real estate and equipment	(14.698)	(13.896)	-	(3.388)	(4.156)	(36.138)
Other expenses	(719.603)	(680.216)	(251.476)	-	(117.655)	(1.768.950)
Total expenses by segments	<u>(1.255.514)</u>	<u>(1.186.889)</u>	<u>(468.405)</u>	<u>(19.179)</u>	<u>(156.637)</u>	<u>(3.086.624)</u>
Financial result by segment	351.122	339.066	121.505	(12.748)	856	799.801
Income tax	-	-	-	-	(4.322)	(4.322)
Profit/(loss) for the financial year	<u>351.122</u>	<u>339.066</u>	<u>121.505</u>	<u>(12.748)</u>	<u>(3.466)</u>	<u>795.479</u>
Total assets by segment	28.079.744	45.927.406	1.340.842	-	-	75.347.992
Unallocated assets per segment	-	-	-	-	2.523	2.523
Total assets						<u>75.350.515</u>
Total liabilities by segment	47.127.338	18.497.247	-	-	-	65.624.585
Unallocated liabilities by segment	-	-	-	-	4.118	4.118
Total liabilities						<u>65.628.703</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

4. NOTIFICATION ACCORDING TO SEGMENTS (continued)

A. Operating segments (continued)

In thousands of Denars
December 31, 2011

	Retail banking	Corporate banking	Investme nt banking	All other significant operating segments	Unalloca ted	Total
Net interest income /(expense)	853.248	1.345.803	(6.551)	(212)	-	2.192.288
Net fees and commissions income / (expense)	347.628	369.978	114.782	21.614	-	854.002
Net trading income	-	-	30.720	-	-	30.720
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	130.812	63.493	-	-	152.904	347.209
Income realized between segments	-	-	-	-	-	-
Total income by segments	1.331.688	1.779.274	138.951	21.402	152.904	3.424.219
Adjustment of value of financial assets, on net basis	(298.971)	(402.377)	(20.345)	(21.838)	-	(743.531)
Impairment loss of non-financial assets, on net-basis	(4.543)	(1.503)	-	-	(54)	(6.100)
Depreciation	(74.395)	(98.205)	-	(6.047)	(9.215)	(187.862)
Restructuring costs	-	-	-	-	-	-
Costs for investment in real estate and equipment	(18.449)	(29.929)	-	(1.875)	(2.012)	(52.265)
Other expenses	(708.725)	(996.113)	(50.005)	-	(32.304)	(1.787.147)
Total expenses by segments	(1.105.083)	(1.528.127)	(70.350)	(29.760)	(43.585)	(2.776.905)
Financial result by segment	226.605	251.147	68.601	(8.358)	109.319	647.314
Income tax	-	-	-	-	(17.569)	(17.569)
Profit/(loss) for the financial year	226.605	251.147	68.601	(8.358)	91.750	629.745
Total assets by segment	26.958.187	39.109.790	1.977.508	-	-	68.045.485
Unallocated assets per segment	-	-	-	-	2.110.669	2.110.669
Total assets						70.156.154
Total liabilities by segment	45.635.268	15.273.083	-	23.147	-	60.931.498
Unallocated liabilities by segment	-	-	-	-	295.821	295.821
Total liabilities						61.227.319

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

4. NOTIFICATION ACCORDING TO SEGMENTS (continued)

B. Concentration of total revenue and expenses by customers

In thousands of Denars

	Retail banking	Corporate banking	Investme nt banking	All other significant operating segments	Unalloca ted	Total
Current year, 2012						
Customer 1						
Income	5.592	123.293	-	-	-	128.885
(Expenses)	(11.870)	(80.411)	-	-	-	(92.281)
						-
Customer 2						
Income	2.140	90.348	-	-	-	92.488
(Expenses)	(11.571)	(43.312)	-	-	-	(54.883)
						-
Customer 3						
Income	1.762	79.758	-	-	-	81.520
(Expenses)	(10.304)	(41.338)	-	-	-	(51.642)
						-
Customer 4						
Income	1.656	77.919	-	-	-	79.575
(Expenses)	(9.181)	(39.708)	-	-	-	(48.889)
						-
Customer 5						
Income	1.597	53.309	-	-	-	54.906
(Expenses)	(8.668)	(32.464)	-	-	-	(41.132)
Total by segment	(38.847)	187.394	-	-	-	148.547
Previous year, 2011						
Customer 1						
Income	5.479	118.824	-	-	-	124.303
(Expenses)	(11.676)	(79.122)	-	-	-	(90.798)
						-
Customer 2						
Income	2.060	87.073	-	-	-	89.133
(Expenses)	(11.382)	(42.617)	-	-	-	(53.999)
						-
Customer 3						
Income	1.696	76.867	-	-	-	78.563
(Expenses)	(10.136)	(40.675)	-	-	-	(50.811)
						-
Customer 4						
Income	9.031	75.095	-	-	-	84.126
(Expenses)	(12.125)	(39.072)	-	-	-	(51.197)
						-
Customer 5						
Income	1.537	51.377	-	-	-	52.914
(Expenses)	(8.526)	(31.944)	-	-	-	(40.470)
Total by segment	(34.042)	175.806	-	-	-	141.764

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

4. NOTIFICATION ACCORDING TO SEGMENTS (continued)

C. Geographic areas

In thousands of Denars
December 31, 2012

	Republic of Macedonia	Member countries of European Union	Europe (other)	Member- countries of OECD (without European Member- countries of OECD)	Other	Unallocated	Total
Current year, 2012							
Total income	5.769.159	244.010	15.686	8.447	-	-	6.037.302
Total assets	<u>72.003.674</u>	<u>3.045.573</u>	<u>175.859</u>	<u>125.409</u>	-	-	<u>75.350.515</u>
Previous year, 2011							
Total income	5.441.428	297.310	69.231	10.050	-	-	5.818.019
Total assets	<u>65.617.229</u>	<u>3.582.916</u>	<u>834.818</u>	<u>121.191</u>	-	-	<u>70.156.154</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A. Fair value of financial assets and liabilities

	December 31, 2012		In thousands of Denars December 31, 2011	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents	23.937.430	23.937.430	21.669.816	21.669.816
Trading assets	181.051	181.051	141.828	141.828
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	296.295	296.295	123.280	123.280
Placement with, and loans to other customers	45.597.846	45.597.846	44.225.670	44.225.670
Investment securities	3.394.746	3.394.746	1.835.680	1.835.680
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	4.884	4.884	7.536	7.536
Other receivables	214.365	214.365	223.731	223.731
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	73.626.617	73.626.617	68.227.541	68.227.541
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	264.962	264.962	146.172	146.172
Deposits from other customers	59.255.539	59.255.539	56.701.616	56.701.616
Issued debt securities	-	-	-	-
Loans payable	2.518.847	2.518.847	832.501	832.501
Subordinated debt	2.777.163	2.777.163	2.780.212	2.780.212
Income tax liabilities (current)	-	-	-	-
Differed tax liabilities	-	-	-	-
Other liabilities	672.806	672.806	613.995	613.995
	65.489.317	65.489.317	61.074.496	61.074.496

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Levels of fair value of financial assets and liabilities, measured by fair value

B.1 Levels of fair value of financial assets and liabilities, measured by fair value

	Note	In thousands of Denars			
		Level 1	Level 2	Level 3	Total
Current year, 2012					
Financial assets measured at fair value					
Trading assets	19	181.051	-	-	181.051
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	67.934	-	24.407	92.341
Total		248.985	-	24.407	273.392
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-
Previous year, 2011					
Financial assets measured at fair value					
Trading assets	19	141.828	-	-	141.828
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investments in securities available for sale	23.1	57.973	-	36.011	93.984
Total		199.801	-	36.011	235.812
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Level of fair value of financial assets and liabilities, measured by fair value (continued)

B.2 Transfers between fair value level 1 and 2

	Current year, 2012		Previous year, 2011	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
Financial assets measured at fair value				
Trading assets	-	-	-	-
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in securities, available for sale	-	-	-	-
Total	-	-	-	-
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Total	-	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B. Levels of fair value of financial assets and liabilities, measured by fair value (continued)

B.2 Adjustments to movements during the year in fair values measured in Level 3

	Assets for trading	Financial assets at fair value through profit and loss account designated as such at initial recognition	Investments in securities available –for-sale	Total assets	Liabilities for trading	In thousands of Denars	
						Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
Balance at January 1, 2011							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2011	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2011	-	-	-	-	-	-	-
Balance at January 1, 2012							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2012	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2012	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**B Levels of fair value of financial assets and financial liabilities, measured by fair value (continued)***a) Cash and cash equivalents*

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRM, which mature *shortly*.

b) Held-for-trading financial assets

Fair value as determined by reference to market prices equal to their carrying amount.

c) Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and demand placements with banks is their carrying amount. The smaller portion of the time deposits are fixed interest bearing deposits, the estimated fair value of which is determined based on discounting cash flow using interest rates for similar placements.

d) Placements with and loans to customers

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate (over 95%). The remaining part of the loans with fixed interest rate relates to "teaser loans", for which the fair value is estimated by the Bank based on the discounted cash flow.

e) Investment in securities

The fair value of investments in held-to-maturity financial assets is their carrying amount having regard to the fact that their carrying amount is determined on the basis of discounted cash flows. The fair value of investments in available-for-sale financial assets is determined on the basis of quoted market prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

f) Other receivables

Other receivables approximate their fair value as they will mature shortly.

g) Deposits from banks

The fair value of demand and time deposits is their carrying amount.

h) Deposits from other customers

The fair value of demand deposits and time deposits with floating interest rate is their carrying amount. The estimated fair value of the deposits with fixed interest rate is based on discounted cash flows using the interest rate for similar deposits with similar maturity.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

B Levels of fair value of financial assets and financial liabilities, measured by fair value (continued)

i) Loans payable (including subordinated debt)

Subordinated debt represents the major part of this position. This loan is with floating interest rate. The remaining part relates to the loans from specific sources for which the market interest rate can not be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

j) Other liabilities

Other liabilities approximate their fair value as they will mature shortly.

