

STOPANSKA BANKA AD, SKOPJE

**Financial Statements
Year Ended December 31, 2011 and
Independent Auditors' Report**

CONTENTS

	Page
Responsibility for the Financial Statements	1
Independent Auditors' Report	2
Statement of Comprehensive Income	3
Statement of Financial Position	4
Statement of Changes in Equity	5
Statement of Cash Flows	6-7
Notes to the Financial Statements	8 -77

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 International Financial Reporting Standards (“IFRS”), which give a true and fair view of the financial position and the 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 ensure that the financial statements comply with IFRS. 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:

Gligor Bishev
Chief Executive Officer

Diomidis Nikolettopoulos
Chief Finance and Operations Officer

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND MANAGEMENT OF STOPANSKA BANKA AD, SKOPJE

We have audited the accompanying financial statements (page 3 to 77) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Stopanska Banka AD, Skopje as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO

March 30, 2012

Deloitte DOO
ul. Mit. Teodosij Gologanov 28
Skopje, Macedonia

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2011
(In thousands of Denars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Interest income		4,343,524	4,756,471
Interest expense		<u>(2,302,664)</u>	<u>(2,387,026)</u>
Net interest income	6	2,040,860	2,369,445
Fee and commission income		945,138	987,563
Fee and commission expense		<u>(97,460)</u>	<u>(80,851)</u>
Net fee and commission income	7	847,678	906,712
Trading income/(expense), net	8	26,607	(18,886)
Foreign exchange gains, net	9	133,796	157,772
Other operating income	10	80,357	116,550
Impairment losses, net	11	(348,967)	(649,356)
Personnel expenses	12	(733,364)	(749,784)
Depreciation and amortization	13	(186,077)	(191,092)
Other operating expenses	14	<u>(1,075,189)</u>	<u>(1,061,366)</u>
Profit before tax		785,701	879,995
Income tax expense	15	<u>(17,569)</u>	<u>(3,747)</u>
Profit for the year		768,132	876,248
Other comprehensive income			
Net value gain on available-for-sale financial assets	32	<u>23,722</u>	<u>(10,227)</u>
Other comprehensive income for the year, net of tax		<u>23,722</u>	<u>(10,227)</u>
Total comprehensive income for the year		<u>791,854</u>	<u>866,021</u>
Profit attributable to:			
Owners of the Bank		768,132	876,248
Total comprehensive income attributable to:			
Owners of the Bank		791,854	866,021
Earnings per share	33		
Basic (in Denars)		43.99	50.19
Diluted (in Denars)		43.99	50.19

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

The financial statements have been approved by the management of the Bank on February 21, 2012 and by the Bank's Supervisory Board on February 28, 2012.

Signed on behalf of Stopanska Banka AD, Skopje:

Gligor Bishev
Chief Executive Officer

Diomidis Nikolettopoulos
Chief Finance and Operations Officer

STATEMENT OF FINANCIAL POSITION
At December 31, 2011
(In thousands of Denars)

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Cash and cash equivalents	16	21,695,862	20,329,498
Held-for-trading financial assets	17	141,828	120,862
Available-for-sale financial assets	18	93,984	349,751
Held-to-maturity financial assets	19	1,741,696	2,620,766
Placement with, and loans to banks	20	123,289	120,349
Loans to customers	21	44,598,280	42,446,073
Other assets	22	997,858	984,089
Income tax receivable		7,536	4,801
Investment property	23	58,286	62,947
Intangible assets, net	24	152,269	179,427
Property and equipment, net	25	937,445	1,023,912
Deferred tax assets	15	-	15,504
Total assets		<u>70,548,333</u>	<u>68,257,979</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	26	146,172	2,320,213
Deposits from customers	27	56,701,616	53,507,168
Loans payable	28	832,501	478,419
Subordinated debt	29	2,780,212	2,779,339
Other liabilities	30	613,995	502,989
Provisions	31	173,897	161,765
Total liabilities		<u>61,248,393</u>	<u>59,749,893</u>
EQUITY			
Share capital	32	3,511,242	3,511,242
Reserves	32	854,443	710,320
Retained earnings		4,934,255	4,286,524
Total equity		<u>9,299,940</u>	<u>8,508,086</u>
Total liabilities and equity		<u>70,548,333</u>	<u>68,257,979</u>
Commitments and contingencies	35	<u>11,326,830</u>	<u>13,356,935</u>

