

STOPANSKA BANKA AD - SKOPJE

**Audit Financial Statements
for the year ended
December 31, 2011**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Stopanska Banka AD - Skopje, which comprise the balance sheet as at 31 December 2011, 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 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. 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 present fairly, in all material respects, the financial position of Stopanska Banka AD - Skopje as at 31 December 2011, as well as its financial performance and its cash flows for the year then ended in accordance with the accounting legal regulations applied in the Republic of Macedonia.

Manager

Ljube Gjorgjievski

Chartered Auditor

Ljube Gjorgjievski

Skopje,

30 March 2012

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 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
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

INCOME STATEMENT
for the period from January 1, 2011 to December 31, 2011
(In thousands of Denars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Interest income		4,494,952	4,888,716
Interest expense		(2,302,664)	(2,387,026)
Net interest income	6	2,192,288	2,501,690
Fee and commission income		945,138	987,563
Fee and commission expense		(91,136)	(80,851)
Net fee and commission income	7	854,002	906,712
Trading (expense)/income, net	8	30,720	(12,028)
Trading (expense)/income from other financial instruments, net	9	-	-
Foreign exchange gains, net	10	133,796	157,772
Other operating income	11	213,413	260,676
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(743,531)	(890,691)
Impairment losses on non-financial assets, net	13	(6,100)	(62,157)
Personnel expenses	14	(731,202)	(758,503)
Depreciation and amortization	15	(187,862)	(192,175)
Other operating expenses	16	(1,108,210)	(1,104,873)
Share in the loss of associated companies	24	-	-
Profit before tax		647,314	806,423
Income tax	17	(17,569)	(3,747)
Net profit for the year		629,745	802,676
Earning per shares	41		
Basic earnings per share (in MKD)		36.07	45.98
Diluted earnings per share (in MKD)		36.07	45.98

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors of the Bank and are adopted by the Bank's Supervisory Board on 26 January, 2012.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

STATEMENT OF COMPREHENSIVE INCOME for the period from 1 January 2011 to December 31, 2011 (in MKD thousand)

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Profit / (loss) for the financial year		629,745	802,676
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		594	(10,227)
- 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 affiliates companies not shown in the income statement		-	-
Other gains / (losses) not shown in the income statement		-	-
Income tax from other gains / (losses) not shown in the income statement		-	-
		-	-
Total other gains / (losses) in the periods not shown in the income statement		594	(10,227)
Comprehensive income /(loss) for the financial year		630,339	792,449

The accompanying notes are an integral part of these financial statements.

The financial statements were approved by the Board of Directors of the Bank and are adopted by the Bank's Supervisory Board on 26 January, 2012.

Signed on behalf of Stopanska Banka AD Skopje:

Mr. Gligor Bishev
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

BALANCE SHEET
As at December 31, 2011
(In thousands of Denars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Cash and cash equivalents	18	21,669,816	20,329,498
Trading financial assets	19	141,828	120,862
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	123,280	120,349
Loans to customers	22.2	44,225,670	42,221,428
Investments in securities	23	1,835,680	2,970,517
Investments in associates	24	-	-
Receivables for income tax (current)	30.1	7,536	4,801
Other receivables	25	223,731	183,623
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	802,975	837,989
Intangible assets	28	106,650	124,993
Property and equipment	29	1,018,988	1,118,825
Deferred tax assets	30.2	-	15,504
Non-current assets held for sale and group for sale	31	-	-
Total assets		<u>70,156,154</u>	<u>68,048,389</u>
LIABILITIES			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through income statement determined as such at initial recognition	33	-	-
Derivative obligation held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	146,172	2,320,213
Deposits from customers	34.2	56,701,616	53,507,168
Issued debt securities	35	-	-
Loans payable	36	832,501	478,419
Subordinated debt	37	2,780,212	2,779,339
Special reserve and provisions	38	152,823	161,765
Income tax payable (current)	30.1	-	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	613,995	502,989
Liabilities directly related to group of assets for sale	31	-	-
Total liabilities		<u>61,227,319</u>	<u>59,749,893</u>

STOPANSKA BANKA AD - SKOPJE

EQUITY			
Share capital	40	3,511,242	3,511,242
Share premier		-	-
Registered shares		-	-
Other equity instruments		-	-
Revaluation Reserves	40	(58)	(652)
Other Reserves	40	831,373	710,972
Retained earnings		4,586,278	4,076,934
Total equity and reserves		8,928,835	8,298,496
Total liabilities and equity and reserves		70,156,154	68,048,389
Contingent assets	42.2	11,347,905	13,356,935
Contingent liabilities	42.1	-	-

The accompanying notes are an integral part of these financial statements.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

**Statement of changes in equity and reserves
for the period from January 1, 2011 to December 31, 2011
(In thousands of Denars)**

	Equity				Other reserves			Revalued reserves				Retained earnings		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 January 1, 2010	3,511,242	-	-	-	606,363	-	1,083	9,575	-	-	-	3,377,784	-	7,506,047
Correction of initial balance	-	-	-	-	-	-	-	-	-	-	-	(3,274,258)	3,274,258	-
As at January 1, 2010	3,511,242	-	-	-	606,363	-	1,083	9,575	-	-	-	103,526	3,274,258	7,506,047
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	802,676	-	802,676
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the fair value for assets available-for-sale	-	-	-	-	-	-	-	(10,227)	-	-	-	-	-	(10,227)
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	-	-	-	-	-	-	-	(10,227)	-	-	-	802,676	-	792,449
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	103,526	-	-	-	-	-	-	(103,526)	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
On December 31, 2010	-	-	-	-	103,526	-	-	-	-	-	-	(103,526)	-	-
	3,511,242	-	-	-	709,889	-	1,083	(652)	-	-	-	802,676	3,274,258	8,298,496

STOPANSKA BANKA AD - SKOPJE

**Statement of changes in equity and reserves (continued)
for the period from January 1, 2011 to December 31, 2011
(In thousands of Denars)**

	Equity				Other reserves			Revalued reserves				Retained earnings		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 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold own shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	(246,021)	246,021	-
On December 31, 2011	-	-	-	-	120,401	-	-	-	-	-	-	(366,422)	246,021	-
	3,511,242	-	-	-	830,290	-	1,083	(58)	-	-	-	1,065,999	3,520,279	8,928,835

The accompanying notes are an integral part of these financial statements.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

STATEMENT OF CASH FLOW
for the period from January 1, 2011 to December 31, 2011
(In thousands of Denars)

	<u>2011</u>	<u>2010</u>
Cash flows (used in)/ generated from operating activities		
Profit before taxation	647,314	806,423
<i>Adjustments for:</i>		
Depreciation of:		
- intangible assets	38,661	37,145
- property and equipment	149,201	155,030
Gain on sale of:		
- intangible assets	-	-
- property and equipment	(2,619)	(13,053)
- assets acquired through foreclosures	(17,461)	(8,427)
Loss on sale of:		
- intangible assets	-	-
- property and equipment	-	-
- assets acquired through foreclosures	4,717	-
Interest income	(4,494,952)	(4,888,716)
Interest expense	2,302,664	2,387,026
Net trading expense / (income)	(30,720)	12,028
Value adjustment of financial assets, on a net basis		
- Additional value adjustment	1,265,911	1,763,320
- Release of value adjustment	(522,380)	(872,629)
Impairment loss of non-financial assets, on a net basis:		
- Additional impairment loss	6,100	62,157
- Release of impairment loss	-	-
Special reserves:		
- additional provisions	67,606	36,460
- release of provisions	(76,548)	(30,568)
Dividend income	(3,070)	-
Share in profit/(loss) of associates	-	-
Other rectifications	-	62,353
Interest receipts	4,480,057	4,947,611
Interest paid	(2,306,758)	(2,427,211)
Operating profit before changes in operating assets	1,507,723	2,028,949
<i>(Increase)/decrease of operating assets:</i>		
Trading assets	(20,966)	78,412
Derivative assets held for risk management	-	-
Due from banks and financial institutions	(2,931)	26,426
Loans to customers	(2,706,853)	(1,485,905)
Pledged assets	-	-
Assets acquired through foreclosure proceedings	35,014	(293,511)
Reserve requirements in foreign currency	(61,069)	45,790
Obligatory deposit with NBRM in accordance with special legislative	-	-
Other receivables	(40,108)	53,734
Deferred tax assets	15,504	(5,820)
Non-current assets held for sale and group for sale	-	-
<i>Increase/(decrease) of operating liabilities:</i>		
Trading liabilities	-	(1,196)
Derivative liabilities held for risk management	-	-
Deposits from banks and financial institutions	(2,174,041)	(374,962)
Deposits from customers	3,194,448	1,708,714
Other liabilities	111,006	66,888
Liabilities directly related to group of assets for sale	-	-
Net cash flows (used in)/ generated from operating activities before tax	(142,273)	1,847,519
(Paid)/Return on income tax	(4,800)	(4,085)
Net cash flows (used in)/ generated from operating activities	(147,073)	1,843,434

STATEMENT OF CASH FLOWS (continued)
for the period from January 1, 2011 to December 31, 2011
(In thousands of Denars)

	<u>2011</u>	<u>2010</u>
Cash flows from investing activities		
(Investments in securities)	(677,060)	(1,547,849)
Inflows from sale of investments in securities	1,817,874	2,027,261
(Outflows for investments in subsidiaries and affiliates)	-	-
Inflows from sale of investments in subsidiaries and affiliates		
(Acquisition of intangible assets)	(20,369)	(34,942)
Inflows from sale of intangible assets	-	-
(Acquisition of property and equipment)	(52,895)	(99,237)
Inflows from sale of property and equipment	2,619	25,811
(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	3,765	2,624
Net cash flows from investing activities	<u>1,073,934</u>	<u>373,668</u>
Cash flows from financing activities		
(Repayment of issued debt securities)	-	-
Inflows from issued debt securities	-	-
(Repayment of loan payables)	(71,829)	(18,021)
Increase in loan payables	425,748	229,113
(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)	(8,139)	(10,251)
(Other outflows from financing activities)	-	-
Other inflows from financing activities	-	16,006
Net cash flows from financing activities	<u>345,780</u>	<u>216,847</u>
Effects from adjustment of value of cash and cash equivalents	-	-
Effects from foreign exchange gains/losses of cash and cash equivalents	-	(62,353)
Net-increase/(decrease) of cash and cash equivalents	<u>1,272,641</u>	<u>2,371,596</u>
Cash and cash equivalents as at January 1	<u>17,514,200</u>	<u>15,142,604</u>
Cash and cash equivalents as at December 31	<u>18,786,841</u>	<u>17,514,200</u>

The accompanying notes are an integral part of these financial statements.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev
Chief Executive Officer

Mr. Diomidis Nikolettopoulos
Chief Financial and Operations Officer

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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 (2010: 66 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% 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, 2011

1. INTRODUCTION (continued)**a) General Information (continued)**

The financial statements of the Bank for the year ended December 31, 2011 were approved for issuing by the Supervisory Board of the Bank on 26 January, 2012.

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 National Bank of Macedonia (hereinafter "Bank"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter "Methodology") and the Guidelines on the types and content of financial statements of banks ("Official Gazette no. 118/07, 80/09 and 157/09), as prescribed by the Central Bank, and are applied from 1 January 2009.

On December 23, 2011 posted a new Decision on the methodology for recording and valuation of accounting items and preparation of financial statements ("Official Gazette br.169/2010) which will be applied starting from January 1, 2011. On the same date, has been published and a new decision on the types and content of financial statements of banks ("Official Gazette no. 169/2010) which will be applied starting from December 31, 2011

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 Instructions for the types and contents of banks' financial statements published in the Official Gazette of RM Nos. 118/2007, 80/2009 and 157/2009, (hereinafter referred to as "Instructions"), 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 Instructions, 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, 2011 in the amount of MKD 62,947 thousand (2010: MKD 63,028 thousand) is included in Property and equipment and Assets acquired in foreclosures in the amount of MKD 40,479 thousand and MKD 22,468 thousand respectively (2010: MKD 40,479 thousand and MKD 22,549 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 Instructions 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, 2011

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 judgments, estimates and 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 NBRM.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised 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 using the effective interest rate.

The method of effective interest rate method 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. The effective interest rate is the rate that the estimated discounted future cash inflows or outflows over the expected life of the financial instrument or, where appropriate, 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 losses. An integral part of the calculation of effective interest rate and all fees paid and fees and expenses between the parties, as well as transaction costs and all other premiums or discounts when granting loans.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)****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 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 rates set by the National Bank of the Republic of Macedonia ("NBRM") at 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 credited or charged to the income statement.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at 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 trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the agreed timeframe.

Securities held-for-trading

Securities held-for-trading, which comprise securities issued in local currency by the Ministry of Finance 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)****Securities held-for-trading (continued)**

All the respective realized and unrealized gains and losses are included under net trading income. Interest, if realized, during managing securities, is recorded as interest income. The sale of securities held-for-trading is recognized on 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 profit or loss. However, interest calculated using the effective interest 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 using the effective interest rate method.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)****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's 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 extend the credit. A 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.