6. NET INTEREST/(EXPENSES) INCOME

A. Structure of interest income and expenses by category of financial instruments

	In thousands of Denars	
	Current year 2012	Previous year 2011
Interest income		
Cash and cash equivalents	413.881	353.427
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	27.431	38.832
Placements with and loans to customers	3.835.685	3.831.655
Investments in securities	171.192	106.660
Other receivables	3.332	47.212
(Adjustment of value of income interest, on net-basis)	(94.424)	(626.335)
Collected previously written-off interest	277.230	743.501
Total interest income	4.634.327	4.494.952
Interest expenses		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	-	4.644
Deposits from other customers	1.954.651	2.175.555
Issued debt securities	-	-
Loans payable	11.345	9.642
Subordinated debt	89.653	106.161
Other liabilities	10.840	6.662
Total interest expenses	2.066.489	2.302.664
Net interest income / (expenses)	2.567.838	2.192.288

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

B. Sector analysis of interest income and expenses by sector

	In thousands of Denars	
	current year 2012	previous year 2011
Interest income		
Non-financial companies	1.222.448	1.213.804
State	172.772	132.463
Non-profit institutions servicing households	1.288	1.388
Banks	27.446	46.183
Other financial companies (non-banking)	414.549	368.952
Households	2.613.018	2.614.996
Non-residents	-	-
(Adjustment of value of interest income, on net-basis)	(94.424)	(626.335)
Collected previously written-off interest	277.230	743.501
Total interest income	4.634.327	4.494.952
Interest expenses		
Non-financial companies	237.707	262.911
State	8.406	4.833
Non-profit institutions servicing households	11.240	14.549
Banks	13.030	9.921
Other financial companies (non-banking)	44.308	51.252
Households	1.643.513	1.833.544
Non-residents	108.285	125.654
Total interest expenses	2.066.489	2.302.664
Net interest income / (expenses)	2.567.838	2.192.288

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

7. NET FEE AND COMMISSION INCOME/(EXPENSES)

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

	In thousands of Denars	
	current year 2012	previous year 2011
Fees and commissions income		
Financing	116.632	94.581
Payment operations		
domestic	281.751	267.244
international	107.570	112.011
L/Cs and L/Gs	69.599	65.557
Brokerage operations	2.337	3.682
Asset management	488	673
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	370.131	311.960
Deposit operations	6.144	17.043
Renting safe-deposit-boxes	6.391	6.650
Third party accounts collection	6.979	8.435
Other	57.750	57.302
<i>Total fees and commissions income</i>	1.025.772	945.138
Fees and commissions expenses		
Financing	-	-
Payment operations		
domestic	68.726	78.177
international	10.990	10.124
L/Cs and L/Gs	-	-
Brokerage operations	-	-
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	4.672	2.835
<i>Total fees and commissions expenses</i>	84.388	91.136
Net fees and commissions income / (expenses)	941.384	854.002

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current year 2012	previous year 2011
Fees and commissions income		
Non-financial companies	568.171	549.177
State	5.316	1.047
Non-profit institutions servicing households	102	168
Banks	18.354	22.793
Other financial companies (non-banking)	-	-
Households	406.707	340.085
Non-residents	27.122	31.868
<i>Total fees and commissions income</i>	1.025.772	945.138
Fees and commissions expenses		
Non-financial companies	4.120	1.680
State	-	-
Non-profit institutions servicing households	-	-
Banks	55.954	65.765
Other financial companies (non-banking)	24.314	23.691
Non-residents	-	-
<i>Total fees and commissions expenses</i>	84.388	91.136
Net fees and commissions income / (expenses)	941.384	854.002

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

8. NET TRADING INCOME

	In thousands of Denars	
	current year 2012	previous year 2011
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	62	(145)
unrealized	(2.798)	(1.748)
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	49.460	27.439
Income from dividend from trading assets	1.185	1.064
Income from interest from trading assets	3.568	4.110
<i>Trading liabilities</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit /(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	-	-
Net trading income	51.477	30.720

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

	In thousands of Denars	
	current year 2012	previous year 2011
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
Net income from other financial instruments recorded at fair value	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

10. NET FOREIGN EXCHANGE GAIN/(LOSS)

	In thousands of Denars current year 2012	previous year 2011
Realized net foreign exchange gains/(losses)	125.535	130.679
Non-realized net foreign exchange gains/(losses)		
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	(10.904)	2.521
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis	-	-
other foreign exchange gains/(losses), on net basis	(8.124)	596
Net foreign exchange gains/(losses)	106.507	133.796

11. OTHER OPERATING INCOME

	In thousands of Denars current year 2012	previous year 2011
Profit from sales of assets available for sale	5.000	-
Dividend from equity instruments available for sale	4.520	3.070
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
real estate and equipment	2.495	2.619
intangible assets	-	-
foreclosed assets	-	17.461
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	3.126	2.704
Income from won court disputes	10.238	3.908
Collected previously written-off claims	135.425	129.051
Release of special reserves and provisions for:		
off-balance sheet credit exposures	11.264	-
contingent liabilities based on court disputes	1.493	2.920
pensions and other benefits for employees	-	-
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
managing accounts for the Ministry of Finance	-	-
early withdrawal of deposits of non-residents	32.880	33.592
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	4.773	3.804
other income	8.005	14.284
Total other operating income	219.219	213.413

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

12. ADJUSTMENT OF VALUE OF FINANCIAL ASSETS, NET

In thousands of Denars

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total
December 31, 2012								
<i>Adjustment of value on individual basis</i>								
Additional adjustment of value	368	1.350.226	-	-	1.231	10.436	16.012	1.378.273
(Release of adjustment of value)	(175)	(304.596)	-	-	-	(220)	(5.768)	(310.759)
	<u>193</u>	<u>1.045.630</u>	<u>-</u>	<u>-</u>	<u>1.231</u>	<u>10.216</u>	<u>10.244</u>	<u>1.067.514</u>
<i>Adjustment of value at group basis</i>								
Additional adjustment of value	-	18.370	-	-	-	-	-	18.370
(Release of adjustment of value)	-	(46.798)	-	-	-	-	-	(46.798)
	<u>-</u>	<u>(28.428)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28.428)</u>
Total adjustment of value of financial assets, on net-basis	<u>193</u>	<u>1.017.202</u>	<u>-</u>	<u>-</u>	<u>1.231</u>	<u>10.216</u>	<u>10.244</u>	<u>1.039.086</u>
December 31, 2011								
<i>Adjustment of value on individual basis</i>								
Additional adjustment of value	-	1.176.988	2.186	-	26.046	26.720	10.891	1.242.831
(Release of adjustment of value)	-	(462.350)	-	-	-	(17.754)	(7.170)	(487.274)
	<u>-</u>	<u>714.638</u>	<u>2.186</u>	<u>-</u>	<u>26.046</u>	<u>8.966</u>	<u>3.721</u>	<u>755.557</u>
<i>Adjustment of value at group basis</i>								
Additional adjustment of value	-	23.080	-	-	-	-	-	23.080
(Release of adjustment of value)	-	(35.106)	-	-	-	-	-	(35.106)
	<u>-</u>	<u>(12.026)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12.026)</u>
Total adjustment of value of financial assets, on net-basis	<u>-</u>	<u>702.612</u>	<u>2.186</u>	<u>-</u>	<u>26.046</u>	<u>8.966</u>	<u>3.721</u>	<u>743.531</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

13. IMPAIRMENT LOSS ON NON-FINANCIAL ASSETS, NET

	In thousands of Denars					Total
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	
December 31, 2012						
Additional impairment loss	-	-	74.051	-	-	74.051
(Release of impairment loss)	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	74.051	-	-	74.051
December 31, 2011						
Additional impairment loss	-	-	6.100	-	-	6.100
(Release of impairment loss)	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	6.100	-	-	6.100

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

14. PERSONNEL EXPENSES

	In thousands of Denars current year 2012	previous year 2011
Short-term personnel benefits		
Salaries	443.952	456.385
Compulsory contributions for social and health insurance	210.797	208.065
Short-term paid leaves	-	-
Costs for temporary employment	13.244	5.041
Share in profit and remuneration	-	-
Non-monetary benefits	-	-
Other personnel benefits	46.608	44.136
	<u>714.601</u>	<u>713.627</u>
Post retirement benefits		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	167	17.575
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	-	-
	<u>-</u>	<u>17.575</u>
Total personnel expenses	<u><u>714.768</u></u>	<u><u>731.202</u></u>

The amounts referring to provisions for retirement benefits in the amount of MKD 2,363 thousand (2011: MKD 2,452 thousand) are presented in Note 38.

	current year 2012	previous year 2011
Average number of employees for the period	1.021	1.048
Number of permanent employees at year-end	1.024	1.021
Number of temporary employees at year-end	-	7

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

15. DEPRECIATION

	In thousands of Denars	
	current year 2012	previous year 2011
Depreciation of intangible assets		
Internal developed software	-	-
Software acquired from external suppliers	40.435	38.661
Other internal developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>40.435</u>	<u>38.661</u>
Depreciation of property and equipment		
Buildings	29.502	27.968
Means of transport	1.245	1.376
Furniture and equipment	75.373	97.403
Other equipment	3.322	2.170
Other items of property and equipment	1.444	1.444
Property and equipment leasehold improvements	17.078	18.840
	<u>127.964</u>	<u>149.201</u>
Total depreciation	<u>168.399</u>	<u>187.862</u>