The allowances for losses on impairment and uncollectability and for other active on-balance sheet and off-balance sheet positions are determined in accordance with the regulations prescribed by the NBRM 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 positions 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, 2011 and December 31, 2010 with the following percentages:

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Impairment losses on loans and advances (continued)

<u>Risk category</u>	<u>31.12.2011 Percentage</u>	<u>31.12.2010 Percentage</u>
A	0%-10%	0%
B	10%-25%	10%
C	25%-50%	25%
D	50%-75%	50%
E	75%-100%	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 to previous assessments result in changes in allowances for losses on impairment and uncollectability recorded as credit or charge 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, 2011

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 and other payables.

Deposits from banks and other financial institutions and clients

These financial liabilities are initially recognized at fair value net of transaction costs incurred. subsequently, they are 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, other than deferred loan origination fees, which are stated at fair value on initial recognition and subsequently measured at amortized cost, 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 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, 2011

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 on an asset is greater 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 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's 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. An impairment loss is recognized as an expense of the current period. A reversal of an impairment loss is recognized as income immediately.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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 of the cost 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 valuers on the date of asset foreclosure.

After initial recognition, foreclosed assets are reviewed for impairment 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 NBRM 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 customer. 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, 2011

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 tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Leases

Assets leased out under operating lease are included in the balance sheet as investment property. Rental income 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, 2011

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 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.

In the Republic of Macedonia sufficient market experience, stability and liquidity do not exist 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 its 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.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. INTRODUCTION (continued)**d) Critical accounting judgments and estimates (continued)****Useful lifetime of tangible and intangible assets**

The Bank's 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 cost to Bank depends 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 crises

Escalation of the European debt crisis in the second half of 2011 has threatened the global recovery by intensifying the strains and fragilities in the euro area. However, despite the negative global trends in the financial services industry, Stopanska Banka AD-Skopje remained well-capitalized, highly liquid, and funded by domestic deposits. Stopanska Banka AD Skopje has no significant placements or deposits or any other financial commitments with its Parent NBG Group. The bank has no significant exposure to any foreign European government debt. The recent stress test, performed according to the requirements of the National Bank of Macedonia, using strict criteria, demonstrated that the Bank is adequately capitalized and sufficiently liquid.

The credit risk is appropriately managed and the coverage of non - performing loans by the existing provision is considered adequate to absorb any loss in the loan portfolio at the balance sheet date. The strong capital base (with the capital adequacy ratio at 17.6%) enables the Bank to face any reasonably foreseeable adversity. Taking into consideration that the bank has not been significantly impacted by the financial crisis, 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. These changes in the accounting policies refer to the calculation of loan impairment provisions and other active on-balance and off-balance sheet items and are the result of changes in legal regulations prescribed by NBRM, which do not require retrospective application of these changes.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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 NBRM.

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

In the course of 2011, NBRM supervised the Bank's compliance with the established risk management processes. The main conclusion presented in the report is that the established risk management system of the Bank is satisfactory.

For certain areas, subject to the supervision, the Bank prepared relevant remediation actions in form of an action plan. The most significant items of that action plan refer to the following:

- Credit risk – frequency of informing the management and types of reports, projection of the expected cash flow,
- Stress test – implementation manner;
- Strategic risk procedures;
- Liquidity risk – assumptions used for determining the expected age structure;
- Interest risk management standards.

NBRM is informed on regular basis about the implementation of the action plan and the undertaken activities on part of the Bank.

e) Risk management disclosure

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

f) 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, 2011

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

The Bank's risk management policies are designed to identify and analyze 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, 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 Department of the Bank, as well as other critical support functions, fall into this category.
- Operational (business line) level – It involves management of risks at the point of direct performance of Bank's activities. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant policies, procedures and guidelines defined by 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's 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, 2011

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 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 are set in the Risk Strategy. 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 at 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.

All non-performing loans are encompassed by the value adjustment on individual base.

The calculated impairment losses on group base are provisioned on portfolios of homogenous assets that are individually lower than the materiality thresholds.

Impairment and provisioning are calculated by using parameters that are obtained from historical data on the delinquency rate of certain portfolios.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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, 2011

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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	
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	123,280	120,350	2,864,204	14,626,345	94,789	348,370	1,741,696	2,620,766	21,695,862	20,329,498	12,100	26,050	175,161	130,032	2,898,084	6,117,115	29,605,176	44,318,526	
B risk category	-	-	2,519,962	1,494,153	-	-	-	-	-	-	411	256	2,616	1	89,552	2,348	2,612,541	1,496,758	
C risk category	-	-	1,740,964	1,093,679	-	-	-	-	-	-	2,414	2,967	20,447	6,426	31,351	241	1,795,176	1,103,313	
D risk category	-	-	418,072	1,083,483	-	-	-	-	-	-	3,759	3,968	281	-	2,197	1,177	424,309	1,088,628	
E risk category	23,712	23,804	3,525,622	2,722,850	293,460	290,939	-	-	-	-	21,060	13,144	32,497	36,097	78,478	188,374	3,974,829	3,275,208	
	146,992	144,154	11,068,824	21,020,510	388,249	639,309	1,741,696	2,620,766	21,695,862	20,329,498	39,744	46,385	231,002	172,556	3,099,662	6,309,255	38,412,031	51,282,433	
(Value adjustment and special reserve on an individual basis)	(23,712)	(23,805)	(4,129,753)	(3,908,870)	(294,265)	(289,558)	-	-	(26,046)	-	(22,466)	(14,634)	(37,769)	(37,634)	(97,411)	(91,348)	(4,631,422)	(4,365,849)	
Carrying amount of separate significant exposures less value adjustment and special reserve on an individual basis	123,280	120,349	6,939,071	17,111,640	93,984	349,751	1,741,696	2,620,766	21,669,816	20,329,498	17,278	31,751	193,233	134,922	3,002,251	6,217,907	33,780,609	46,916,584	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

	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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
<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)	-	-	15,464,463	22,857,093	-	-	-	-	-	-	686	-	-	17,028	5,576,464	7,156,374	21,041,613	30,030,495
- separate significant exposures not impaired on a separate basis	-	-	21,958,531	2,395,483	-	-	-	-	-	-	5,806	-	6,728	-	2,787,051	-	24,758,116	2,395,483
(Value adjustment and special reserve on a group basis)	-	-	(136,395)	(142,788)	-	-	-	-	-	-	-	-	-	(78)	(17,861)	(17,346)	(154,256)	(160,212)
Carrying amount of exposures assessed on a group basis less value adjustment and special reserve on a group basis	-	-	37,286,599	25,109,788	-	-	-	-	-	-	6,492	-	6,728	16,950	8,345,654	7,139,028	45,645,473	32,265,766

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)
2.1 Credit risk (continued)
A. Analysis of maximum exposure to credit risk (continued)

	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
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
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	-	-	-	11,936	-	-	-	-	-	-	-	-	-	-	-	-	-	11,936
<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, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

	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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
Total carrying amount of claims with credit risk before value adjustment and special reserve	146,992	144,154	48,491,818	46,273,086	388,249	639,309	1,741,696	2,620,766	21,695,862	20,329,498	46,236	46,385	237,730	189,584	11,463,177	13,465,629	84,211,760	83,708,411
(Total value adjustment and special reserve)	(23,712)	(23,805)	(4,266,148)	(4,051,658)	(294,265)	(289,558)	-	-	(26,046)	-	(22,466)	(14,634)	(37,769)	(37,712)	(115,272)	(108,694)	(4,785,678)	(4,526,061)
Total carrying amount of claims with credit risk less value adjustment and special reserve	123,280	120,349	44,225,670	42,221,428	93,984	349,751	1,741,696	2,620,766	21,669,816	20,329,498	23,770	31,751	199,961	151,872	11,347,905	13,356,935	79,426,082	79,182,350

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
<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)	-	-	35,063	577,198	-	-	-	307,525	-	-	-	-	-	-	35,063	884,723
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	1,845,150	-	-	-	-	-	-	-	-	-	-	-	1,845,150	-
bank guarantees	-	-	100,561	108,100	-	-	-	-	-	-	-	-	1,257,330	1,280,198	1,357,891	1,388,298
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	1,482,270	5,459,987	-	-	-	-	-	-	-	-	-	96,009	1,482,270	5,555,996
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:																
private property (flats, houses)	-	-	771,161	4,154,272	-	-	-	-	-	-	-	-	1,074	66,651	772,235	4,220,923
commercial property	-	-	6,032,112	30,736,350	-	-	-	-	-	-	-	-	443,321	45,109	6,475,433	30,781,459
Pledge over movables	-	-	1,449,304	19,347,240	-	-	-	-	-	-	-	-	274,131	353,120	1,723,435	19,700,360
Other types of security	-	-	1,574,037	2,541,023	-	-	-	-	-	-	-	-	377	9,925	1,574,414	2,550,948
Total value of collateral for credit exposure assessed for impairment on an individual basis	-	-	13,289,658	62,924,170	-	-	-	307,525	-	-	-	-	1,976,233	1,851,012	15,265,891	65,082,707

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

	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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
<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)	-	-	814,960	176,087	-	-	-	-	-	-	-	-	33,668	-	848,628	176,087
government securities	-	-	11,798	-	-	-	-	-	-	-	-	-	-	-	11,798	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	53,679	-	-	-	-	-	-	-	-	-	44,347	-	98,026	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	1,135,802	-	-	-	-	-	-	-	-	-	75,606	-	1,211,408	-
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	26,132,489	20,279,973	-	-	-	-	-	-	-	-	151,541	-	26,284,030	20,279,973
commercial property	-	-	17,531,629	3,218,616	-	-	-	-	-	-	-	-	1,293,941	-	18,825,570	3,218,616
Pledge over movables	-	-	10,610,126	3,942,373	-	-	-	-	-	-	-	-	1,150,104	-	11,760,230	3,942,373
Other types of security	-	-	3,587,577	128,489	-	-	-	-	-	-	-	-	357,877	-	3,945,454	128,489
Total value of collateral for credit exposure assessed for impairment on a group basis	-	-	59,878,060	27,745,538	-	-	-	-	-	-	-	-	3,107,084	-	62,985,144	27,745,538

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by divisions 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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
Non-residents	-	-	-	-	-	-	-	-	-	-	2,150	-	16	-	9,993	-	12,159	-
Agriculture, Forestry and Fishing	-	-	764,127	654,825	-	-	-	-	-	-	9	251	10	-	-	11,297	764,146	666,373
Mining and quarrying	-	-	168,420	82,646	-	-	-	-	-	-	37	-	142	-	86,361	1,705	254,960	84,351
Food industry	-	-	1,324,462	-	-	-	-	-	-	-	73	-	1	-	68,428	-	1,392,964	-
Textile industry and clothing and footwear production	-	-	652,326	-	-	2,190	-	-	-	-	22	-	43	-	641,795	-	1,294,186	2,190
Chemical industry, production of construction materials, production and processing of fuels , pharmaceutical industry	-	-	643,279	-	-	-	-	-	-	-	66	511	-	489	430,188	1,288,203	1,073,533	1,289,203
Production of metals, machinery, tools and equipment	-	-	2,671,212	6,422,675	-	-	-	-	-	-	1,108	-	31,460	-	60,515	-	2,764,295	6,422,675
Other manufacturing industries	-	-	471,033	-	-	-	-	-	-	-	-	-	-	-	18,981	-	490,014	-
Electricity, gas, steam and air conditioning supply	-	-	1,698,080	1,085,638	-	-	-	-	-	-	1	-	2	-	620,235	1,291,939	2,318,318	2,377,577
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	5,473	-	-	-	-	-	-	-	102	-	1	-	909,495	-	915,071	-
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1,504,570	1,207,437	-	-	-	-	-	-	224	-	133	-	564,058	1,475,589	2,068,985	2,683,026
Transportation and storage	-	-	4,988,377	4,266,914	890	1,563	-	-	-	-	132	57	155,740	120,130	254,451	279,189	5,399,590	4,667,853
Facilities for accommodation and food service activities	-	-	754,852	894,295	-	-	-	-	-	-	619	249	3	37	14,269	263,682	769,743	1,158,263
Information and Communications	-	-	345,447	465,665	-	-	-	-	-	-	6	71	-	16	2,887	3,535	348,340	469,287
Financial and insurance activities	-	-	52,467	-	-	-	-	-	-	-	-	-	-	-	1,262,996	-	1,315,463	-
	123,280	120,349	56,826	24,114	93,094	89,203	-	308,464	19,819,933	19,212,281	1	-	-	-	181,930	1,481,940	20,275,064	21,236,351