16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current year 2012	previous year 2011
Loss from sale of assets available for sale	-	-
Software licensing expense	-	-
Deposit insurance premia	324.922	305.320
Premia on property and employee insurance	16.680	16.913
Materials and services	539.529	538.630
Administrative and marketing expense	103.472	96.595
Other taxes and contributions	3.196	3.142
Rental expense	61.913	62.161
Court dispute expense	10.224	12.872
Special reserve for off-balance sheet exposure, on a net basis	-	6.578
Provisions for pension and other employee benefits, on a net basis	2.363	2.452
Provisions for contingent liabilities based on court disputes, on a net basis	-	-
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	-	4.717
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	7.378	6.414
other costs	20.643	52.416
Total other operating expenses	<u>1.090.320</u>	<u>1.108.210</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

17. INCOME TAX

A. Expenses/(income) for current and deferred tax

	In thousands of Denars current year 2012	previous year 2011
Current income tax		
Expenses/(income) for current income tax for the year	4.322	2.065
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	<u>4.322</u>	<u>2.065</u>
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	15.504
	<u>-</u>	<u>15.504</u>
Total expenses/(return) on income tax	<u>4.322</u>	<u>17.569</u>

	In thousands of Denars current year 2012	previous year 2011
Current income tax		
Recognized in income statement	4.322	2.065
Recognized in capital and reserves	-	-
	<u>4.322</u>	<u>2.065</u>
Deferred income tax		
Recognized in income statement	-	15.504
Recognized in capital and reserves	-	-
	<u>-</u>	<u>15.504</u>
Total expenses/(return) on income tax	<u>4.322</u>	<u>17.569</u>

In accordance with amendments to income tax implemented on fiscal 2012, the realized profit, after taxation of certain expenses that are not tax recognized, is not taxable in full if it is not intended for paying dividends and other distributions from the profit in cash or non-cash that are taxable at the time of their disbursement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

17. INCOME TAX (continued)

A. Expenses/(income) for current and deferred tax

For the fiscal 2012 and 2011, the Bank used the right to full exemption from paying income tax based on undistributed profit realized for the current year.

B. Reconciliation between average effective tax rate and applicable tax rate

	in %	In thousands of Denars	in%	In thousands of Denars
	current year 2012		previous year 2011	
Profit/(loss) before taxation	100,00	799.801	100,00	647.314
Income tax as per applicable tax rate	10,00	79.980	10,00	64.731
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0,65	5.211	1,11	7.167
Tax-exempt income	-	-	-	-
Tax exemption unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-	(0,79)	(5.102)
Changes in deferred tax	-	-	2,40	15.504
Other	(10,11)	(80.869)	(10,00)	(64.731)
Total expenses/(return) on income tax	0,54	4.322	2,71	17.569
Average effective tax rate	0,54		2,71	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

17. INCOME TAX (continued)

B Income tax from other gains / (losses) in periods not shown in the Income Statement

	In thousands of Denars					
	Current year, 2012			Previous year, 2011		
	Before taxation	Expenditure/ return of income tax	Less Income tax	Before taxation	Expenditure/ return of income tax	Less Income tax
Revaluation reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against the cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk of net investments in foreign operations	-	-	-	-	-	-
Reserve of foreign exchange differences from investments in foreign operations	-	-	-	-	-	-
Share in other gains / (losses) of affiliates companies that are not shown in the Income Statement	-	-	-	-	-	-
Other gains / (losses) not shown in the Income Statement	-	-	-	-	-	-
Total other gains / (losses) in the period that are not shown in the Income Statement	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

18. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	current year 2012	previous year 2011
Cash on hand	1.108.956	1.350.340
Accounts and deposits with NBRM, besides mandatory FC deposits	4.691.236	4.247.173
Current accounts and transaction deposits with foreign banks	1.635.732	518.404
Current accounts and transaction deposits with local banks	1.047	1.892
T-bills that may be traded in the secondary market	8.106.267	6.937.341
Government bills that may be traded in the secondary market	4.323.977	1.849.883
Time deposits up to 3 months	1.361.048	3.900.472
Other short-term highly liquid assets	266	392
Receivables based on interest	2.354	6.990
(Value adjustment)	(1.231)	(26.046)
Included in cash and cash equivalents for the needs of the Statement on cash flows	21.229.652	18.786.841
Mandatory FC deposits	2.676.801	2.876.367
Restricted deposits	30.977	6.608
(Value adjustment)	-	-
Total	23.937.430	21.669.816

	In thousands of Denars	
	current year 2012	previous year 2011
Movements in value adjustment		
As at January 1	26.046	-
Value adjustment for the year		
Additional value adjustment	1.231	26.046
(Release of value adjustment)	-	-
Discount effects	-	-
(Written off receivables)	(26.046)	-
As at December 31	1.231	26.046

18. Level of mandatory deposits in foreign currency is determined in the amount of 2,676,801 thousand of Denars (2011: 2.876.367 thousand of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with NBRM. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies are calculated interest amount of 0.1% per annum (2011: 0.1% per annum)

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19. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 4,691,236 thousand of Denars (2011: 4,247,173 thousand of Denars), represent mandatory reserve in Denars. The mandatory reserves in Denars bear an interest at a rate of 1% p.a. (2011: 2% p.a.).

Treasury bills that can be traded at the secondary market in the amount of 8,106,267 thousand of Denars (2011: 6,937,341 thousand of Denars) have been purchased from NBRM with maturity period of 28 days. Depending on maturity, interest rates on these bills are 3.75% (2011: 4.00%).

Government bills that can be traded at the secondary market in amount of 4,323,977 thousands of Denars (2011: 1,849,883 thousands of Denars) have been purchased from the Ministry of Finance of the Republic of Macedonia with a maturity in the following three months. Depending on maturity, interest rates range from 4.00% to 4.20% (2011: 4.20 to 4.30 p.a.).

19. TRADING ASSETS

A Structure of trading assets by type of financial instrument

	In thousands of Denars	
	current year 2012	previous year 2011
<i>Trading securities</i>		
<i>Debt securities for trading</i>		
T-bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	23.161	31.473
Corporate bonds	-	-
Other debt instruments	-	-
	<u>23.161</u>	<u>31.473</u>
Quoted	23.161	31.473
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	157.890	110.355
Other equity instruments	-	-
	<u>157.890</u>	<u>110.355</u>
Quoted	157.890	110.355
Unquoted	-	-
<i>Trading derivatives</i>	-	-
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	-
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IAS 39 criteria	-	-
	<u>-</u>	<u>-</u>
Total trading assets	<u>181.051</u>	<u>141.828</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

20. TRADING ASSETS (continued)

B. Reclassified trading assets

B.1 Balance of the reclassified trading assets

	Reclassified amount (on the date of reclassificati on)	In thousands of Denars			
		Current year, 2012		Previous year, 2011	
		Book amount on 31.12.2012	Fair value on 31.12.2012	Book amount on 31.12.2012	Fair value on 31.12.2012
Trading assets, reclassified in 2012 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2011 (previous year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-
	-	-	-	-	-

The Bank trades in trading securities in order to generate profit from the short-term fluctuations in their stock price. The Bank is not able to exert significant influence over the companies in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these companies.

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NOTES TO THE FINANCIAL STATEMENTS
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19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.2 Profit and loss from reclassified trading assets

	In thousands of Denars					
	Reclassified in 2012 (Current year)		Reclassified in 2011 (previous year)			
	Income Statement 2012 (Current year)	Other profit /(loss) 2012 (Current year)	Income Statement 2012 (Current year)	Other profit /(loss) 2012 (Current year)	Income Statement 2012 (Current year)	Other profit /(loss) 2012 (Current year)
Period before reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and claims from banks	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and claims from other customers	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Period after reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
- changes in the fair value on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and claims from banks						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and claims from other customers						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.3 Profit or loss recognized in the Income Statement if assets have not been reclassified

	In thousands of Denars		
	Reclassified in 2012 (Current year)	Reclassified in 2011 (previous year)	
	Income Statement 2012 (Current year)	Income Statement 2012 (Current year)	Income Statement 2011 (Current year)
Trading assets, reclassified in financial assets available-for-sale			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and claims from banks			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and claims from other customers			
- Net income from trading	-	-	-

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE INCOME STATEMENT, DETERMINED AS SUCH AT INITIAL RECOGNITION

	In thousands of Denars	
	current year 2012	previous year 2011
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
Total financial assets at fair value through the income statement determined as such at initial recognition	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	current year 2012		In thousands of Denars previous year 2011	
	derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
A. Derivatives for protection against risk/ Derivatives held for risk management				
A.1 <i>by type of variable</i>				
Derivatives held for risk management				
Agreements dependant on exchange rate change	-	-	-	-
Agreements dependant on changes in price of securities	-	-	-	-
Other agreements that meet the IAS 39 criteria	-	-	-	-
Total derivatives held for risk management	-	-	-	-
A.2 <i>by type of protection against risk</i>				
Protection against risk to cash flows	-	-	-	-
Protection against risk to net investment in international operations	-	-	-	-
Total derivatives held for risk management	-	-	-	-
B. Inherent derivatives				
Agreements dependant on exchange rate change	-	-	-	-
Agreements dependant on changes in price of securities	-	-	-	-
Other agreements that meet the IAS 39 criteria	-	-	-	-
Total inherent derivatives	-	-	-	-
Total derivatives held for risk management	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

22. LOANS AND PLACEMENTS

22.1 PLACEMENTS WITH AND LOANS TO BANKS

	current year 2012		In thousands of Denars previous year 2011	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	205	-	205	-
foreign banks	82.374	-	82.603	-
Time deposits at maturity period of				
over 3 months				
domestic banks	-	-	-	-
foreign banks	140.718	-	-	-
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	96.215	-	63.575
Receivables based on interests	302	-	609	-
Current maturity	-	-	-	-
Total placements with and loans to banks before value adjustment	223.599	96.215	83.417	63.575
(Value adjustment)	(23.519)	-	(23.712)	-
Total placements with and loans to banks less value adjustment	200.080	96.215	59.705	63.575

	In thousands of Denars	
	current year 2012	previous year 2011
Movements in value adjustment		
As at January 1	23.712	23.805
Value adjustment for the year		
additional value adjustment	368	-
(release of value adjustment)	(175)	-
Discount effects	-	-
(Written off receivables)	(386)	(93)
As at December 31	23.519	23.712

Part of loans and advances with banks amounting to 73,548 thousand of Denars (2011: 73,269 thousand of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002.(Note 34.1).