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by divisions 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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
Activities related to real estate	-	-	194,850	197,956	-	-	-	-	-	-	354	-	-	-	39,517	12,300	234,721	210,256
Professional, scientific and technical activities	-	-	426,017	-	-	-	-	-	-	-	7	-	-	-	82,965	-	508,989	-
Administrative and support service activities	-	-	172,843	-	-	-	-	-	-	-	-	-	-	-	3,232	-	176,075	-
Public administration and defence, compulsory social security	-	-	-	40,333	-	256,795	1,741,696	2,312,302	1,849,883	1,117,217	981	1,571	-	2,569	-	-	3,592,560	3,730,787
Education	-	-	160,033	713,160	-	-	-	-	-	-	-	-	-	-	24,327	335	184,360	713,495
Activities of Health and Social Care	-	-	144,004	176,985	-	-	-	-	-	-	27	9	-	-	19,040	285	163,071	177,279
Arts, entertainment and recreation	-	-	85,730	-	-	-	-	-	-	-	12	-	1	-	1,559	-	87,302	-
Other service activities	-	-	21,295	109,729	-	-	-	-	-	-	-	31	-	8	-	101,163	21,295	210,931
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 sole	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	26,919,947	25,851,863	-	-	-	-	-	-	12,024	19,636	12,409	9,691	6,050,683	7,139,028	32,995,063	33,020,218
Proprietors and individuals who are not considered for merchants	-	-	-	27,193	-	-	-	-	-	-	5,815	9,365	-	18,932	-	6,745	5,815	62,235
Total	123,280	120,349	44,225,670	42,221,428	93,984	349,751	1,741,696	2,620,766	21,669,816	20,329,498	23,770	31,751	199,961	151,872	11,347,905	13,356,935	79,426,082	79,182,350

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by geographical location

	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 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010	current year 2011	previous year 2010
<i>Geographical region</i>																		
Republic of Macedonia	-	-	44,225,670	42,221,428	93,953	349,720	1,741,696	2,620,766	17,274,601	15,910,646	23,770	31,751	199,961	151,872	10,102,429	13,356,935	73,662,080	74,643,118
EU member countries	64,184	62,235	-	-	31	31	-	-	3,297,794	3,491,958	-	-	-	-	-	-	3,362,009	3,554,224
Europe (other)	-	-	-	-	-	-	-	-	745,440	648,093	-	-	-	-	1,245,476	-	1,990,916	648,093
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	351,981	278,801	-	-	-	-	-	-	351,981	278,801
Other (more than 10% of total credit exposure)	59,096	58,114	-	-	-	-	-	-	-	-	-	-	-	-	-	-	59,096	58,114
Total	123,280	120,349	44,225,670	42,221,428	93,984	349,751	1,741,696	2,620,766	21,669,816	20,329,498	23,770	31,751	199,961	151,872	11,347,905	13,356,935	79,426,082	79,182,350

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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 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 basic tool for measuring, monitoring and evaluating liquidity needs and liquidity sources is the cash flow gap report. Cash flow or liquidity gap reports reflect the liquidity provided by cash inflows and the liquidity needed to fund cash outflows. They incorporate cash flows associated with assets and liabilities into time buckets.

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, 2011

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)

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	22,356,963	4,261,052	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	-	-	1,230,100	1,537,625	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	22,482,115	4,425,093	2,469,035	1,882,011	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)	(15,676,339)	6,896,216	7,227,500	7,135,960	2,347,755

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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, 2010

	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	19,251,486	1,103,200	-	-	-	-	20,354,686
Trading assets	120,862	-	-	-	-	-	120,862
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	293	-	-	124,778	-	61,988	187,059
Loans to customers	3,174,512	4,541,746	14,553,077	9,879,321	8,004,085	8,254,206	48,406,947
Investment securities	142,664	158,765	983,451	1,066,790	533,399	404,760	3,289,829
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	5,872	-	-	-	-	-	5,872
Other receivables	235,969	-	-	-	-	-	235,969
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	15,504	-	-	-	-	-	15,504
Total financial assets	22,947,162	5,803,711	15,536,528	11,070,889	8,537,484	8,720,954	72,616,728
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	2,012,688	-	307,525	-	-	-	2,320,213
Deposits from customers	22,214,882	7,613,942	20,598,110	1,782,727	1,080,897	216,610	53,507,168
Loans payable	46,354	-	47,989	76,489	158,188	149,399	478,419
Subordinated debt	-	11,614	-	-	-	2,767,725	2,779,339
Income tax liabilities (current)	1,296	-	-	-	-	-	1,296
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	502,989	-	-	-	-	-	502,989
Total financial liabilities	24,778,209	7,625,556	20,953,624	1,859,216	1,239,085	3,133,734	59,589,424
Off balance items							
Off balance assets							
Off balance liabilities	909,980	2,086,746	7,719,098	2,191,146	9,103	549,556	13,465,629
Net liquidity gap	(2,741,027)	(3,908,591)	(13,136,194)	7,020,527	7,289,296	5,037,664	(438,325)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

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, 2011 and 2010, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. There are indications for significant non-reconciliation for the period up to one year. The primary reason for the aforementioned unreconciled amounts lies in the fact that the short-term sources of funds with maturities up to 3 months have been engaged for granting loans with longer maturities. According to the Bank's management estimation based on different analyses, within the deposits from legal entities and citizens, there is a deposit core in the amount of MKD 43,605,326 thousand (2010 – MKD 39,453,904 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, 2011, and 2010

Risk of 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 of 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 shareholder value. Nonetheless, excessive risk of change in interest rates may represent a significant threat to the profit and capital base of the Bank.

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 of changes in interest rates in Banking Book.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

Risk of changes in interest rates (continued)

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2011, and 2010

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, which originate 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 assests	Assets weighted acc.to risks	Rate of capital adequacy
December 31, 2011				
Amount prior to the sensitivity analysis /stress tests (as of 12/31/2011)	-	10,469,652	59,359,156	17.64%
Effects of application of scenarios				
Risk of foreign exchange rate change				
MKĐ depreciate by 10% in relation of all other F/X	508,550	10,978,202	60,114,932	18.26%
MKĐ appreciate by 10% in relation of all other F/X	(508,550)	9,961,102	58,603,380	17.00%
MKĐ depreciate by 20% in relation of all other F/X	1,017,101	11,486,753	60,870,708	18.87%
MKĐ appreciate by 20% in relation of all other F/X	(1,017,101)	9,452,551	57,847,604	16.34%
Risk of interest rate securities				
Increasing of ks by 200 b.p.	(50,930)	10,418,722	59,359,156	17.55%
Decreasing of ks by 200 b.p..	50,930	10,520,582	59,359,156	17.72%
Increasing of ks by 400 b.p.	(101,860)	10,367,792	59,359,156	17.47%
Decreasing of ks by 400 b.p..	101,860	10,571,512	59,359,156	17.81%
Cumulative	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continues)

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

	Profit/loss	Own assets	Assets weighted acc.to risks	Rate of capital adequacy
December 31, 2010				
Amount prior to the sensitivity analysis /stress tests (as of 12/31/2010)	-	10,438,775	58,095,823	17.97%
Effects of application of scenarios				
Risk of foreign exchange rate change				
MKĐ depreciate by 10% in relation of all other F/X	510,318	10,859,092	58,935,323	18.43%
MKĐ appreciate by 10% in relation of all other F/X	(510,318)	9,838,457	57,256,323	17.18%
MKĐ depreciate by 20% in relation of all other F/X	1,020,635	11,369,410	59,774,822	19.02%
MKĐ appreciate by 20% in relation of all other F/X	(1,020,635)	9,328,139	56,416,824	16.53%
Risk of interest rate securities				
Increasing of ks by 200 b.p.	(23,256)	10,325,519	58,095,823	17.77%
Decreasing of ks by 200 b.p..	23,256	10,372,031	58,095,823	17.85%
Increasing of ks by 400 b.p.	(46,512)	10,302,262	58,095,823	17.73%
Decreasing of ks by 400 b.p..	46,512	10,395,287	58,095,823	17.89%
Cumulative	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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 2011 and 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continues)

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

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

	2011				2010			
	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 REPORTS
December 31, 2011

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	2011	2010
NET WEIGHTED POSITION FOR EUR (FKS+VKS+PKS)	EUR	25,171	65,688
NET WEIGHTED POSITION FOR MKD (FKS+VKS+PKS)	MKD	(30,126)	9,912
NET WEIGHTED POSITION FOR MKDclEUR (FKS+VKS+PKS)	MKDdclEUR	87,621	(105,248)
NET WEIGHTED POSITION FOR other (FKS+VKS+PKS)	Other	<u>(7,974)</u>	<u>(37,416)</u>
TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK ACTIVITIES PORTFOLIO		<u>74,692</u>	<u>(67,064)</u>
OWN FUNDS		10,469,652	10,348,775
TOTAL WEIGHTED VALUE / OWN FUNDS		<u>0.71%</u>	<u>(0.65%)</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

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

B. Analysis of compliance of interest rates

	In thousands of Denars						Total interest bearing assets /liabilities
	Up to 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	
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	-	-	119,959	-	-	-	-
Loans based liabilities	86,638	-	-	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 REPORTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

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

B. Analysis of compliance of interest rates (continued)

	In thousands of Denars						Total interest bearing assets /liabilities
	Up to 1 months	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	
December 31, 2011							
ASSETS							
Cash and cash equivalents	18,156,539	1,103,200	-	-	-	-	19,259,739
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and claims of banks	61,943	-	-	-	-	-	61,943
Loans and claims from other customers	1,627,601	26,666,691	10,040,810	887,469	1,818,435	896,715	41,937,721
Investments in securities	-	2,270,208	579,557	8,706	5,019	-	2,863,490
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive funds	19,846,083	30,040,099	10,620,367	896,175	1,823,454	896,715	64,122,893
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	1,938,346	10,511	363,895	-	6,686	-	2,319,438
Deposits of other customers	1,992,881	33,108,470	16,888,269	1,056,358	127,674	19,257	53,192,909
Issued debt securities	-	-	-	-	-	-	-
Loans based liabilities	74,110	-	42,874	66,670	143,460	-	327,114
Subordinated liabilities and hybrid instruments	-	2,767,725	-	-	-	-	2,767,725
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	4,005,337	35,886,706	17,295,038	1,123,028	277,820	19,257	58,607,186
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	15,840,746	(5,846,607)	(6,674,671)	(226,853)	1,545,634	877,458	5,515,707

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

	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
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 currency gap:	<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, 2011

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk (continued)

	In thousands of Denars				
	December 31, 2010				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	12,555,951	5,649,166	1,018,377	1,106,004	20,329,498
Trading assets	-	42,592	69,817	8,453	120,862
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	-	36,590	77,769	5,990	120,349
Loans to customers	17,021,891	24,223,780	713,962	261,795	42,221,428
Investments in securities	149,725	2,820,792	-	-	2,970,517
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	4,801	-	-	-	4,801
Other receivables	160,558	22,033	917	115	183,623
Collateralized assets	-	-	-	-	-
Deferred tax assets	15,504	-	-	-	15,504
Total monetary assets	<u>29,908,430</u>	<u>32,794,953</u>	<u>1,880,842</u>	<u>1,382,357</u>	<u>65,966,582</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	10,511	2,209,820	6,686	93,196	2,320,213
Deposits from customers	25,957,396	24,730,070	1,800,985	1,018,717	53,507,168
Loans payable	183,175	260,767	34,477	-	478,419
Subordinated debt	-	2,779,339	-	-	2,779,339
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	333,626	167,619	391	1,353	502,989
Total monetary liabilities	<u>26,484,708</u>	<u>30,147,615</u>	<u>1,842,539</u>	<u>1,113,266</u>	<u>59,588,128</u>
Net currency gap:	<u>3,423,722</u>	<u>2,647,338</u>	<u>38,303</u>	<u>269,091</u>	<u>6,378,454</u>

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 the development of its business.

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 is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by retained earnings. The Bank's uncovered loss from previous years, the current loss, the book value of goodwill are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan, cumulative preferred shares and premia from cumulative preferred shares sold, revaluation reserves from fixed assets, hybrid capital instruments. Investments in financial institutions are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are classified as per the nature of each asset and counterparty and are measured by means of a hierarchy of four risk weights. These weights reflect the credit risk, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. CAPITAL ADEQUACY (continued)

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, 2011 and 2010.