Part of facilities with foreign banks are as well the restricted accounts totalling 96,215 thousand of Denars (2011: 63,575 thousand of Denars), which represent deposits with Barclays' Bank, London, Great Britain, as collateral for VISA credit card transactions. These funds are not available in Bank's daily operations.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS

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

	current year 2012		In thousands of Denars previous year 2011	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	10.374.158	10.364.640	9.049.266	10.901.365
interest receivables	86.689	-	95.227	-
Government				
receivables upon principal	4.780	501	7.618	6.236
interest receivables	92	-	78	-
Non-profit institutions that serve households				
receivables upon principal	1.741	11.693	442	12.713
interest receivables	66	-	93	-
Financial companies, besides banks				
receivables upon principal	-	-	-	-
interest receivables	-	-	-	-
Households				
receivables upon principal				
housing loans	215.345	7.470.474	175.722	7.075.181
consumer loans	828.449	9.694.814	692.835	8.635.401
auto loans	72.888	801.257	78.810	1.207.996
mortgage loans	-	-	-	-
credit cards	836.563	8.137.334	821.971	8.175.053
other loans	135.280	1.463.762	139.230	1.325.890
interest receivables	113.265	-	90.674	-
Non-residents, besides banks				
receivables upon principal	1	-	19	-
interest receivables	-	-	-	-
Current maturity	5.329.411	(5.329.411)	5.147.501	(5.147.501)
Total placements with and loans to customers before value adjustment	17.998.728	32.615.064	16.299.486	32.192.334
(Value adjustment)	(136,909)	(4.879.037)	(133.400)	(4.132.750)
Total placements with and loans to customers less value adjustment	17.861.819	27.736.027	16.166.086	28.059.584

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

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

	In thousands of Denars current year 2012	previous year 2011
	<u> </u>	<u> </u>
Value adjustment movement on a separate basis		
As at 1 January	4.135.388	3.908.870
Value adjustment for the year		
additional value adjustment	1.350.226	1.176.988
(release of value adjustment)	(304.596)	(462.350)
Exchange rate gains/losses effects	-	-
(Written off receivables)	<u>(267.406)</u>	<u>(488.120)</u>
As at 31 December	<u>4.913.612</u>	<u>4.135.388</u>
Value adjustment movement on a group basis		
As at 1 January	130.762	142.788
Value adjustment for the year		
additional value adjustment	18.370	23.080
(release of value adjustment)	(46.798)	(35.106)
Exchange rate gains/losses effects	-	-
(Written off receivables)	<u>-</u>	<u>-</u>
As at 31 December	<u>102.334</u>	<u>130.762</u>
Total value adjustment for placements with and loans to customers	<u>5.015.946</u>	<u>4.266.150</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

B. Structure of placements with and loans to customers by type of security

	In thousands of Denars	
	current year 2012	previous year 2011
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	997.396	644.822
government securities	3.449	3.179
government unconditional guarantees	1.784.650	1.362.359
bank guarantees	162.723	143.126
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	281.299	511.850
Guarantees from individuals	-	-
Mortgage on property:		
private property (flats, houses)	10.758.104	10.507.558
commercial property	8.511.339	9.509.291
Pledge over movables	2.367.198	2.349.684
Other types of security	1.086.837	1.682.456
Unsecured	19.644.851	17.511.345
Total placements with and loans to customers less value adjustment	<u>45.597.846</u>	<u>44.225.670</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

Risks and uncertainties

The Management of the Bank has recorded provisions for impairment losses for all known and estimated risks as of the date of the financial statements. The Bank's portfolio contains a number of debtors whose ability to service and repay their debts has been influenced by the economic developments in the Republic of Macedonia. The portfolio also contains a number of debtors that are involved in restructuring processes that are expected to lead to either partial or complete recovery of the Bank's receivables. The receivables from such debtors were classified on the bases of the latest available information and expectations of the restructuring process effects.

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment and in the case of retail services the loans collateralization depends on the type of loan product. Depending on the classification of loans, the Management is placing maximal efforts for prompt realization of the collateral. In case this proves to be unsuccessful, it will be needed to make additional provisions for impairment losses in future.

The Bank's operation could be influenced by the financial trends in case of deterioration of the overall global and local economic environment. In 2011 and 2012, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems given the fact that it undertook measures of strengthening its capital base by retaining the income.

The Management of the Bank has adequately reacted to any developments on the market and the entire economy. Some of the undertaken measures are: limiting the long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening the monitoring of large customers and industrial sectors to which the Bank is mostly exposed, providing appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial market, whereat it is possible to have increase the collateral limits. The aforementioned is focusing on protection and development of the current and future customer/borrower/depositor base heading to achievement of the Bank's goals and objectives for 2012 and beyond.

Presently, the influence of the adverse economic trends at the global level and in the country has limited impact on the Bank's operations; however, the future unfavourable developments in certain industries may influence the customer's ability to service their liabilities, which may consequently impact the level of impairment of loans. Based on the aforementioned, any additional impairment, if any, cannot be determined at this stage with rational accuracy.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

23. INVESTMENTS IN SECURITIES

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE

A. Structure of investments in financial assets available-for-sale by type of financial instrument

	In thousands of Denars	
	Current year 2012	Previous year 2011
	<u>2012</u>	<u>2011</u>
<i>Debt securities</i>		
T-bills	-	-
Government bills	2.049.620	-
Other instruments in the money market	-	-
Government bonds	51.307	-
Corporate bonds	-	-
Other debt instruments	-	-
	<u>2.100.927</u>	<u>-</u>
Quoted	-	-
Unquoted	2.100.927	-
<i>Equity instruments</i>		
Equity instruments issued by banks	3.476	3.476
Other equity instruments	372.226	384.773
	<u>375.702</u>	<u>388.249</u>
Quoted	67.934	57.973
Unquoted	307.768	330.276
<i>Total investment in financial instruments available for sale before impairment</i>	2.476.629	388.249
<i>(Impairment)</i>	<u>(283.361)</u>	<u>(294.265)</u>
<i>Total investment in financial instruments available for sale reduced by the impairment</i>	<u>2.193.268</u>	<u>93.984</u>
	Current year 2012	Previous year 2011
	<u>2012</u>	<u>2011</u>
Movements in impairment		
Balance on January 1	294.265	289.558
Impairment for the year:		
additional impairment	-	2.186
(release of the impairment)	-	-
Exchange rate gains/losses effects	(10.904)	2.521
(Written off receivables)	-	-
	<u>-</u>	<u>-</u>
Balance on December 31	<u>283.361</u>	<u>294.265</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

23. INVESTMENTS IN SECURITIES(continued)

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

B. Reclassified financial assets available-for-sale

B.1 Balance of the reclassified financial assets available-for-sale

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year 2012		Previous year 2011	
		Book value on 31.12.2012	Fair value on 31.12.2012	Book value on 31.12.2012	Fair value on 31.12.2012
Assets available-for-sale reclassified in 2012 (current year) in:					
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2011 (previous year) in:					
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-

B.2 Profit and loss from reclassified assets available-for-sale

	In thousands of Denars			
	Income Statement 2012	Other profit /(loss) 2012	Income Statement 2012	Other profit /(loss) 2012
Period before reclassification				
Assets available-for-sale reclassified in loans and claims from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available-for-sale reclassified in loans and claims from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Period after reclassification				
Assets available-for-sale reclassified in loans and claims from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and claims from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

23. INVESTMENT IN SECURITIES (continued)

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE (continued)

B. Reclassified financial assets available-for-sale (continued)

B.3 Profit or loss that would have been recognized if assets were not reclassified

Denars	In thousands of			
	Income Statement 2012 (current year)	Other profit /(loss) 2012	Income Statement 2011 (previous year))	Other profit /(loss) 2011
Assets available-for-sale reclassified in loans and claims from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-
Assets available-for-sale reclassified in loans and claims from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

23. INVESTMENT IN SECURITIES (continued)

23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES

	In thousands of Denars	
	Current year 2012	Previous year 2011
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	1.201.478	1.741.696
Corporate bonds	-	-
Other debt instruments	-	-
	1.201.478	1.741.696
Quoted	1.201.478	1.741.696
Unquoted	-	-
	1.201.478	1.741.696
Total investment in financial instruments hold to maturity prior to impairment	1.201.478	1.741.696
(Impairment)	-	-
	1.201.478	1.741.696
Total investment in financial instruments hold to maturity reduced by the impairment	1.201.478	1.741.696
	1.201.478	1.741.696
	In thousands of Denars	
	Current year 2012	Previous year 2011
Movements in impairment		
Balance on January 1	-	-
Impairment for the year:		
additional impairment	-	-
(release of the impairment)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	-	-
Balance on December 31	-	-

Part of the government bonds in amount of MKD 1,191,204 thousand (2011: MKD 1.726.969 thousand) are bonds issued by the Republic of Macedonia in exchange for the Bank's receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables from end beneficiaries by the Republic of Macedonia in the Bank. These bonds bear an interest rate of three month EURIBOR plus 1 p.p. and are repayable in 56 equal quarterly instalments commencing from 2001 to 2014.