	In thousands of Denars	
	current year 2011	previous year 2010
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	4,350,569	3,984,148
Reserve fund	830,290	709,890
Retained earnings	н/п	н/п
Retained earnings restricted for distribution to shareholders	3,520,279	3,274,258
Accumulated loss from previous years	-	-
Current profit	-	-
Retained loss from available-for-sale treasury shares	-	-
Positions as a result of consolidation	-	-
Minority share	-	-
Reserves under foreign exchange gains/losses	-	-
Other differences	-	-
Deducted items		
Loss at the year-end or current loss	-	-
Treasury shares	-	-
Intangible assets	-	-
Net negative revalorization reserves	(23,983)	(23,983)
Own common non-cumulative preferred shares	n/a	n/a
Difference between the amount of required special reserves for potential losses and allocated special reserves	n/a	n/a
Difference between the amount of required and made value adjustment/special reserves	-	-
Amount of allocated value adjustment and special reserves as a result of accounting delay	-	-
Common shares, reserves and retained earnings and deducted items	7,837,828	7,471,407
Amount of other positions that can be included in the initial capital	-	-
Initial capital	7,837,828	7,471,407

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

	In thousands of Denars current year 2011	previous year 2010
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	-	-
Equity cumulative preferred shares	n/a	n/a
Revaluation reserves	19,141	18,665
Hybrid capital instruments	-	-
Subordinated instruments	2,767,725	2,767,725
Amount of subordinated instruments that can be part of the additional capital I	<u>2,521,705</u>	<u>2,767,725</u>
Additional capital I	2,631,824	2,877,368
Deducted items from initial capital and additional capital	-	-
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	-	-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of (I+II)	-	-
Direct investments in capital of insurance and reinsurance companies and pension fund management companies	-	-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies that are included in their capital	-	-
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	<u>7,837,828</u>	<u>7,471,407</u>
Additional capital I under deducted items	<u>2,631,824</u>	<u>2,877,368</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

Additional capital II		
Subordinated instruments of the additional capital II	-	-
Additional capital I and II	2,631,824	2,877,368
Allowed amount of additional capital I and II	2,631,824	2,877,368
Additional capital I	2,631,824	2,877,368
Additional capital II	-	-
Initial capital surplus	3,089,096	2,823,741
Initial capital surplus (150%)	4,633,644	4,235,611
Initial capital surplus (250%)	7,722,740	7,059,352
Allowed amount of additional capital II	-	-
Own assets		
Initial capital	7,837,828	7,471,407
Additional capital I	2,631,824	2,877,368
Additional capital II	-	-
OWN ASSETS	10,469,652	10,348,775

n/a – not applicable

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. CAPITAL ADEQUACY (continued)

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, 2011 and 2010.

	In thousands of Denars	
	current year 2011	previous year 2010
	<u>2011</u>	<u>2010</u>
Credit risk weighted assets		
Credit risk weighted balance sheet assets	45,021,385	44,397,533
Credit risk weighted off-balance sheet assets	6,780,013	8,101,626
Credit risk weighted assets	51,801,398	52,499,159
Capital required for covering the credit risk	4,144,112	4,199,933
Currency risk weighted assets		
Aggregate foreign currency position	7,557,758	5,596,664
Net position in gold	-	-
Capital required for covering the currency risk	<u>7,557,758</u>	<u>5,596,664</u>
Currency risk weighted assets	604,621	447,733
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 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 securities	-	-
Capital required for covering the general risk of investments in equity securities	-	-
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	-	-
Capital required for covering currency risks	-	-
Other risk weighted assets		
Risk weighted assets	59,359,156	58,095,823
Capital required for covering the risks	4,748,732	4,647,666
Own assets	<u>10,469,652</u>	<u>10,348,775</u>
Capital adequacy ratio	<u>17.64%</u>	<u>17.81%</u>

n/a not applicable

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. NOTIFICATION ACCORDING TO SEGMENTS

A. Operating segments

In thousands of Denars
December 31, 2011

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	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	(4,453)	(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 expense	(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, 2011

4. NOTIFICATION ACCORDING TO SEGMENTS (continued)

A. Operating segments (continued)

In thousands of Denars
December 31, 2011

	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income /(expense)	833,248	1,076,973	370,373	221,096	-	2,501,690
Net fees and commissions income / (expense)	350,749	492,433	1,175	62,355	-	906,712
Net trading income	-	-	(12,028)	-	-	(12,028)
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	196,478	30,512	-	-	191,458	418,448
Income realized between segments	-	-	-	-	-	-
Total income by segments	1,380,475	1,590,918	359,520	283,451	191,458	3,814,822
Adjustment of value of financial assets, on net basis	(296,666)	(383,441)	(131,866)	(78,718)	-	(890,691)
Impairment loss of non-financial assets, on net-basis	(20,703)	(20,758)	-	-	(14,696)	(62,157)
Depreciation	(64,009)	(82,731)	-	(28,451)	(16,984)	(192,175)
Restructuring costs	-	-	-	-	-	-
Costs for investment in real estate and equipment	(33,053)	(42,721)	(14,693)	-	(8,770)	(99,237)
Other expense	(587,589)	(759,459)	(261,178)	-	(155,913)	(1,764,139)
Total expenses by segments	(1,002,020)	(1,295,110)	(407,737)	(107,169)	(196,364)	(3,008,399)
Financial result by segment	378,455	304,808	(48,217)	176,282	(4,905)	806,423
Income tax	-	-	-	-	(3,747)	(3,747)
Profit/(loss) for the financial year	378,455	304,808	(48,217)	176,282	(8,652)	802,676
Total assets by segment	26,569,239	38,473,117	2,834,351	-	-	67,876,707
Unallocated assets per segment	-	-	-	-	171,682	171,682
Total assets						68,048,389
Total liabilities by segment	42,198,483	16,362,426	-	725,002	-	59,285,911
Unallocated liabilities by segment	-	-	-	-	463,982	463,982
Total liabilities						59,749,893

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. NOTIFICATION ACCORDING TO SEGMENTS (continued)

B. Concentration of total revenue and expenses by customers

	In MKD thousand December 31, 2010					Total
	Retail banking	Corporate banking	Investme nt banking	All other insignificant operating segments	Unalloc ated	
Current year, 2011						
Customer 1						
Income	5,479	118,824	-	-	-	124,003
(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	-	-	-	78,653
(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)	(31,994)	-	-	-	(40,070)
Total by segment	(34,042)	175,806	-	-	-	141,764
Previous year, 2010						
Customer 1						
Income	2,550	102,741	-	-	-	105,291
(Expenses)	(11,665)	(85,693)	-	-	-	(97,358)
Customer 2						
Income	1,930	101,687	-	-	-	103,617
(Expenses)	(11,413)	(46,157)	-	-	-	(57,570)
Customer 3						
Income	1,823	93,994	-	-	-	95,817
(Expenses)	(10,409)	(44,053)	-	-	-	(54,462)
Customer 4						
Income	1,744	79,892	-	-	-	81,636
(Expenses)	(8,156)	(42,317)	-	-	-	(50,473)
Customer 5						
Income	1,649	56,946	-	-	-	58,595
(Expenses)	(7,473)	(34,596)	-	-	-	(42,069)
Total by segment	(39,420)	182,444	-	-	-	143,024

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. NOTIFICATION ACCORDING TO SEGMENTS (continues)

C. Geographic areas

	In thousands of Denars December 31, 2010						
	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, 2011							
Total income	5,811,174	-	6,841	4	-	-	5,818,019
Total assets	<u>70,073,551</u>	-	<u>82,560</u>	<u>43</u>	-	-	<u>70,156,154</u>
Previous year, 2010							
Total income	5,913,299	314,884	27,538	39,007	-	-	6,294,727
Total assets	<u>63,925,005</u>	<u>3,377,982</u>	<u>81,634</u>	<u>492,086</u>	-	-	<u>68,048,389</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	December 31, 2011		In thousands of Denars December 31, 2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents	21,669,816	21,669,816	20,329,498	20,329,498
Trading assets	141,828	141,828	120,862	120,862
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	123,280	123,280	120,349	120,349
Loans to customers	44,225,670	44,225,670	42,221,428	42,221,428
Investment securities	1,835,680	1,835,680	2,970,517	2,970,517
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	7,536	7,536	4,801	4,801
Other receivables	223,731	223,731	183,623	183,623
Collateralized assets	-	-	-	-
Differed tax assets	-	-	15,504	15,504
	68,227,541	68,227,541	65,966,582	65,966,582
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	146,172	146,172	2,320,231	2,320,231
Deposits from customers	56,701,616	56,701,616	53,507,168	53,507,168
Issued debt securities	-	-	-	-
Loans payable	832,501	832,501	478,419	478,419
Subordinated debt	2,780,212	2,780,212	2,779,339	2,779,339
Income tax liabilities (current)	-	-	-	-
Differed tax liabilities	-	-	-	-
Other liabilities	613,995	613,995	502,989	502,989
	61,074,496	61,074,496	59,588,146	59,588,146

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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

B. Level 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 MKD thousand			Total
		Level 1	Level 2	Level 3	
Current 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		-	-	-	-
Previous year, 2010					
Financial assets measured at fair value					
Trading assets	19	118,265	2,597	-	120,862
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	312,149	37,602	-	349,751
Total		430,414	40,199	-	470,613
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, 2011

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

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

B.2 Transfers between fair value level 1 and 2

	Current year, 2011		Previous year, 2010	
	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	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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

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

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	In MKD thousand		
					Liabilities for trading	Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
Balance at January 1, 2010							
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 assets in the period	-	-	-	-	-	-	-
Paid financial assets in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2010	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2010	-	-	-	-	-	-	-
Balance at January 1, 2010							
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 assets in the period	-	-	-	-	-	-	-
Paid financial assets in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2010	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2010	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011**5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (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, which estimated fair value determined based on discounting cash flow using interest rates for similar placements.

d) 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 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 from banks and other financial institutions 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

6. NET INTEREST/(EXPENSE) INCOME

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

	In thousands of Denars	
	Current year 2011	Previous year 2010
	<u>2011</u>	<u>2010</u>
Interest income		
Cash and cash equivalents	353,427	476,366
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	38,832	1,014
Placements with and loans to customers	3,831,655	4,153,146
Investments in securities	106,660	62,116
Other receivables	47,212	367
(Adjustment of value of income interest, on net-basis)	(626,335)	(119,258)
Collected previously written-off interest	743,501	314,965
Total interest income	4,494,952	4,888,716
Interest expense		
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	3,834
Deposits from customers	2,175,555	2,278,583
Issued debt securities	-	-
Loans payable	9,642	6,314
Subordinated debt	106,161	90,035
Other liabilities	6,662	8,260
Total interest expense	2,302,664	2,387,026
Net interest income / (expense)	2,192,288	2,501,690

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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

B. Sector analysis of interest income and expense

	In thousands of Denars	
	current year 2011	previous year 2010
Interest income		
Non-financial companies	1,213,804	1,270,903
State	132,463	92,560
Non-profit institutions servicing households	1,388	1,393
Banks	46,183	7,862
Other financial companies (non-banking)	368,952	442,294
Households	2,614,996	2,852,609
Non-residents	-	25,388
(Adjustment of value of interest income, on net-basis)	(626,335)	(119,258)
Collected previously written-off interest	743,501	314,965
Total interest income	4,494,952	4,888,716
Interest expenses		
Non-financial companies	262,911	286,538
State	4,833	5,445
Non-profit institutions servicing households	14,549	16,828
Banks	9,921	5,180
Other financial companies (non-banking)	51,252	53,675
Households	1,833,544	1,914,539
Non-residents	125,654	104,821
Total interest expense	2,302,664	2,387,026
Net interest income / (expense)	2,192,288	2,501,690

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

7. NET FEE AND COMMISSION INCOME/(EXPENSE)

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

	In thousands of Denars	
	current year 2011	previous year 2010
Fees and commissions income		
Financing	94,581	146,557
Payment operations		
Domestic	194,711	193,006
International	112,011	113,424
L/Cs and L/Gs	65,557	66,714
Brokerage operations	3,682	4,171
Asset management	673	843
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	311,960	304,758
Deposit operations	96,096	82,304
Renting safe-deposit-boxes	6,650	6,392
Third party accounts collection	1,915	8,138
Other	57,302	61,256
Total fees and commissions income	945,138	987,563
Fees and commissions expense		
Financing	-	-
Payment operations		
Domestic	78,177	70,851
International	10,124	9,063
L/Cs and L/Gs	-	-
Brokerage operations	-	-
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	2,835	937
Total fees and commissions expense	91,136	80,851
Net fees and commissions income / (expense)	854,002	906,712

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

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

B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current year 2011	previous year 2010
Fees and commissions income		
Non-financial companies	549,177	574,031
State	1,047	275
Non-profit institutions servicing households	168	134
Banks	22,793	30,569
Other financial companies (non-banking)	-	-
Households	340,085	357,351
Non-residents	31,868	25,203
Total fees and commissions income	945,138	987,563
Fees and commissions expense		
Non-financial companies	1,680	22
State	-	-
Non-profit institutions servicing households	-	-
Banks	65,765	54,462
Other financial companies (non-banking)	23,691	26,367
Non-residents	-	-
Total fees and commissions expense	91,136	80,851
Net fees and commissions income / (expense)	854,002	906,712

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

8. NET TRADING INCOME

	In thousands of Denars	
	current	Previous
	year	year
	2011	2010
<i>Trading assets</i>		
Profit/(loss) from the changes in fair value of debt securities, on net-basis		
realized	(145)	27
unrealized	(1,748)	(939)
Profit/(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	27,439	(20,830)
Income from dividend from trading assets	1,064	262
Income from interest from trading assets	4,110	6,855
<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	-	2,597
Net trading income	30,720	(12,028)

NOTES TO THE FINANCIAL STATEMENTS
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9. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

	In thousands of Denars	
	current year 2011	previous year 2010
<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
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10. NET FOREIGN EXCHANGE GAIN/(LOSS)

	In thousands of Denars current year 2011	previous year 2010
Realized net foreign exchange gains/(losses)	133,200	138,582
Non-realized net foreign exchange gains/(losses)		
- foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	-	-
- other foreign exchange gains/(losses), on net basis	596	19,190
Net foreign exchange gains/(losses)	133,796	157,772

11. OTHER OPERATING INCOME

	In thousands of Denars current year 2011	previous year 2010
Profit from sales of assets available for sale	-	-
Dividend from equity instruments available for sale	3,070	2,624
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
real estate and equipment	2,619	13,053
intangible assets	-	-
foreclosed assets	17,461	8,427
non-current assets held for sale and group for sale	-	-
Income from rent	2,704	2,531
Income from won court disputes	3,908	5,735
Collected previously written-off claims	129,051	98,950
Release of special reserves and provisions for:		
off-balance sheet credit exposures	-	19,412
contingent liabilities based on court disputes	2,920	-
pensions and other benefits for employees	-	25,156
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
managing accounts for the Ministry of Finance	-	-
early withdrawal of deposits of non-residents	33,592	33,657
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	3,804	4,510
written off liabilities for employees bonuses	-	8,840
other income	14,284	37,782
Total other operating income	213,413	260,676

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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, 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)	-	(457,490)	-	-	-	(17,754)	(7,170)	(487,274)
	-	719,499	2,186	-	26,046	8,966	3,721	755,557
<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)
	-	(12,026)	-	-	-	-	-	(12,026)
Total adjustment of value of financial assets, on net-basis	-	702,612	2,186	-	26,046	8,966	3,721	743,531
December 31, 2010								
<i>Adjustment of value on individual basis</i>								
Additional adjustment of value	-	1,694,839	-	-	-	14,001	29,283	1,738,123
(Release of adjustment of value)	-	(803,124)	-	-	-	(12,785)	(5,023)	(820,932)
	-	891,715	-	-	-	1,216	24,260	917,191
<i>Adjustment of value at group basis</i>								
Additional adjustment of value	-	25,197	-	-	-	-	-	25,197
(Release of adjustment of value)	-	(51,697)	-	-	-	-	-	(51,697)
	-	(26,500)	-	-	-	-	-	(26,500)
Total adjustment of value of financial assets, on net-basis	-	865,215	-	-	-	1,216	24,260	890,691

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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, 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
December 31, 2010						
Additional impairment loss	-	-	62,157	-	-	62,157
(Release of impairment loss)	-	-		-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	62,157	-	-	62,157

NOTES TO THE FINANCIAL REPORTS
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14. PERSONNEL EXPENSES

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Short-term personnel benefits		
Salaries	456,385	470,436
Compulsory contributions for social and health insurance	208,065	218,629
Short-term paid leaves	-	-
Costs for temporary employment	5,041	4,673
Share in profit and remuneration	-	-
Non-monetary benefits	-	-
Other personnel benefits	44,136	64,765
	<u>713,627</u>	<u>758,503</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	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>-</u>
Total personnel expenses	<u>731,202</u>	<u>758,503</u>

The amounts referring to provisions for retirement benefits in the amount of MKD 2,452 thousand (2010: MKD 2,207 thousand) are presented in Note 38.

	current	previous
	year	year
	2011	2010
Average number of employees for the period	1,048	1,092
Number of permanent employees at year-end	1,021	1,067
Number of temporary employees at year-end	7	4

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15. DEPRECIATION

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Depreciation of intangible assets		
Internal developed software	-	-
Software acquired from external suppliers	38,661	37,145
Other internal developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>38,661</u>	<u>37,145</u>
Depreciation of property and equipment		
Buildings	27,968	28,202
Means of transport	1,376	2,058
Furniture and equipment	97,403	102,753
Other equipment	2,170	4,157
Other items of property and equipment	1,444	1,444
Property and equipment leasehold improvements	18,840	16,416
	<u>149,201</u>	<u>155,030</u>
Total depreciation	<u>187,862</u>	<u>192,175</u>

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16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Loss from sale of assets available for sale	-	-
Software licensing expense	-	-
Deposit insurance premia	305,320	272,939
Premia on property and employee insurance	16,913	15,286
Materials and services	538,630	537,959
Administrative and marketing expense	96,595	98,718
Other taxes and contributions	3,142	2,321
Rental expense	62,161	57,522
Court dispute expense	12,872	21,614
Special reserve for off-balance sheet exposure, on a net basis	6,578	26,460
Provisions for pension and other employee benefits, on a net basis	2,452	16,207
Provisions for contingent liabilities based on court disputes, on a net basis	-	7,793
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	6,414	9,740
extraordinary expense and other costs	52,416	38,314
Total other operating expense	<u>1,108,210</u>	<u>1,104,873</u>

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17. INCOME TAX

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

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Current income tax		
Expense/(income) based on current income tax for the year	2,065	9,567
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>2,065</u>	<u>9,567</u>
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	(5,820)
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>15,504</u>	<u>(5,820)</u>
Total expense/(return) on income tax	<u>17,569</u>	<u>3,747</u>

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Current income tax		
Recognized in income statement	2,065	9,567
Recognized in capital and reserves	-	-
	<u>2,065</u>	<u>9,567</u>
Deferred income tax		
Recognized in income statement	15,504	(5,820)
Recognized in capital and reserves	-	-
	<u>15,504</u>	<u>(5,820)</u>
Total expense/(return) on income tax	<u>17,569</u>	<u>3,747</u>

In accordance with amendments to income tax implemented on fiscal 2011, 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.

For the fiscal 2010 and 2011, the Bank used the right to full exemption from paying income tax based on undistributed profit realized for the current year.

NOTES TO THE FINANCIAL REPORTS
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17. INCOME TAX (continued)

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

	in thousands		in thousands	
	in %	of Denars	in %	of Denars
	current year 2011		previous year 2010	
Profit/(loss) before taxation	100,00	647,314	100,00	806,423
Income tax as per applicable tax rate	10,00	64,731	10,00	80,642
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	1,11	7,167	1,40	11,295
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)	(0,21)	(1,728)
Changes in deferred tax	2,40	15,504	(0,72)	(5,820)
Other	(10,00)	(64,731)	(10,00)	(80,642)
Total expense/(return) on income tax		17,569		3,747
Average effective tax rate	2,71		0,47	

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

	In MKD thousand					
	Current year, 2011			Previous year, 2010		
	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 REPORTS
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18. CASH AND CASH EQUIVALENTS

	In thousands of Denars	previous
	current	year
	year	year
	2011	2010
Cash on hand	1,350,340	1,076,968
Accounts and deposits with NBRM, besides mandatory FC deposits	4,247,173	2,934,019
Current accounts and transaction deposits with foreign banks	518,404	548,510
Current accounts and transaction deposits with local banks	1,892	1,047
T-bills that may be traded in the secondary market	6,937,341	7,987,816
Government bills that may be traded in the secondary market	1,849,883	1,090,311
Time deposits up to 3 months	3,900,472	3,869,733
Other short-term highly liquid assets	392	1,591
Receivables based on interest	6,990	4,205
(Value adjustment)	(26,046)	-
Included in cash and cash equivalents for the needs of the Statement on cash flows	18,786,841	17,514,200
Mandatory FC deposits	2,876,367	2,815,298
Restricted deposits	6,608	-
(Value adjustment)	-	-
Total	21,669,816	20,329,498

	In thousands of Denars	previous
	current	year
	year	year
	2011	2010
Movements in value adjustment		
As at January 1	-	-
Value adjustment for the year	-	-
Additional value adjustment	(26,046)	-
(Release of value adjustment)	-	-
Discount effects	-	-
(Written off receivables)	-	-
As at December 31	(26,046)	-

Level of mandatory deposits in foreign currency is determined in the amount of 2,876,367 thousand of Denars (2010: 2.815.298 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 (2010: 0.1% per annum with effect from 15 October 2010)

NOTES TO THE FINANCIAL REPORTS
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18. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 4,247,173 thousand of Denars (2010: 2,934,019 thousand of Denars), represent mandatory reserve in Denars. The mandatory reserves in Denars bear an interest at a rate of 2% p.a. (2010: 2% p.a.).

Treasury bills that can be traded at the secondary market in the amount of 6,937,341 thousand of Denars (2010: 7,987,816 thousand of Denars) have been purchased from NBRM with maturity period of 28 days. Depending on maturity, interest rates on these bills are 4.00% (2010: 4.00%).

Government bills that can be traded at the secondary market in amount of 1,533,168 thousands of Denars (2010: 1,090,311 thousands of Denars) have been purchased from the Ministry of Finance of the Republic of Macedonia with a maturity of three months up to six months. Depending on maturity, interest rates range from 4.20% to 4.30% (2010: 4.30 to 4.55 p.a.)

19. TRADING ASSETS

	In thousands of Denars	
	current year 2011	previous year 2010
	<hr/>	<hr/>
<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	31,473	39,995
Corporate bonds	-	-
Other debt instruments	-	-
	<hr/>	<hr/>
	31,473	39,995
Quoted	31,473	39,995
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	110,355	78,270
Other equity instruments	-	-
	<hr/>	<hr/>
	110,355	78,270
Quoted	110,355	78,270
Unquoted	-	-
<i>Trading derivatives</i>		
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	2,597
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IAS 39 criteria	-	-
	<hr/>	<hr/>
	-	2,597
Total trading assets	<hr/> 141,828 <hr/>	<hr/> 120,862 <hr/>

NOTES TO THE FINANCIAL REPORTS
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19. TRADING ASSETS (continues)

B. Reclassified trading assets

B.1 Balance of the reclassified trading assets

	Reclassified amount (on the date of reclassification)	Current year, 2011		Previous year, 2010	
		Book amount on 31.12.2011	Fair value on 31.12.2011	Book amount on 31.12.2011	Fair value on 31.12.2011
In MKD thousand					
Trading assets, reclassified in 2011 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2010 (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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19. TRADING ASSETS (continues)

B. Reclassified trading assets (continues)

B.2 Profit and loss from reclassified trading assets

	In MKD thousand					
	Reclassified in 2011 (Current year)		Reclassified in 2010 (previous year)			
	Income Statement 2011 (Current year)	Other profit /(loss) 2011 (Current year)	Income Statement 2011 (Current year)	Other profit /(loss) 2011 (Current year)	Income Statement 2011 (Current year)	Other profit /(loss) 2011 (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 REPORTS
December 31, 2011

19. TRADING ASSETS (continues)

B. Reclassified trading assets (continues)

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

	In MKD thousand	
	Reclassified in 2011 (Current year)	Reclassified in 2010 (previous year)
	Income Statement 2011 (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 2011	previous year 2010
<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	-	-

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21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	current year 2011		In thousands of Denars previous year 2010	
	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 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	-	-	-	-
Total derivatives held for risk management	-	-	-	-
A.2 <i>by type of protection against risk</i>				
Protection against risk to fair value	-	-	-	-
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 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	-	-	-	-
Total inherent derivatives	-	-	-	-
Total derivatives held for risk management	-	-	-	-

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22. LOANS AND PLACEMENTS

22.1 PLACEMENTS WITH AND LOANS TO BANKS

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	205	-	235	-
foreign banks	82,603	-	81,683	-
Time deposits at maturity period of over 3 months				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	63,575	-	61,943
Receivables based on interests	608	-	293	-
Current maturity	-	-	-	-
Total placements with and loans to banks before value adjustment	83,417	63,575	82,211	61,943
(Value adjustment)	(23,712)	-	(23,805)	-
Total placements with and loans to banks less value adjustment	59,705	63,575	58,406	61,943

	In thousands of Denars	
	current year 2011	previous year 2010
Movements in value adjustment		
As at January 1	23,805	24,741
Value adjustment for the year		
additional value adjustment	-	-
(release of value adjustment)	-	-
Discount effects	-	-
(Written off receivables)	(93)	(936)
As at December 31	23,712	23,805

Part of loans and advances with banks amounting to 73,269 thousand of Denars (2010: 75,975 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 totaling 63,575 thousand of Denars (2010: 61,943 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 REPORTS
December 31, 2011

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO BANKS (continued)

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

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	9,049,266	10,901,365	9,827,167	9,348,516
interest receivables	95,227	-	81,962	-
Government				
receivables upon principal	7,618	6,236	18,719	19,790
interest receivables	78	-	213	-
Non-profit institutions that serve households				
receivables upon principal	442	12,713	884	14,563
interest receivables	93	-	67	-
Financial companies, besides banks				
receivables upon principal	-	-	-	-
interest receivables	-	-	-	-
Households				
receivables upon principal				
housing loans	175,722	7,075,181	139,752	6,619,781
consumer loans	692,833	8,635,401	527,620	6,646,834
auto loans	78,810	1,207,996	81,930	1,606,844
mortgage loans	-	-	-	-
credit cards	821,971	8,175,053	1,004,823	8,979,869
other loans	139,230	1,325,890	149,349	1,119,716
interest receivables	90,674	-	84,668	-
Non-residents, besides banks				
receivables upon principal	19	-	19	-
interest receivables	-	-	-	-
Current maturity	5,147,501	(5,147,501)	4,248,803	(4,248,803)
Total placements with and loans to customers before value adjustment	16,299,486	32,192,334	16,165,976	30,107,110
(Value adjustment)	(4,266,150)	-	(4,051,658)	-
Total placements with and loans to customers less value adjustment	12,033,336	32,192,334	12,114,318	30,107,110