The remnant part of the government bonds amounting to MKD 10,274 thousand (2011: MKD 14,727 thousand) are bonds from old foreign exchange savings deposits issued by the Republic of Macedonia in February 2004 and March 2005. These bonds are with fix interest rate of 2% per annum and are collectable in annual amounts starting with June 2006 to June 2014, i.e. until June 2015.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

24. INVESTMENT IN AFFILIATED ENTITIES

A. Bank's participation percentage in subsidiaries and affiliated entities

Name of subsidiaries and affiliated entities	Country	Share percentage in ownership		Percentage of voting share	
		Current year 2012	Previous year 2011	Current year 2012	Previous year 2011
-	-	-	-	-	-

B. Financial data on affiliated companies – 100 %

Name of affiliated entities	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the fin. year
Current year 2012	-	-	-	-	-
Previous year 2011	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

25. OTHER RECEIVABLES

	In thousands of Denars	
	Current year	Previous year
	2012	2011
Receivables on buyers	91,035	99,655
Costs paid in advance	30,732	49,239
Calculated deferred income	-	-
Receivables upon fees and commissions	46,458	46,235
Receivables on employees	128	-
Advances for intangible assets	-	-
Advances for real estate and equipment	408	2,086
Other:		
Materials in stocks	13,751	12,175
Numismatic collections	9,738	9,361
Arka sub-branch (judicial process)	11,500	11,500
Receivables for disbursements to foreign VISA cards	79,463	47,936
Other	8,242	9,083
Total other receivables prior to impairment	291,455	287,270
(Impairment)	(77,090)	(63,539)
Total other receivables reduced for the impairment	214,365	223,731

	In thousands of Denars	
	Current year	Previous year
	2012	2011
Movements in impairment		
Balance on January 1	63,539	52,346
Impairment for the year:		
additional impairment	26,448	37,611
(release of the impairment)	(5,988)	(24,924)
Exchange rate gains/losses effects	-	-
(Written off receivables)	(6,909)	(1,494)
Balance on December 31	77,090	63,539

26. COLLATERALIZED ASSETS

	In thousands of Denars	
	Current year	Previous year
	2012	2011
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and apartments	Other valuables	Total
Purchase value						
Balance on 1 st January 2011	6.345	903.966	46.965	198.118	2.720	1.158.114
Assets acquired during the year	2.460	90.255	367	6.745	-	99.827
Sold during the year	-	(88.059)	(12.412)	(27.108)	(1.162)	(128.741)
Transferred to own assets	-	-	-	-	-	-
Balance on 31st December 2011	8.805	906.162	34.920	177.755	1.558	1.129.200
Balance on 1 st January 2012	8.805	906.162	34.920	177.755	1.558	1.129.200
Assets acquired during the year	-	1.506	39	4.260	-	5.805
Sold during the year	(2.460)	(16.710)	-	(4.512)	-	(23.682)
Transferred to own assets	-	(28.685)	-	-	-	(28.685)
Balance on 31st December 2012	6.345	862.273	34.959	177.503	1.558	1.082.638
Impairment						
Balance on 1 st January 2011	3.390	211.895	32.528	71.091	1.221	320.125
Impairment loss during the year	110	4.568	440	982	-	6.100
Transferred to own assets	-	-	-	-	-	-
Balance on 31st December 2011	3.500	216.463	32.968	72.073	1.221	326.225
Balance on 1 st January 2012	3.500	216.463	32.968	72.073	1.221	326.225
Impairment loss during the year	525	56.139	387	16.933	67	74.051
Transferred to own assets	-	(3.854)	-	-	-	(3.854)
Balance on 31st December 2012	4.025	268.748	33.355	89.006	1.288	396.422
Current carrying amount						
Balance on 1 st January 2011	2.955	692.071	14.437	127.027	1.499	837.989
Balance on 31st December 2011	5.305	689.699	1.952	105.682	337	802.975
Balance on 31st December 2012	2.320	593.525	1.604	88.497	270	686.216

Assets acquired on the basis of outstanding claims consist of assets that are not used in the regular operations of the Bank, except in rare cases when the Bank uses them for its own activities. During 2012, the Bank recorded impairment losses on these assets in the total amount of MKD 74,051 thousand (2011: MKD 6,100 thousand).

During 2012, the Bank hired two (2011: two) external appraisal companies that assessed the overall foreclosed assets to determine their fair value.

During this period, the Bank sold 14 assets (2011: 34 funds) totaling MKD 23,682 thousand (2011: MKD 128,741 thousand), and took over two objects (2011: 5 buildings) value totaling MKD 5,766 thousand (2011: MKD 97,000 thousand). Activities are undertaken for the preparation for sale of the assets taken over in 2012 because the Bank's general policy is these facilities to be sold within a period of 3 years.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

28. INTANGIBLE ASSETS

A. Reconciliation of the current book value

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets	Total
Purchase value							
Balance at 1 January 2011	-	516.136	-	-	12.863	-	528.999
increases through new purchases	-	25.090	-	-	(4.772)	-	20.318
increases through internal development	-	-	-	-	-	-	-
increases through business combinations (Disposals)	-	-	-	-	-	-	-
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2011	-	541.226	-	-	8.091	-	549.317
Balance at 1 January 2012	-	541.226	-	-	8.091	-	549.317
increases through new purchases	-	17.085	-	-	1.753	-	18.838
increases through internal development	-	-	-	-	-	-	-
increases through business combinations (Disposals)	-	(15)	-	-	-	-	(15)
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2012	-	558.296	-	-	9.844	-	568.140
Depreciation and impairment							
Balance at 1 January 2011	-	404.006	-	-	-	-	404.006
Depreciation for the year	-	38.661	-	-	-	-	38.661
Impairment loss during the year (release of the impairment loss during the year)	-	-	-	-	-	-	-
(Disposals)	-	-	-	-	-	-	-
Balance at 31 December 2011	-	442.667	-	-	-	-	442.667
Balance at 1 January 2012	-	442.667	-	-	-	-	442.667
Depreciation for the year	-	40.435	-	-	-	-	40.435
Impairment loss during the year (release of the impairment loss during the year)	-	-	-	-	-	-	-
(Disposals)	-	(15)	-	-	-	-	(15)
Balance at 31 December 2012	-	483.087	-	-	-	-	483.087
Current book value at January 1, 2011	-	112.130	-	-	12.863	-	124.993
December 31, 2011	-	98.559	-	-	8.091	-	106.650
December 31, 2012	-	75.209	-	-	9.844	-	85.053

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

28. INTANGIBLE ASSETS (continued)

B. Carrying value of intangible assets where there is a limitations of ownership and / or pledged as security for the liabilities to the bank

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investment s in leased intangible assets	Total
Current book value at December 31, 2011	-	-	-	-	-	-	-
December 31, 2012	-	-	-	-	-	-	-

On December 31, 2012 and 2011, the Bank has no intangible assets for which there is limitations of ownership and / or pledged as security for the liabilities to the Bank.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

29. REAL ESTATE AND EQUIPMENT

A. Reconciliation of the present carrying amount

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
Purchase value									
On 1 January 2011	-	1.160.722	23.934	1.214.176	77.073	57.759	28.458	120.944	2.683.066
Increases	-	10.507	6	35.235	-	-	634	6.513	52.895
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(5.262)	-	(64.718)	(728)	-	-	-	(70.708)
(entering through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(9.882)	-	10.129	-	-	(14.229)	4.169	(9.813)
On December 31, 2011	-	1.156.085	23.940	1.194.822	76.345	57.759	14.863	131.626	2.655.440
On 1 January 2011	-	1.156.085	23.940	1.194.822	76.345	57.759	14.863	131.626	2.655.440
Increases	-	3.890	-	13.852	808	-	14.122	3.466	36.138
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(81.986)	(8.360)	-	-	-	(90.346)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	25.569	-	-	-	-	-	-	25.569
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-	-
On December 31, 2012	-	1.185.544	23.940	1.126.688	68.793	57.759	28.985	135.092	2.626.801
Depreciation and impairment									
On 1 January 2011	-	400.103	21.261	1.002.308	56.379	17.280	-	66.910	1.564.241
Depreciation for the year	-	27.968	1.376	97.403	2.170	1.444	-	18.840	149.201
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(1.731)	-	(65.380)	-	-	-	-	(67.111)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(10.592)	3	710	-	-	-	-	(9.879)
On December 31, 2011	-	415.748	22.640	1.035.041	58.549	18.724	-	85.750	1.636.452
On 1 January 2011	-	415.748	22.640	1.035.041	58.549	18.724	-	85.750	1.636.452
Depreciation for the year	-	29.502	1.245	75.373	3.322	1.444	-	17.078	127.964
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(80.439)	(8.360)	-	-	-	(88.799)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(1.445)	-	-	-	-	-	-	(1.445)
On December 31, 2012	-	443.805	23.885	1.029.975	53.511	20.168	-	102.828	1.674.172
Current carrying amount									
On January 1, 2011	-	760.619	2.673	211.868	20.694	40.479	28.458	54.034	1.118.825
On December 31, 2011	-	740.337	1.300	159.781	17.796	39.035	14.863	45.876	1.018.988
On December 31, 2012	-	741.739	55	96.713	15.282	37.591	28.985	32.264	952.629