In accordance with the requirements of the NBRM, the amount of the impairment presented in the table above is summarized and concerns the short-and long-term loans

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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 2011	previous year 2010
Value adjustment movement on a separate basis		
As at 1 January	3,908,870	3,839,989
Value adjustment for the year		
additional value adjustment	1,176,988	1,694,839
(release of value adjustment)	(462,350)	(803,124)
Exchange rate gains/losses effects	-	-
(Written off receivables)	(488,120)	(822,834)
As at 31 December	<u>4,135,388</u>	<u>3,908,870</u>
Value adjustment movement on a group basis		
As at 1 January	142,788	169,288
Value adjustment for the year		
additional value adjustment	23,080	25,197
(release of value adjustment)	(35,106)	(51,697)
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
As at 31 December	<u>130,762</u>	<u>142,788</u>
Total value adjustment for placements with and loans to customers	<u><u>4,266,150</u></u>	<u><u>4,051,658</u></u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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 2011	previous year 2010
<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)	644,822	542,221
government securities	3,179	4,271
government unconditional guarantees	1,362,359	746,361
bank guarantees	143,126	133,246
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	511,850	531,817
Guarantees from individuals	-	-
Mortgage on property:		
private property (flats, houses)	10,507,558	9,993,327
commercial property	9,509,291	9,464,847
Pledge over movables	2,349,684	3,903,362
Other types of security	1,682,456	2,814,107
Unsecured	17,511,345	14,087,869
Total placements with and loans to customers less value adjustment	<u>44,225,670</u>	<u>42,221,428</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011**22. LOANS AND PLACEMENTS (continued)****22.2 LOANS TO CUSTOMERS (continued)****Risks and uncertainties**

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 impacted by 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 recoveries of the Bank's receivables. The receivables from such debtors were classified on the latest available information and the expected course of the restructuring process.

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment and in the case of retail loans depending on the type of loan product. Depending on the classification of loans, management is maximizing efforts to realize collateral on a timely basis. In the event that this proves to be unsuccessful, additional provisions for impairment losses will need to be made in future.

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During the third and fourth quarter of 2011, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems and undertook measures of strengthening its capital base through additional subordinated loans obtained from its parent company and retaining the earnings.

The potential impact of the financial crisis could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertaken are: limiting long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed, making appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial markets, where possible increase of collateral limits. All the above is focusing to protect and develop current and future customer/depositor base and achievement of the Bank's goals and objectives for 2011 and beyond.

Currently, the impact of the financial crisis has limited impact on the Bank's operations; however, future unfavourable developments in certain industry sectors may have impact on the customer's ability for loan's repayment, which may consequently have impact on the level of loan value adjustment. Based on the above, any additional adjustment, if any, cannot be determined at this stage with any reasonable accuracy.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

23. INVESTMENTS IN SECURITIES

23.1 INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES

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

	In thousands of Denars current year 2011	previous year 2010
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	256,797
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	256,797
Quoted	-	256,797
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	3,476	3,476
Other equity instruments	384,773	379,036
	388,249	382,512
Quoted	57,973	55,352
Unquoted	330,276	327,160
Total investment in financial instruments available for sale before value adjustment	388,249	639,309
(Value adjustment)	(294,265)	(289,558)
Total investment in financial instruments available for sale less value adjustment	93,984	349,751
	In thousands of Denars current year 2011	previous year 2010
Movements in value adjustment		
As at January 1	289,558	285,196
Value adjustment for the year		
additional value adjustment	2,186	4,362
(release of value adjustment)	-	-
Exchange rate gains/losses effects	2,521	-
(Written off receivables)	-	-
As at December 31	294,265	289,558

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

23.1 INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES (continues)

B. Reclassified financial assets available-for-sale

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

	In MKD thousand				
	Reclassified amount (on the date of reclassificatio n)	Current year, 2011		Previous year, 2010	
		Book value on 31.12.2011	Fair value on 31.12.2011	Book value on 31.12.2011	Fair value on 31.12.2011
Assets available-for-sale reclassified in 2011 (current year) in:					
- loans and claims from banks	-	-	-	-	-
- loans and claims from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2010 (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 MKD thousand			
	Income Statement 2011	Other profit /(loss) 2011	Income Statement 2011	Other profit /(loss) 2011
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 REPORTS
December 31, 2011

23. INVESTMENT IN SECURITIES (continues)

23.1 INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES (continues)

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

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

	Income Statement 2011(current year)	Other profit /(loss) 2011	In MKD thousand Income Statement 2010 (previous year)	Other profit /(loss) 2010
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 REPORTS
December 31, 2011

23. INVESTMENTS IN SECURITIES (continued)

23.2 INVESTMENT IN HELD-TO-MATURITY SECURITIES

	In thousands of Denars current year 2011	previous year 2010
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	1,741,696	2,312,302
Corporate bonds	-	308,464
Other debt instruments	-	-
	<u>1,741,696</u>	<u>2,620,766</u>
Quoted	1,741,696	2,312,302
Unquoted	-	308,464
Total investment in financial instruments held to maturity before value adjustment	1,741,696	2,620,766
(Value adjustment)	-	-
Total investment in financial instruments held to maturity less value adjustment	<u>1,741,696</u>	<u>2,620,766</u>

	In thousands of Denars current year 2011	previous year 2010
Movements in value adjustment		
As at January 1	-	-
Value adjustment for the year		
additional value adjustment	-	-
(release of value adjustment)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	<u>-</u>	<u>-</u>
As at December 31	<u>-</u>	<u>-</u>

Part of the government bonds amounting to 1,726,969 thousand of Denars (2010: 2,254,106 thousand of Denars) represent 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 installments commencing from 2001 to 2014.

Part of the government bonds amounting to 0 thousand of Denars (2010: 39,405 thousand of Denars) represent bonds from old foreign exchange savings deposits issued by the Republic of Macedonia in May 2000. These bonds bear a fixed interest rate of 2% p.a. and are repayable in semi-annual instalments commencing from April 2002 to October 2011.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

23. INVESTMENTS IN SECURITIES (continued)

23.2 INVESTMENT IN HELD-TO-MATURITY SECURITIES (continued)

The rest of the bonds amounting to 14,727 thousand of Denars (2010: 18,791 thousand of Denars) represent denationalization bonds issued by the Republic of Macedonia in February 2004. These bonds bear a fixed interest rate of 2% p.a. and are repayable in annual instalments commencing from June 2006 to June 2014.

The Corporate bonds represent bond issued from NLB Tutunska Banka a.d. Skopje in the amount of 0 thousand of Denars (2010: 308,464 thousand of Denars), which is non-convertible and non-transferable. This bond bears an interest rate of six-month EURIBOR plus 1.2 p.a. with semi-annual payment of interest. The principal amount is repayable in three years commencing from May 2011 to November 2011.

24. INVESTMENT IN AFFILIATED ENTITIES

A. Bank's participation in subsidiaries and affiliated entities

Name of subsidiaries and affiliated entities	Country	Percentage of share in ownership		Percentage of voting right	
		current year 2011	previous year 2010	current year 2011	previous year 2010
-	-	-	-	-	-

B. Financial data on affiliated companies – 100 percent

Name of affiliated entities	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the financial year
Current year 2011	-	-	-	-	-
Previous year 2010	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
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25. OTHER RECEIVABLES

	In thousands of Denars	previous
	current	year
	year	year
	2011	2010
Receivables on buyers	99,655	60,973
Costs paid in advance	49,239	51,884
Calculated deferred income	-	-
Receivables upon fees and commissions	46,235	46,385
Receivables on employees	-	5
Advances for intangible assets	-	-
Advances for property and equipment	2,086	6,354
Other:		
Stock of materials	12,175	5,381
Receivables for overpaid VAT	-	-
Numismatic collections	9,361	9,383
Arka Sub-branch (court dispute)	11,500	11,500
Receivables under disbursements upon foreign VISA cards	47,936	40,171
Other	9,082	3,933
Total other receivables before value adjustment	287,270	235,969
(Value adjustment)	(63,539)	(52,346)
Total other receivables less value adjustment	223,731	183,623

	In thousands of Denars	previous
	current	year
	year	year
	2011	2010
Movements in value adjustment		
As at January 1	52,346	28.789
Value adjustment for the year		
additional value adjustment	37,611	43.284
(release of value adjustment)	(24,924)	(17.808)
Exchange rate gains/losses effects		
(Written off receivables)	(1,494)	(1.919)
As at December 31	63,539	52.346

26. COLLATERALIZED ASSETS

	In thousands of Denars	previous
	current	year
	year	year
	2011	2010
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

NOTES TO THE FINANCIAL REPORTS
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27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS

	In thousands of Denars					Total
	Land	Buildings	Equipment	Residential facilities and flats	Other valuables	
Purchase value						
As at January 1, 2010	6,365	615,949	34,866	204,703	2,720	864,603
Assets acquired during the year	217	305,000	87,538	366	-	393,121
Sold during the year	(237)	(16,983)	(75,439)	(6,951)	-	(99,610)
Transfer to own assets	-	-	-	-	-	-
As at December 31, 2010	6,345	903,966	46,965	198,118	2,720	1,158,114
As at January 1, 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)	(12,108)	(1,162)	(128,741)
Transfer to own assets	-	-	-	-	-	-
As at December 31, 2011	8,805	906,162	34,920	177,755	1,558	1,129,200
Impairment						
As at January 1, 2010	2,454	167,787	30,329	56,411	987	257,968
Impairment loss during the year	936	44,108	2,199	14,680	234	62,157
Transfer to own assets	-	-	-	-	-	-
As at December 31, 2010	3,390	211,895	32,528	71,091	1,221	320,125
As at January 1, 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
Transfer to own assets	-	-	-	-	-	-
As at December 31, 2011	3,500	216,463	32,968	72,073	1,221	326,225
Current carrying amount						
As at January 1, 2010	3,911	448,162	4,537	148,292	1,733	606,635
As at 31 December 2010	2,955	692,071	14,437	127,027	1,499	837,989
As at 31 December 2011	5,305	689,699	1,952	105,682	337	802,975

The assets acquired through foreclosure procedure include business premises, flats and buildings not used in Bank's regular operations. In the course of 2011, the Bank recorded impairment losses for these assets in total amount of 6,100 thousand of Denars (2010: 62,157 thousand of Denars).

During 2011, the Bank engaged two external appraisal companies (2010: two) that appraised the total assets in order to determine their fair value.

During this period, the Bank sold 34 assets (2010: 23 assets) at total value of 107,486 thousand of Denars (2010: 12,754 thousand of Denars), and foreclosed 5 buildings (2010: 31 buildings) at total value of 38,678 thousand of Denars (2010: 284,015 thousand of Denars). Activities are being undertaken for preparing the foreclosed assets during 2011 for sale, as the Bank policy is to sell these buildings in a period of 3 years.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

28. INTANGIBLE ASSETS

A. Reconciliation of current carrying amount

	In thousands of Denars						
	Internal developed software	Software bought from external suppliers	Other internal developed intangible assets	Other intangible assets	Intangible assets under construction	Investments in intangible assets taken under lease	Total
Purchase value							
As at January 1, 2010	-	484,251	-	-	9,806	-	494,057
increases by new supplies	-	31,885	-	-	3,057	-	34,942
increases by internal development	-	-	-	-	-	-	-
increases by business combinations (sale and entering as expenditure)	-	-	-	-	-	-	-
(entering as expenditure through business combinations)	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-
As at 31 December, 2010	-	516,136	-	-	12,863	-	528,999
As at January 1, 2011	-	516,136	-	-	12,863	-	528,999
increases by new supplies	-	25,090	-	-	(4,772)	-	20,318
increases by internal development	-	-	-	-	-	-	-
increases by business combinations (sale and entering as expenditure)	-	-	-	-	-	-	-
(entering as expenditure through business combinations)	-	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-
As at 31 December, 2011	-	541,226	-	-	8,091	-	549,317
Accumulated depreciation and impairment							
As at January 1, 2010	-	366,861	-	-	-	-	366,861
depreciation for the year	-	37,145	-	-	-	-	37,145
Impairment loss in the course of the year (release of impairment loss in the course of the year)	-	-	-	-	-	-	-
(sale and entering as expenditure)	-	-	-	-	-	-	-
As at 31 December, 2010	-	404,006	-	-	-	-	404,006
As at January 1, 2011	-	404,006	-	-	-	-	404,006
depreciation for the year	-	38,661	-	-	-	-	38,661
Impairment loss in the course of the year (release of impairment loss in the course of the year)	-	-	-	-	-	-	-
(sale and entering as expenditure)	-	-	-	-	-	-	-
As at 31 December, 2011	-	442,616	-	-	-	-	442,616
Current carrying amount							
As at January 1, 2010	-	117,390	-	-	9,755	-	127,145
As at 31 December, 2010	-	112,130	-	-	12,863	-	124,993
As at 31 December, 2011	-	98,559	-	-	8,091	-	106,650