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

29. REAL ESTATE AND EQUIPMENT (continued)

B. Carrying amount of tangible assets for which there is a limit on ownership and / or pledged as security for the liabilities to the bank

	In thousands of Denars							Total
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	
Current carrying amount								
On December 31, 2011	-	-	-	-	-	-	-	-
On December 31, 2012	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2012 includes assets with a net book value of MKD 128,061 thousand (2011: MKD 107,485 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

30.1 Current tax assets and current tax liabilities

	In thousands of Denars	
	Current year 2012	Previous year 2011
Income tax receivable (current)	4.884	7.536
Income tax payable (current)	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities

A. Recognized deferred tax assets and deferred tax liabilities

	31 December 2012			31 December 2011		
	Deferred tax assets	Deferred tax liabilities	On net basis	Deferred tax assets	Deferred tax liabilities	On net basis
Derivative assets held for risk management	-	-	-	-	-	-
Loans to and receivables on banks	-	-	-	-	-	-
Loans to and receivables on other. customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Real estate and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the income statement	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Hedging of cash flows	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the capital	-	-	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-	-	-

B. Unrecognized deferred tax assets

	In thousands of Denars	
	Curent year 2012	Previous year 2011
Tax losses	-	-
Tax loans	-	-
Total unrecognized deferred tax assets	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities (continued)

C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in capital	Balance at December 31
31 December 2011				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	15.504	(15.504)	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax loans	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Hedging for cash flow	-	-	-	-
Total recognized deferred tax assets/(liabilities)	15.504	(15.504)	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES (continued)

30.2 Deferred tax assets and deferred tax liabilities (continued)

C. Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year (continued)

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in capital	Balance at December 31
31 December 2012				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax loans	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Hedging for cash flow	-	-	-	-
Total recognized deferred tax assets/(liabilities)	-	-	-	-

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

A. Non-current assets held for sale

	In thousands of Denars	
	Current year 2012	Previous year 2011
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

B. Group for disposal (sale)

	In thousands of Denars	
	Curent year 2012	Previous year 2011
<i>Group of assets for sale</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in affiliates	-	-
Income tax receivables	-	-
Other assets	-	-
Total group of assets for sale	-	-
<i>Liabilities directly related to the group of assets for sale</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
Total liabilities directly related to the group of assets for sale	-	-

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

	In thousands of Denars	
	Curent year 2012	Previous year 2011
Profit/(loss) recognized from sale of held for sale assets and group for disposal(sale)	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

32. TRADING LIABILITIES

	In thousands of Denars	
	Curent year 2012	Previous year 2011
	<u> </u>	<u> </u>
<i>Deposits from banks</i>		
Current accounts, sight deposits and overnight deposits	-	-
Term-deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Deposits from other clients</i>		
Current accounts, sight deposits and overnight deposits	-	-
Term deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Certificates of deposit	-	-
Issued bonds	-	-
Other	-	-
	<u> </u>	<u> </u>
	-	-
<i>Other financial liabilities</i>	-	-
<i>Derivatives for trading</i>		
Agreements depending on the change of interest rate	-	-
Agreements depending on changes in the exchange rate	-	-
Agreements depending on the change of the price of securities	-	-
Other agreements that meet the criteria of IAS 39	-	-
	<u> </u>	<u> </u>
	-	-
Total liabilities held for trading	<u> </u>	<u> </u>
	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

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

	In thousands of Denars			
	Curent year 2012		Previous year 2011	
	Present carrying amount	Agreed amount, payable at maturity	Present carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>				
	-	-	-	-
<i>Other liabilities</i>				
	-	-	-	-
Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

34. DEPOSITS

34.1 DEPOSITS FROM BANKS

	In thousands of Denars			
	Curent year 2012		Previous year 2011	
	<u>short-term</u>	<u>long-term</u>	<u>short-term</u>	<u>long-term</u>
Current accounts				
with domestic banks	7.437	-	22.478	-
with foreign banks	43.977	-	50.214	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	139.953	-	-	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	73.548	-	73.480	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Liabilities on the basis of deposit interest				
with domestic banks	-	-	-	-
with foreign banks	47	-	-	-
Current maturity	-	-	-	-
Total deposits from banks	<u>264.962</u>	-	<u>146.172</u>	-

The restricted deposits with foreign banks in the amount of MKD 73,548 thousand (2011: MKD 73,480 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

34. DEPOSITS (continued)

34.2 DEPOSITS FROM OTHER CLIENTS

	In thousands of Denars			
	Curent year 2012		Previous year 2011	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	5.165.196	-	4.795.199	-
Demand deposits	48.070	-	36.754	-
Time deposits	3.320.660	727.398	3.259.184	672.810
Restricted deposits	171.300	485.142	202.200	365.181
Other deposits	29.430	-	44.325	-
Liabilities on the basis of deposit interest	50.548	-	64.813	-
	<u>8.785.204</u>	<u>1.212.540</u>	<u>8.402.475</u>	<u>1.037.991</u>
State				
Current accounts	128.737	-	37.834	-
Demand deposits	-	-	-	-
Time deposits	64.100	-	12.100	-
Restricted deposits	652	-	748	-
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	979	-	80	-
	<u>194.468</u>	<u>-</u>	<u>50.762</u>	<u>-</u>
Non-profit institutions serving the households				
Current accounts	371.097	-	373.502	-
Demand deposits	14	-	13	-
Time deposits	387.186	12.711	220.065	21.430
Restricted deposits	6.281	10.572	11.230	10.914
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	3.870	-	4.541	-
	<u>768.448</u>	<u>23.283</u>	<u>609.351</u>	<u>32.344</u>
Financial companies, except banks				
Current accounts	49.210	-	80.558	-
Demand deposits	-	-	-	-
Time deposits	616.680	316.734	681.943	271.737
Restricted deposits	288	53	1	-
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	8.828	-	9.003	-
	<u>675.006</u>	<u>316.787</u>	<u>771.505</u>	<u>271.737</u>
Households				
Current accounts	9.534.071	-	10.019.278	-
Demand deposits	32.610	-	12.330	-
Time deposits	25.018.103	10.091.369	26.300.507	7.205.267
Restricted deposits	606.961	1.108.558	710.440	537.677
Other deposits	-	-	-	-
Payables based on interest under deposits	80.718	-	86.134	-
	<u>35.272.463</u>	<u>11.199.927</u>	<u>37.128.689</u>	<u>7.742.944</u>
Non-residents, except banks				
Current accounts	232.802	-	280.098	-
Demand deposits	2	-	-	-
Time deposits	359.195	137.475	235.619	62.978
Restricted deposits	49.458	27.517	72.842	1.394
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	964	-	887	-
	<u>642.421</u>	<u>164.992</u>	<u>589.446</u>	<u>64.372</u>
Current maturity	<u>6.494.371</u>	<u>(6.494.371)</u>	<u>3.779.350</u>	<u>(3.779.350)</u>
Total deposits from other clients	<u>52.832.381</u>	<u>6.423.158</u>	<u>51.331.578</u>	<u>5.370.038</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	Curent year 2012	Previous year 2011
	<u> </u>	<u> </u>
Money market instruments	-	-
certificates for deposit	-	-
Issued bonds	-	-
Other	-	-
Liabilities on the basis of interest on issued securities	<u> </u>	<u> </u>
Total issued debt securities	<u> </u> <u> </u>	<u> </u> <u> </u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

36. LOANS PAYABLE

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

	Current year 2012		In thousands of Denars Current year 2011	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	828.453	-	624.227
Repo-transactions	-	-	-	-
Liabilities based on interest	1.717	-	1.311	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Government				
Loans payable	15.689	165.121	26.690	172.984
Repo-transactions	-	-	-	-
Liabilities based on interest	1.288	-	1.284	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	1.500.000	-	-	-
Liabilities based on interest	622	-	48	-
Non-residents, except banks				
Non-financial companies				
Loans payable	-	5.957	-	5.957
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Government				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Government				
Households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Current maturity	228.143	(228.143)	164.792	(164.792)
Total loans payable	1.747.459	771.388	194.125	638.376

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

LOANS PAYABLE (continued)

B. Loans payable according to the creditor

	In thousands of Denars			
	Current year 2012		Current year 2011	
	short-term	long-term	short-term	long-term
<i>Domestic sources:</i>				
Asset Management Agency - long-term loans amounting to MKD 149.399 thousand MKD (2011: MKD 149.399 thousand) matures and is payable in January 2020 on one-off basis. Related fees for these loans are 1.5% per annum	1.132	149.399	1.130	149.399
Agency for underdeveloped regions – matures in 2011 and the interest rate is equal to 3.9% per annum (2010: 3.9% p.a.)	15.689	-	26.690	-
Macedonian Bank for Development Promotion – with maturity deadline in 2019 and interest rate of 1.0% at annual level (2011: 1 %.)	1.717	813.618	1.311	599.032
National Bank of RM – maturities in 2013 and interest rate of 3.73% per annum	1.500.622	-	-	-
	1.519.160	963.017	29.131	748.431
<i>Foreign sources:</i>				
Council of Europe Social Development Fund - matures in 2014 and bears fixed interest rate of 6.73% per annum	106	15.722	154	23.585
ICDF Taiwan - to be repaid in 20 equal semi-annual instalments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% per annum.	50	14.835	48	25.195
Other banks	-	5.957	-	5.957
	156	36.514	202	54.737
Curent maturities	228.143	(228.143)	164.792	(164.792)
Total loans payable	1.747.459	771.388	194.125	638.376

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

37. SUBORDINATED DEBT

	<u>Maturity</u>	<u>Interest rate</u>	<u>In thousands of Denars</u>	
			<u>current year 2012</u>	<u>previous year 2011</u>
<i>Liabilities under subordinated deposits</i>				
Liabilities under principal			-	-
Liabilities based on interest			-	-
<i>Liabilities under subordinated loans</i>				
NBG Athens, Greece (principal EUR 20 million)	27.12.2016	3 month EURIBOR +0.85% p.a.	1.230.000	1.230.100
NBG Athens, Greece (principal EUR 25 million)	05.11.2018	3 month EURIBOR +3.7% p.a.	1.537.500	1.537.625
Liabilities based on interest			9.663	12.487
			<u>2.777.163</u>	<u>2.780.212</u>
<i>Liabilities under subordinated issued debt securities</i>				
Liabilities under principal			-	-
Liabilities based on interest			-	-
Redeemable preferred shares			-	-
Total subordinated debt			<u>2.777.163</u>	<u>2.780.212</u>

The received funds are aimed for strengthening the guarantee capital of the Bank, realization of the Bank's projected goals in accordance with the Business Plan of the Bank, increasing the competitive position and market share of the Bank, its profitability as well as for increasing the Tier 2 two coefficient of the capital adequacy and other qualitative and quantitative indicators of the Bank.