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

28. INTANGIBLE ASSETS (continued)

B. Carrying amount of intangible assets for which there is limitation regarding ownership and/or have been pledged as security for Bank's liabilities

	In thousands of Denars					
	Internal developed software	Software bought from external suppliers	Other internal developed intangible assets	Other intangible assets	Investments in intangible assets taken under lease	Total
Current carrying amount as at						
December 31, 2010	-	-	-	-	-	-
December 31, 2011	-	-	-	-	-	-

As at December 31, 2011 and 2010, the Bank has no intangible assets for which there is limitation regarding ownership and/or has been pledged as security for Bank's liabilities.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

29. PROPERTY AND EQUIPMENT

A. Reconciliation of the present carrying amount

	In thousands of Denars							
	Buildings	Transport vehicles	Furniture and office equipme nt	Other equipme nt	Other items of propert y and equipme nt	Property and equipme nt in progress	Leasehold improve ments	Total
Purchase value								
As at 1 January 2010	1,174,312	26,677	1,213,080	77,173	57,759	42,047	93,871	2,684,919
Increments	5,754	-	28,812	542	-	47,204	16,925	99,237
Increments by business combinations (sale and entering as expenditure) (entering as expenditure through business combinations)	(19,344)	(2,743)	(79,118)	(642)	-	-	-	(101,847)
Transfer to non-current assets held-for-sale (transfer from non-current assets held-for- sale)	-	-	-	-	-	-	-	-
Other transfers	-	-	51,402	-	-	(60,793)	10,148	757
As at 31 December 2010	1,160,722	23,934	1,214,176	77,073	57,759	28,458	120,944	2,683,066
As at 1 January 2011	1,160,722	23,934	1,214,176	77,073	57,759	28,458	120,944	2,683,066
Increments	10,507	6	35,235	-	-	634	6,513	52,895
Increments by business combinations (sale and entering as expenditure) (entering as expenditure through business combinations)	(5,262)	-	(64,718)	(728)	-	-	-	(70,708)
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)
As at 31 December 2011	1,156,085	23,940	1,194,822	76,345	57,759	14,863	131,626	2,655,440
Amortization and impairment								
As at 1 January 2010	379,066	21,946	978,427	52,864	15,836	-	50,161	1,498,300
Depreciation for the year	28,202	2,058	102,753	4,157	1,444	-	16,416	155,030
Impairment loss during the year (release of impairment loss during the year) (sale and entering as expenditure) (transfer to non-current assets held-for-sale) transfer from non-current assets held-for- sale	(6,832)	(2,743)	(78,872)	(642)	-	-	-	(89,089)
Other transfers	(333)	-	-	-	-	-	333	-
As at 31 December 2010	400,103	21,261	1,002,308	56,379	17,280	-	66,910	1,564,241
As at 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 impairment loss during the year) (sale and entering as expenditure) (transfer to non-current assets held-for-sale) transfer from non-current assets held-for- sale	(1,731)	-	(65,380)	-	-	-	-	(67,111)
Other transfers	(10,592)	3	710	-	-	-	-	(9,879)
As at 31 December 2011	415,748	22,640	1,035,041	58,549	18,724	-	85,750	1,636,452
Present carrying amount								
As at 1 January 2010	795,246	4,731	234,653	24,309	41,923	42,047	43,710	1,186,619
As at 31 December 2010	760,619	2,673	211,868	20,694	40,479	28,458	54,034	1,118,825
As at 31 December 2011	740,337	1,300	159,781	17,796	39,035	14,863	45,876	1,018,988

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

29. PROPERTY AND EQUIPMENT (continued)

B. Carrying amount of intangible assets over which there is limited ownership and/or over which collateral was established as security for the Bank's liabilities

	In thousands of Denars							
	Buildings	Transport vehicles	Furniture and office equipme nt	Other equipme nt	Other items of propert y and equipme nt	Property and equipme nt in progress	Leasehold improve ments	Total
Present carrying amount as at:								
31 December 2010	-	-	-	-	-	-	-	-
31 December 2011	-	-	-	-	-	-	-	-

The Bank's buildings as of December 31, 2011 include property with a net carrying amount of Denar 107,485 thousand (2010: Denar 108,800 thousand), for which the Bank does not possess appropriate ownership title deeds 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 2011	previous year 2010
Income tax receivable (current)	7,536	4,801
Income tax payable (current)	-	-

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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 2011			In thousands of Denars 31 December 2010		
	Deferred tax assets	Deferred tax liabilities	On net basis	Deferred tax assets	Deferred tax liabilities	On net basis
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	-	-	-	15,504	-	15,504
Deferred tax assets/liabilities recognized in the Income Statement	-	-	-	15,504	-	15,504
Investments in financial assets available-for-sale	-	-	-	-	-	-
Protection against cash flow risk	-	-	-	-	-	-
Deferred tax assets/liabilities recognized in the capital	-	-	-	-	-	-
Total recognized deferred tax assets/liabilities	-	-	-	15,504	-	15,504

B. Unrecognized deferred tax assets

	In thousands of Denars	
	current year 2011	previous year 2010
Tax losses	-	-
Tax loans	-	-
Total unrecognized deferred tax assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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

30.2 Deferred tax assets and deferred tax liabilities (continued)

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

	As at January 1	Recognized in Income Statement	In thousands of Denars Recognized in capital	As at December 31
31 December 2010				
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	9,684	5,820		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	-		-	-
Protection against cash flow risk	-		-	-
Total recognized deferred tax assets/(liabilities)	9,684	5,820	-	15,504

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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

30.2 Deferred tax assets and deferred tax liabilities (continued)

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

	In thousands of Denars			
	As at January 1	Recognized in Income Statement	Recognized in capital	As 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	-		-	-
Protection against cash flow risk	-		-	-
Total recognized deferred tax assets/(liabilities)	15,504	(15,504)	-	-

31. NON-CURRENT ASSETS HELD FOR SALE AND GROUP FOR SALE

A. Non-current assets held for sale

	In thousands of Denars	
	current year 2011	previous year 2010
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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

B. Group for sale

	In thousands of Denars current year 2011	Previous year 2010
<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 sale

	In thousands of Denars current year 2011	Previous year 2010
Profit/(loss) recognized from sale of held for sale assets and group for sale	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

32. TRADING LIABILITIES

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
<i>Deposits from banks</i>		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
<i>Deposits from other clients</i>		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	-	-
<i>Other financial liabilities</i>	-	-
<i>Trading derivatives</i>		
Agreements depending on interest rate change	-	-
Agreements depending on exchange rate change	-	-
Agreements depending on securities price change	-	-
Other agreements that fulfil IAS 39 criteria	-	-
	-	-
Total trading liabilities	-	-

NOTES TO THE FINANCIAL REPORTS
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33. FINANCIAL LIABILITIES AT FAIR VALUE VIA THE INCOME STATEMENT,
DETERMINED AS SUCH AT INITIAL RECOGNITION

	current year 2011		In thousands of Denars previous year 2010	
	Present carrying amount	Agreed amount, payable at maturity	Present carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time 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 REPORTS
December 31, 2011

34. DEPOSITS

34.1 DEPOSITS FROM BANKS

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
Current accounts				
with domestic banks	22,478	-	16,102	-
with foreign banks	50,214	-	78,564	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	1,845,150	-
Restricted deposits				
with domestic banks	-	-	-	307,525
with foreign banks	73,480	-	72,097	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Liabilities on the basis of deposit interest				
with domestic banks	-	-	560	-
with foreign banks	-	-	215	-
Current maturity	-	-	307,525	(307,525)
Total deposits from banks	146,172	-	2,020,213	-

The restricted deposits held with domestic banks amounting to Denar 73,480 thousand (2010: Denar 72,097 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 22.1).

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

34. DEPOSITS (continued)**34.2 DEPOSITS FROM OTHER CLIENTS**

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
Non-financial companies				
Current accounts	4,795,199	-	5,382,660	-
Demand deposits	36,754	-	7,062	-
Time deposits	3,259,184	672,810	2,678,394	455,166
Restricted deposits	202,200	365,181	390,740	214,618
Other deposits	44,325	-	52,185	-
Liabilities on the basis of deposit interest	64,813	-	64,004	-
	<u>8,402,475</u>	<u>1,037,991</u>	<u>8,575,045</u>	<u>669,784</u>
Government				
Current accounts	37,834	-	75,505	-
Demand deposits	-	-	-	-
Time deposits	12,100	-	4,101	-
Restricted deposits	748	-	165	-
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	80	-	20	-
	<u>50,762</u>	<u>-</u>	<u>79,791</u>	<u>-</u>
Non-profit institutions serving the households				
Current accounts	373,502	-	380,675	-
Demand deposits	13	-	19	-
Time deposits	220,065	21,430	224,326	9,180
Restricted deposits	11,230	10,914	4,617	10,914
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	4,541	-	4,488	-
	<u>609,351</u>	<u>32,344</u>	<u>614,125</u>	<u>20,094</u>
Financial companies, except banks				
Current accounts	80,558	-	58,820	-
Demand deposits	-	-	-	-
Time deposits	681,943	271,737	758,228	211,737
Restricted deposits	1	-	494	78
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	9,003	-	10,801	-
	<u>771,505</u>	<u>271,737</u>	<u>828,343</u>	<u>211,815</u>
Households				
Current accounts	10,019,278	-	10,365,458	-
Demand deposits	12,330	-	-	-
Time deposits	26,300,507	7,205,267	26,044,857	4,572,337
Restricted deposits	710,440	537,677	456,890	205,611
Other deposits	-	-	-	-
Payables based on interest under deposits	86,134	-	88,730	-
	<u>37,128,689</u>	<u>7,742,944</u>	<u>36,955,935</u>	<u>4,777,948</u>
Non-residents, except banks				
Current accounts	280,098	-	279,880	-
Demand deposits	-	-	-	-
Time deposits	235,619	62,978	238,021	36,029
Restricted deposits	72,842	1,394	74,673	1,331
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	887	-	144,354	-
	<u>589,446</u>	<u>64,372</u>	<u>736,928</u>	<u>37,360</u>
Current maturity	<u>3,779,350</u>	<u>(3,779,350)</u>	<u>2,636,767</u>	<u>(2,636,767)</u>
Total deposits from other clients	<u>51,331,578</u>	<u>5,370,038</u>	<u>50,426,934</u>	<u>3,080,234</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	current year 2011	previous year 2010
	<hr/>	<hr/>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Liabilities on the basis of interest on issued securities	<hr/>	<hr/>
Total issued debt securities	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

36. LOANS PAYABLE

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

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	624,227	-	263,023
Repo-transactions	-	-	-	-
Liabilities based on interest	1,311	-	570	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Government				
Loans payable	26,690	172,984	26,690	180,845
Repo-transactions	-	-	-	-
Liabilities based on interest	1,284	-	1,334	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-residents, except banks	48	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	5,957	-	5,957
Interest payables	-	-	-	-
Households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
	-	-	-	-
Current maturity	146,792	(146,792)	65,749	(65,749)
Total loans payable	194,125	638,376	94,343	384,076

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

36. LOANS PAYABLE (continued)

B. Loans payable according to the creditor

	current year 2011		In thousands of Denars previous year 2010	
	short-term	long-term	short-term	long-term
<i>domestic sources:</i>				
Asset Management Agency - long-term loans amounting to MKD 150,529 thousand (2010: MKD 150,526 thousand) matures and is payable in January 2020 on a one-time basis. Related fees for these loans are 1.5% per annum	1,130	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.).	26,690	-	26,690	-
Macedonian Bank for Development Promotion – with maturity deadline in 2015 and interest rate of 1.0% at annual level (2010: none)	1,311	599,032	458	228,655
	29,131	748,131	28,278	378,054
<i>Foreign sources:</i>				
Council of Europe Social Development Fund - matures in 2014 and bears fixed interest rate of 6.73% per annum.	154	23,585	204	31,446
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.	48	25,195	112	34,368
Other banks	-	5,957	-	5,957
	202	54,737	316	71,771
Current maturity	164,792	(164,792)	65,749	(65,749)
Total loans payable	194,125	638,376	94,343	384,076

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

37. SUBORDINATED DEBT

	<u>Maturity</u>	<u>Interest rate</u>	<u>In thousands of Denars</u>	
			<u>current year 2011</u>	<u>previous year 2010</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.	1,230,100	1,230,100
NBG Athens, Greece (principal EUR 25 million)	05.11.2018	3 month EURIBOR +3.7% p.a.	1,537,625	1,537,625
Liabilities based on interest			12,487	11,614
			<u>2,780,212</u>	<u>2,779,339</u>
<i>Liabilities under subordinated issued debt securities</i>				
Liabilities under principal			-	-
Liabilities based on interest			-	-
Redeemable preferred shares			-	-
Total subordinated debt			<u>2,780,212</u>	<u>2,779,339</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 Tier two coefficient of the capital adequacy and other qualitative and quantitative indicators of the Bank.