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

38. SPECIAL RESERVE AND PROVISIONS

In thousands of Denars

	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuring	Provisions for unfavourable agreements	Other provisions	Total
Balance as at January 1, 2011	108.694	23.233	29.838	-	-	-	161.765
Additional provisions during the year (utilized provisions during the year)	62.112	2.547	2.947	-	-	-	67.606
(provisions recovery during the year)	-	(1.052)	(14.000)	-	-	-	(15.052)
	(55.534)	(5.467)	(495)	-	-	-	(61.496)
Balance at 31 December 2011	115.272	19.261	18.290	-	-	-	152.823
Balance as at January 1, 2012	115.272	19.261	18.290	-	-	-	152.823
additional provisions during the year	23.931	414	2.363	-	-	-	26.708
(utilized provisions during the year)	-	(2.829)	(214)	-	-	-	(3.043)
(provisions recovery during the year)	(35.195)	(1.907)	-	-	-	-	(37.102)
Balance as at 31 December 2012	104.008	14.939	20.439	-	-	-	139.386

The present value of provisions for pensions and other benefits to employees is determined by discounting the estimated future cash outflows.

The basic used actuarial assumptions are as following:

	<u>2012</u>	<u>2011</u>
Interest rate	5.00%	4.00%
Average salary increase	5.00%	5.00%
Inflation rate	2.50%	2.50%

Mortality rate:

By the study of mortality rates in the past years, we have established the representation of the expected rate of mortality in the Republic of Macedonia. We used a mortality table of Switzerland, which is a reasonable approximation of long-term mortality rate in the country.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

39. OTHER LIABILITIES

	In thousands of Denars	
	Current year 2012	Previous year 2011
Liabilities to suppliers	11.475	3.000
Received advance payments	-	-
Liabilities for fees and commissions	8	-
Calculated costs	113.904	93.022
Deferred income from previous year	20.680	19.052
Short-term liabilities to employees	-	-
Short-term liabilities for employees benefits	-	-
Other:		
Preferred cumulative shares	90.978	90.978
Liabilities for dividend on preferred shares	6.232	7.561
Disputed VISA cards transactions	8.577	9.093
Unallocated inflows upon deposits and other inflows	368.444	355.106
Premature repayment of loans and other liabilities	52.508	36.183
Total other liabilities	672.806	613.995

As at December 31, 2012 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of MKD 400.

The priority non-redeemable cumulative shares give right to priority in payment of dividends and no voting rights. Preferred shares do not participate equally in the distribution of the rest of the bankruptcy i.e. liquidation equity of the Bank.

On 31 December 2012, the Bank allocated an amount of MKD 5,231 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2012 (2011: MKD 6, 596 thousand).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

40. SUBSCRIBED CAPITAL

A. Subscribed capital

	In MKD		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Common shares	Non-redeemable preferred shares	Current year 2012	Previous year 2011	Current year 2012	Previous year 2011	Current year 2012	Previous year 2011
Balance as at 1 January – paid in full	201.1	400	17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
Balance as at 31 December – paid in full			<u>17,460,180</u>	<u>17,460,180</u>	<u>227,444</u>	<u>227,444</u>	<u>3,602,220</u>	<u>3,602,220</u>

B. Dividends

B.1 Announced dividends and paid dividends by the Bank

	In thousands of Denars	
	Current year 2012	Previous year 2011
Announced dividends and paid dividends for the year	<u>6,555</u>	<u>8,139</u>

Announced dividends and paid dividends for the year in the amount of MKD 6,555 thousand are allocated for the holders of the preferred shares of the net profit in 2011 (2011: MKD 8,139 thousand of net profit for 2010).

	In MKD	
	Current year 2012	Previous year 2011
Dividend per ordinary share	-	-
Dividend per preferred share	29,00	36,00

B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet)

	In thousands of Denars	
	Current year 2012	Previous year 2011
Announced dividends after 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

40. SUBSCRIBED CAPITAL (continued)

B. Dividend (continued)

B.1 Announced dividends after the Balance Sheet date (liabilities for dividends are not presented in the Balance Sheet) (continued)

	Current year 2012	In MKD Previous year 2011
Dividend per ordinary share	-	-
Dividend per preferred share	-	-

C. Shareholders whose stake exceeds 5% of the voting shares

The structure of shareholders whose stake exceeds 5% of the issued voting shares on December 31, 2012 and 2011 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

Shareholder	In thousands of Denars		In %	
	current year 2012	previous year 2011	current year 2012	previous year 2011
	Subscribed capital (nominal value)	Subscribed capital (nominal value)	Voting right	Voting right
National Bank of Greece	3.323.094	3.323.094	94,64%	94,64%
Other	188.148	188.148	5,36%	5,36%
Total	3.511.242	3.511.242	100,00%	100,00%

The share capital of the Bank as at December 31, 2012 consists of 17,460,180 fully paid up ordinary shares with a nominal value of MKD 201.1.

The holders of ordinary shares are entitled to dividends when it will be released and have the right to one vote in the Shareholders Assembly of the Bank for the equivalent of one ordinary share, as well as the right to participate equally in the distribution of the rest of the bankruptcy or liquidation equity of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012**40. SUBSCRIBED CAPITAL (continued)****Revaluation reserve for available-for-sale assets**

These revaluation reserves consist of unrealized gains and losses arising from changes in fair value of investment in securities available for sale until they are sold or it is determined that they are impaired, whereat the cumulative unrealized gain or loss previously recognized within the revaluation reserves are recognized in the net profit or loss for the period.

Statutory reserves

In accordance with the local regulations, the Bank is required to calculate and set aside at least 15% of the net profit for the year to statutory reserve until the level of the statutory reserve reaches an amount equal to one-fifth of the share capital. While the legal reserve shall not exceed the minimum amount it can only be used to cover losses. When the legal reserve exceeds the minimum level and after the recovery of all losses of annual financial statements, with the decision of the Shareholders Assembly, the excess can be used for distribution of dividend, if within that business year it had not reached the minimum amount prescribed by the Companies Act or of the Statute of the Bank.

Other reserves

Other reserves represent a fund that is determined on the basis of the Bank's internal policy and is used for various purposes, classified as restrictive.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

41. EARNINGS PER SHARE

A. Basic earnings per share

	In thousands of Denars	
	current	previous
	year	year
	2012	2011
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	795.479	629.745
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	795.479	629.745
	<u>795.479</u>	<u>629.745</u>
Net profit attributable to ordinary shareholders	<u>795.479</u>	<u>629.745</u>
	current	previous
	year	year
	2012	2011
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at 1 January	17.460.180	17.460.180
Effects of changes in the number of ordinary shares during the year	-	-
	<u>17.460.180</u>	<u>17.460.180</u>
Weighted average number of ordinary shares at 31 December	<u>17.460.180</u>	<u>17.460.180</u>
Basic earnings per share (MKD)	<u>45,56</u>	<u>36,07</u>

B. Diluted earnings per share

	In thousands of Denars	
	current	previous
	year	year
	2012	2011
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	795.479	629.745
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
	<u>795.479</u>	<u>629.745</u>
Net gains to which the holders of common shares are entitled (diluted)	<u>795.479</u>	<u>629.745</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

41. EARNINGS PER SHARE (continued)

B. Diluted earnings per share (continued)

	In thousands of Denars current year 2012	previous year 2011
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17.460.180	17.460.180
Effects from issuance of potential common shares	-	-
Weighted average number of common shares (diluted) on 31 December	17.460.180	17.460.180
Diluted earnings per share (in MKD)	45,56	36,07

42. COMMITMENTS AND CONTINGENCIES

42.1 COMMITMENTS

	In thousands of Denars current year 2012	previous year 2011
Payment uncovered guarantees		
in MKD	1.249.420	1.124.355
in foreign currency	486.492	566.280
in MKD with FC Clause	100.271	63.010
Performance uncovered guarantees		
in MKD	804.369	646.404
in foreign currency	215.160	212.040
in MKD with FC Clause	69.273	1.417.759
Uncovered letters of credit		
in MKD	-	-
in foreign currency	138.861	172.209
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1.278.211	1.245.769
Unutilized limits under credit cards	5.332.149	4.823.525
Taken liabilities for financing and unutilized credit limits	777.290	793.026
Other uncovered contingent liabilities	773	-
Issued covered letters of guarantee	301.040	382.597
Covered letters of credit	17.588	16.203
Other covered contingent liabilities	-	-
Total contingent liabilities before special reserve	10.770.897	11.463.177
(Special reserve)	(104.008)	(115.272)
Total contingent liabilities reduced by special reserve	10.666.889	11.347.905

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

42. COMMITMENTS AND CONTINGENCIES (continued)

42.1 COMMITMENTS (continued)

Bank's contingent liabilities consist of liabilities in respect of guarantees, letters of credit, and unused overdrafts on current accounts, unused limits on credit cards and unused credit limits granted to legal entities.