The interest is payable quarterly. It is mutually 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 REPORTS
December 31, 2011

38. SPECIAL RESERVES 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, 2010	101,646	15,440	38,787	-	-	-	155,873
Additional provisions during the year (utilized provisions during the year)	26,460	7,793	2,207	-	-	-	36,460
(provisions recovery during the year)	-	-	(11,156)	-	-	-	(11,156)
	(19,412)	-	-	-	-	-	(19,412)
Balance as at 31 December 2010	108,694	23,233	29,838	-	-	-	161,765
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 as at 31 December 2011	115,272	19,261	18,290	-	-	-	152,823

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

The principal actuarial assumptions used were as follows:

	<u>2011</u>	<u>2010</u>
Interest rate	4.00%	5.25%
Average salary increase	5.00%	5.50%
Inflation rate	2.50%	3.00%

Mortality rate:

From the study of the mortality rates in the last years, we have determined a representation of the expected current mortality rate in the Republic of Macedonia. We have used the Swiss mortality table, which is a reasonable approximation of the long-term mortality rate in the country.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

39. OTHER LIABILITIES

	In thousands of Denars	
	current	previous
	year	year
	2011	2010
Liabilities to suppliers	3,000	7,785
Received advance payments	-	-
Liabilities for fees and commissions	-	-
Calculated costs	93,022	52,825
Deferred income from previous year	19,052	9,008
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	7,561	9,104
disputed VISA cards transactions	9,093	5,414
unallocated inflows upon deposits and other inflows	355,106	302,217
other liabilities	36,183	25,658
Total other liabilities	613,995	502,989

As at December 31, 2011 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400.

The non-redeemable cumulative preferred shares give preferential rights for dividend payments and are without voting rights. Preferred shares have no equal participation in equity in the event of a bankruptcy, i.e. liquidation of the Bank.

As at December 31, 2011 the Bank allocated an amount of Denar 6,596 thousand as a dividend to the holders of the non-redeemable cumulative preferred shares for the year 2011 (2010: Denar 8,188 thousand for the year 2010).

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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 2011	Previous year 2010	Current year 2011	Previous year 2010	Current year 2011	Previous year 2010
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	-	-	-	-	-	-	-	-
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 2011	previous year 2010
Announced dividends and paid dividends for the year	<u>8,139</u>	<u>9,325</u>

Announced dividends and paid dividends for the year in the amount of MKD 8,139 thousand are allocated from the realized net profit for 2010 (2010: MKD 9,325 thousand from net profit for 2009)

	In Denar	
	current year 2011	previous year 2010
Dividend per common share	-	-
Dividend per preferred share	36,00	41,00

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 2011	previous year 2010
Announced dividends after 31 December	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

40. SUBSCRIBED CAPITAL (continued)

B. Dividends (continued)

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

	<u>current year 2011</u>	<u>In Denar previous year 2010</u>
Dividend per common 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 as at December 31, 2011 and 2010 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

Name of shareholder	<u>In thousands of Denars</u>		<u>In %</u>	
	<u>current year 2011</u>	<u>previous year 2010</u>	<u>current year 2011</u>	<u>previous year 2010</u>
	<u>Subscribed capital (nominal value)</u>	<u>Subscribed capital (nominal value)</u>	<u>Voting right</u>	<u>Voting right</u>
National Bank of Greece	3,323,094	3,323,094	94.64%	94.64%
International Financial Corporation	-	-	-	-
European Bank for Reconstruction and Development	-	-	-	-
Other	188,148	188,148	5.36%	5.36%
Total	<u>3,511,242</u>	<u>3,511,242</u>	<u>100.00%</u>	<u>100.00%</u>

The share capital of the Bank as at December 31, 2011 consists of 17,460,180 fully paid up common shares with a nominal value of Denar 201.1.

During 2011, the National Bank of Greece bought the shares of the International Finance Corporation and European Bank for Reconstruction and Development, bringing its share in 2011 increased compared to 2010 to 21.60%

The holders of common shares have the right to receive dividends when announced and are entitled to one vote per a common share at the Bank's General Assembly meetings, as well as they have the right to participate equally in equity in the event of a bankruptcy, i.e. liquidation of the Bank.

40. SUBSCRIBED CAPITAL (continued)**Revalued reserves**

Revalued reserves consist of unrealized gains and losses arising from changes in fair value of securities investments available for sale, until such are sold or it is estimated that they have lost value, whereby cumulative unrealized gains or losses previously recognized within the revalued reserves are recognized in the net gain or loss for the period.

Statutory reserves

In accordance with the local law regulation the Bank is required to set aside at least 15% of its net profit for the year in a statutory reserve until the level of statutory reserve reaches 1/5 of the share capital. Until reaching the minimum required level, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level even after recovery of all losses upon annual financial statements, it can also be used for distribution of dividends, based on a decision of the Shareholders Assembly, but only if, for the business year, it has not reached the minimum amount prescribed by the Company Law or by the Bank's Statute.

Other reserves

Other reserves represent a fund set up on the basis of the internal Bank's policy for various purposes, broadly classified as restrictive.

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

41. EARNINGS PER SHARE

A Basic earnings per share

	current year 2011	In Denar previous year 2010
<i>Net gains to which the holders of common shares are entitled</i>		
Net gains for the year	629,745	802,676
Dividend for non-redeemable preferred shares	-	-
Adjustment of net gains to which the holders of common shares are entitled	629,745	802,676
Net gains to which the holders of common shares are entitled	629,745	802,676
	current year 2011	Number of shares previous year 2010
<i>Weighted average number of common shares</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from changes in the number of common shares during the year	-	-
Weighted average number of common shares on 31 December	17,460,180	17,460,180
Basic earnings per share (in MKD)	36,07	45.98

B. Diluted earning per share

	current year 2011	In Denar previous year 2010
<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	629,745	802,676
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
Net gains to which the holders of common shares are entitled (diluted)	629,745	802,676

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

41. EARNINGS PER SHARE (continued)

B. Diluted earnings per share (continued)

	Number of shares	
	current year 2011	previous year 2010
<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)	36,07	45,98

42. COMMITMENTS AND CONTINGENCIES

42.1 COMMITMENTS

	In thousands of Denars	
	current year 2011	previous year 2010
Payment uncovered guarantees		
in Denar	1,124,355	1,128,697
in foreign currency	566,280	552,023
in Denar with FC Clause	63,010	42,409
Performance uncovered guarantees		
in Denar	646,404	747,960
in foreign currency	212,040	248,043
in Denar with FC Clause	1,417,759	1,509,700
Uncovered letters of credit		
in Denar	-	-
in foreign currency	172,209	515,963
in Denar with FC Clause	-	-
Unutilized overdrafts under current accounts	1,245,769	1,187,155
Unutilized limits under credit cards	4,823,525	5,969,219
Taken liabilities for financing and unutilized credit limits	793,026	1,222,934
Other uncovered contingent liabilities	-	-
Issued covered letters of guarantee	382,597	296,346
Covered letters of credit	16,203	45,180
Other covered contingent liabilities	-	-
Total contingent liabilities before special reserve	11,463,177	13,465,629
(Special reserve)	(115,272)	(108,694)
Total contingent liabilities reduced by special reserve	11,347,905	13,356,935

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

42. COMMITMENTS AND CONTINGENCIES (continued)

Litigations



The Bank is involved in legal proceedings from its daily operations. The amount of litigation that link against the Bank on December 31, 2011, for which are made appropriate analysis on which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank and because it could result materially significant losses on the basis of these disputes, is 19,261 thousand. The said amount does not include penalty interest. According to the above, in 2011, the Bank allocated provisions for impairment losses upon litigation in the amount of 2,920 thousand (2010: 7.793).

42.2 CONTINGENCIES

	In thousands of Denars	
	current year 2011	previous year 2010
	<u> </u>	<u> </u>
	-	-
Total contingent assets	<u> </u>	<u> </u>

43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year 2011			In thousands of Denars Previous year 2010		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net position</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net position</u>
Administration of assets on behalf and for account of third parties						
Denar deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
Denar loans	266,067	266,067	-	266,067	266,067	-
FC loans	221,786	221,786	-	233,305	233,305	-
Other Denar claims	805,789	805,789	-	680,902	680,902	-
Other FC claims	655,781	655,781	-	139,271	139,271	-
Asset management on behalf and for account of third parties						
Denar deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
Denar loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other Denar claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
Custody accounts	6,409	19,578	13,169	-	-	-
Other	-	-	-	-	-	-
Total	<u>1,955,832</u>	<u>1,969,001</u>	<u>13,169</u>	<u>1,319,545</u>	<u>1,319,545</u>	<u>-</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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 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	1,027,726	-	-	-	-	1,027,726
Investments in securities (Value adjustment)	-	-	-	-	-	-
Other assets	516	-	-	-	-	516
Total	1,035,859	-	-	10,020	6,740	1,052,619
Liabilities						
Trading liabilities						
Deposits	-	-	-	28,285	4,292	32,577
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	2,767,725	-	-	-	-	2,767,725
Other liabilities	12,487	-	-	-	-	12,487
Total	2,780,212	-	-	28,285	4,292	2,812,789
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 REPORTS
December 31, 2011

44. RELATED PARTY TRANSACTIONS (continued)

A. Balance Sheet (continued)

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
31 December 2010						
Assets						
Current accounts	10,694	-	-	-	4,286	14,980
Trading assets	-	-	-	-	-	-
Loans and claims	-	-	-	-	-	-
mortgage loans	-	-	-	1,576	-	1,576
consumer loans	-	-	-	-	-	-
claims under financial leasing	-	-	-	-	-	-
claims under factoring and forfeiting	-	-	-	-	-	-
other loans and claims	882,101	-	-	-	-	882,101
Investments in securities	-	-	-	-	-	-
(Value adjustment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	892,795	-	-	1,576	4,286	898,657
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	1,845,150	-	-	34,148	4,275	1,883,573
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	2,767,725	-	-	-	-	2,767,725
Other liabilities	11,614	-	-	-	-	11,614
Total	4,624,489	-	-	34,148	4,275	4,662,912
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	111,246	111,246
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	111,246	111,246
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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
2011 current 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

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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
2010 previous year						
Income						
Interest income	1,914	-	-	90	11	2,015
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	1,914	-	-	90	11	2,015
Expenditures						
Interest expenditures	90,599	-	-	-	17	90,616
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	-	-	-	24,214	18	24,232
Transfers between entities	-	-	-	-	-	-
Total	90,599	-	-	24,214	35	114,848

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2011	previous year 2010
Short-term benefits for employees	23,535	17,659
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	5,549	6,555
Total	29,084	24,214

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

44. RELATED PARTY TRANSACTIONS (continued)

Related parties include 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 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

	Total claims under financial leasehold	In thousands of Denars Maturity period of claims under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2011 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
31 December 2010 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-

A.2 Payables under irrevocable operating leaseholds

	Total claims under financial leasehold	In thousands of Denars Maturity period of claims under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2011 (current year)				
Current value of minimum payment for the leasehold	2,704	2,704	-	-
31 December 2010 (previous year)				
Current value of minimum payment for the leasehold	2,531	2,531	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

45. Lease commitments (continued)

A. Lessor (continued)

A.2 Payables under irrevocable operating leaseholds (continued)

	In thousands of Denars						Total
	Land	Buildings	Means of transporta tion	Furniture and office equipment	Other equipment	Other items of property and equipment	
Value of property given under operating leasehold:							
31 December 2011 (current year)	-	83,182	-	-	-	-	83,182
31 December 2010 (previous year)	-	90,025	-	-	-	-	90,025
Total	-	-	-	-	-	-	-

Agreed liabilities for operating leases relate to the property not used by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew the lease contract.

Future operating lease income is approximately on the level of current income from rents.

B. Lessee

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
As at 31 December 2011 (current year)	-	-	-	-
As at 31 December 2010 (previous year)	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

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							
As at 1 January 2010	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
As at 31 December 2010	-	-	-	-	-	-	-
As at 1 January 2011	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
As at 31 December 2011	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
As at 1 January 2010	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
As at 31 December 2010	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-
As at 31 December 2011	-	-	-	-	-	-	-
Current carrying amount							
As at 1 January 2010	-	-	-	-	-	-	-
As at 31 December 2010	-	-	-	-	-	-	-
As at 31 December 2011	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

45. Lease commitments (continued)

B. Lessee (continued)

B.2 Liabilities under irrevocable operating leaseholds

	Total liabilities under operating leasehold	In thousands of Denars Maturity period of liabilities under operating leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
As at 31 December 2011 (current year)	-	-	-	-
As at 31 December 2010 (previous year)	-	-	-	-

46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2011	previous year 2010
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 2011		Previous year 2010	
	number of options for shares	weighted average price of options for shares	number of options for shares	weighted average price of options for shares
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	-	-	-	-
As at 31 December	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2011

47. TAXATION RISK

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

48. EXCHANGE RATES

Official exchange rates used in the translation of the balance sheet items denominated in foreign currencies were as follows:

	<u>2011</u>	In Denars <u>2010</u>
1 USD	47.5346	46.3140
1 EUR	61.5050	61.5050