From the total potential liabilities on the basis of covered and uncovered guarantees issued with maturity up to one year in the amount of MKD 2,081,216 thousand (2011: MKD 3,608,850 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2011: 1 year). The unused overdrafts on current accounts are short-term overdrafts.

Contingent liabilities in respect of unused overdrafts on current accounts and unused limits on credit cards are unsecured and are revocable in the event of deterioration of the creditworthiness of the debtor. The interest rates on current accounts in 2012 ranged from 10.58% to 11.75%, and on credit cards by 9.40% to 11.75%.

Contingent liabilities of the Bank towards legal entities on the basis of guarantees and letters of credit are irrevocable, and unused credit limits granted to legal entities are subject to annual revision. Apart from the covered guarantees and letters of credit that are secured by deposit, the remaining uncovered guarantees and letters of credit, and unused credit limits granted to legal entities are secured by real estate mortgage, pledge on movable property, guarantees, etc.

Litigation

The Bank is involved in litigation from its regular operations. The amount of litigation cases against the Bank as of 31 December 2012, for which additional analyzes were made on the basis of which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank for that material losses could result in respect of these disputes amounted to MKD14,939 thousand (2011: 19,261). This amount includes the penalty interests, as well. Accordingly, in 2012, the Bank made provisions for impairment losses on the basis of litigations in the amount of MKD 414 thousand (2011: 2,547).

42.2 CONTINGENCIES

	In thousands of Denars	
	current year	previous year
	2012	2011
	-	-
Total contingent assets	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year 2012			In thousands of Denars Previous year 2011		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
<i>Administration of assets on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	266.078	266.078	-	266.067	266.067	-
FC loans	223.436	223.436	-	221.786	221.786	-
Other MKD claims	897.854	897.854	-	805.789	805.789	-
Other FC claims	185.584	185.584	-	655.781	655.781	-
<i>Asset management on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other MKD claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
<i>Custody accounts</i>	17.646	17.648	(2)	6.409	19.578	(13.169)
<i>Other</i>	-	-	-	-	-	-
Total	1.590.598	1.590.600	(2)	1.955.832	1.969.001	(13.169)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

44. RELATED PARTY TRANSACTIONS

A. Balance Sheet

	In thousands of Denars					Total
	Parent company	Subsidiaries	Affiliates	Management personnel of the Bank	Other related parties	
31 December 2012						
Assets						
Current accounts	2.457	-	-	-	3.918	6.375
Trading assets	-	-	-	-	-	-
Loans and claims						
mortgage loans	-	-	-	12.098	-	12.098
consumer loans	-	-	-	-	-	-
claims under financial leasing	-	-	-	-	-	-
claims under factoring and forfeiting	-	-	-	-	-	-
other loans and claims	-	-	-	-	942.036	942.036
Investments in securities (Value adjustment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	2.457	-	-	12.098	945.954	960.509
Liabilities						
Trading liabilities						
Deposits	-	-	-	29.826	144.294	174.120
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	2.777.163	-	-	-	-	2.777.163
Other liabilities	621	-	-	-	-	621
Total	2.777.784	-	-	29.826	144.294	2.951.904
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	-	-
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

44. RELATED PARTY TRANSACTIONS (continued)

A. Balance Sheet (continued)

	In thousands of Denars					Total
	Parent company	Subsidiaries	Affiliates	Management personnel of the Bank	Other related parties	
31 December 2011						
Assets						
Current accounts	7.617	-	-	-	6.740	14.357
Trading assets	-	-	-	-	-	-
Loans and claims						
mortgage loans	-	-	-	10.020	-	10.020
consumer loans	-	-	-	-	-	-
claims under financial leasing	-	-	-	-	-	-
claims under factoring and forfeiting	-	-	-	-	-	-
other loans and claims	1.053.772	-	-	-	-	1.053.772
Investments in securities (Value adjustment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	1.061.389	-	-	10.020	6.740	1.078.149
Liabilities						
Trading liabilities						
Deposits	-	-	-	28.285	4.292	32.577
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	2.780.212	-	-	-	-	2.780.212
Other liabilities	561	-	-	-	-	561
Total	2.780.773	-	-	28.285	4.292	2.813.350
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	-	-
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
2012 current year						
Income						
Interest income	12.363	-	-	224	213	12.800
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	12.363	-	-	224	213	12.800
Expenditures						
Interest expenditures	89.653	-	-	-	64	89.717
Expenditures for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenditures for procurement of non-current assets	-	-	-	-	-	-
Value adjustment of financial assets, on net basis	-	-	-	-	-	-
Other expenditures	-	-	-	27.118	18	27.136
Transfers between entities	-	-	-	-	-	-
Total	89.653	-	-	27.118	82	116.853

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

44. RELATED PARTY TRANSACTIONS (continued)

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

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
2011 previous year						
Income						
Interest income	7.222	-	-	132	6	7.360
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	7.222	-	-	132	6	7.360
Expenditures						
Interest expenditures	106.807	-	-	-	17	106.824
Expenditures for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenditures for procurement of non-current assets	-	-	-	-	-	-
Value adjustment of financial assets, on net basis	-	-	-	-	-	-
Other expenditures	-	-	-	29.084	-	29.084
Transfers between entities	-	-	-	-	-	-
Total	106.807	-	-	29.084	17	135.908

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2012	previous year 2011
Short-term benefits for employees	25.273	23.535
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	1.845	5.549
Total	27.118	29.084

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

44. RELATED PARTIES TRANSACTIONS (continued)

Related parties include the major shareholders, affiliates and jointly controlled entities, control/management with the Bank, or whose activities the Bank has an ability to control. All transactions with related parties arise in the normal course of the Bank's business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

45. Lease commitments

A. Lessor

A.1 Payables under financial leaseholds

	In thousands of Denars			
	Total claims under financial leasehold	Maturity period of claims under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2012 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
31 December 2011 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-

A.2 Payables under irrevocable operating leaseholds

	In thousands of Denars			
	Total claims under financial leasehold	Maturity period of claims under operating leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2012 (current year)				
Current value of minimum payment for the leasehold	3.127	3.127	-	-
31 December 2011 (previous year)				
Current value of minimum payment for the leasehold	2.704	2.704	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

45. Lease commitments (continued)

A. Lessor (continued)

A.2 Payables under irrevocable operating leaseholds (continued)

	In thousands of Denars						Total
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	
Value of the property given under operating leasehold:							
31 December 2012	-	111,949	-	-	-	-	111,949
31 December 2011	-	83,182	-	-	-	-	83,182
Total	-	-	-	-	-	-	-

Agreed lease receivables are related to part of the property taken over for recovery of arrears and a smaller part of own property which the Bank in the past period used for their own needs but is no longer used and it is rented to third parties. Lease agreements contain a clause for reconsideration of the agreed price of the rent according to the market conditions, in case the lessee has exercised its right to renew the lease. Future lease incomes are approximate to the level of current rental income.

B. LEASEE

B.1 Liabilities under financial leaseholds

	In thousands of Denars			
	Total liabilities under financial leasehold	Maturity period of liabilities under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2012 (current year)	-	-	-	-
Balance as at 31 December 2011 (previous year)	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

45. LEASE COMMITMENTS (continued)

B. Lessee (continued))

B.1 Liabilities under financial leaseholds (continued)

	In thousands of Denars						
	<u>Land</u>	<u>Buildings</u>	<u>Means of transporta tion</u>	<u>Furniture and office equipment</u>	<u>Other equipment</u>	<u>Other items of property and equipment</u>	<u>Total</u>
Value of the property taken under financial leasehold:							
Purchase value							
Balance as at 1 January 2011	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	-	-	-	-	-	-
Balance as at 1 January 2012	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
Balance as at 1 January 2011	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	-	-	-	-	-	-
Balance as at 1 January 2012	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	-	-	-	-	-	-
Current carrying amount							
na 1 January 2011	-	-	-	-	-	-	-
On 31 December 2011	-	-	-	-	-	-	-
On 31 December 2012	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

45. LEASE COMMITMENTS (continued)

B. Lessee (continued)

B.2 Liabilities under operating leaseholds (continued)

	In thousands of Denars			
	Maturity period of liabilities under operating leasehold			
	Total liabilities under operating leasehold	up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2012 (current year)	-	-	-	-
Balance as at 31 December 2011 (previous year)	-	-	-	-

46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2012	previous year 2011
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-
	current year 2012	previous year 2011
	number of options for shares	number of options for shares
	weighted average price of options for shares	weighted average price of options for shares
Balance as at 1 January	-	-
Changes during the year:		
options given to the members of Supervisory Board	-	-
options given to the members of Board of Directors	-	-
other given options	-	-
forfeited options	-	-
options with expired deadline	-	-
Balance as at 31 December	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

47. TAXATION RISK

Financial statements and accounting records of the Bank are subject to tax audit by the tax authorities for a period of 5 years subsequent to the reported tax year, and may impose additional tax liabilities. According to the estimates of the Bank's management they are not aware of any additional conditions that may cause potentially materially significant liabilities on this basis.

48. EVENTS AFTER THE DATE OF THE BALANCE SHEET

After the date of the balance sheet there are no events that require adjustments to the financial statements or appropriate disclosure.

49. EXCHANGE RATES

Official exchange rates used in the conversion of the balance sheet items denominated in foreign currency are as follows:

	<u>2012</u>	In MKD <u>2011</u>
1 USD	46,6510	47,5346
1 EUR	61,5000	61,5050