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

STATEMENT OF CHANGES IN EQUITY**Year ended December 31, 2011****(In thousands of Denars)**

	Share capital	Revalua- tion reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2010	3,511,242	9,575	606,363	1,083	3,513,802	7,642,065
Transfer to statutory reserve	-	-	103,526	-	(103,526)	-
Total other comprehensive income for the year, net of tax	-	(10,227)	-	-	-	(10,227)
Profit for the year	-	-	-	-	876,248	876,248
Balance, December 31, 2010	<u>3,511,242</u>	<u>(652)</u>	<u>709,889</u>	<u>1,083</u>	<u>4,286,524</u>	<u>8,508,086</u>
Balance, January 1, 2011	3,511,242	(652)	709,889	1,083	4,286,524	8,508,086
Transfer to statutory reserve	-	-	120,401	-	(120,401)	-
Total other comprehensive income for the year, net of tax	-	23,722	-	-	-	23,722
Profit for the year	-	-	-	-	768,132	768,132
Balance, December 31, 2011	<u>3,511,242</u>	<u>23,070</u>	<u>830,290</u>	<u>1,083</u>	<u>4,934,255</u>	<u>9,299,940</u>

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

STATEMENT OF CASH FLOWS
Year ended December 31, 2011
(In thousands of Denars)

	<u>2011</u>	<u>2010</u>
Profit before tax	768,132	876,248
<i>Adjustments for:</i>		
Depreciation of property and equipment	124,671	137,169
Depreciation of investment property	3,648	362
Amortization of intangible assets	57,758	53,561
Gain on sale of property and equipment, net	(2,619)	(13,053)
Gain on sale of foreclosure assets, net	(17,461)	(8,427)
Interest income	(4,343,524)	(4,756,471)
Interest expense	2,302,664	2,387,026
Net trading (income)/expense	(26,607)	18,886
Deferred tax (benefit)/expense	15,504	(5,820)
Impairment losses on financial assets, net	342,867	587,199
Impairment losses on non-financial assets	6,100	62,157
Provision for employee benefits, net	(11,549)	(8,949)
(Reversal)/Provision for litigation, net	(2,920)	7,793
Write off of liabilities for bonuses	-	(8,840)
Interest receipts	4,480,057	4,778,914
Interest paid	<u>(2,306,758)</u>	<u>(2,391,548)</u>
Operating profit before changes in operating assets and liabilities:	1,389,963	1,716,207
<i>(Increase)/decrease of operating assets:</i>		
Held-for-trading financial assets	(20,966)	78,412
Due from banks	13	26,426
Loans to customers	(2,437,269)	(1,264,063)
Mandatory reserves and restricted deposits according NBRM regulations	(67,677)	45,790
Other receivables	(23,763)	(220,076)
Net deferred tax assets and liabilities	15,504	(5,820)
<i>Increase/(decrease) of operating liabilities:</i>		
Held-for-trading financial liabilities	-	(1,196)
Deposits from banks	(2,174,041)	(374,962)
Deposits from customers	3,194,448	1,708,714
Other liabilities	<u>111,006</u>	<u>66,888</u>
Net cash flows (used for)/generated from operating activities before income tax	(12,782)	1,776,320
Income tax paid	<u>(4,800)</u>	<u>(4,085)</u>
Net cash flows (used for)/generated from operating activities	<u>(17,582)</u>	<u>1,772,235</u>

(Continued)

STATEMENT OF CASH FLOWS (Continued)
Year ended December 31, 2011
(In thousands of Denars)

	<u>2011</u>	<u>2010</u>
Cash flows from investing activities		
Acquisition of property and equipment	(45,746)	(78,147)
Acquisition of intangible assets	(26,498)	(46,643)
Acquisition of investment property	-	(1,362)
Proceeds from investments, net	1,032,568	479,412
Proceeds from sale of property and equipment	6,059	25,811
Proceeds from sale of investment property	-	819
Dividend received	3,070	2,624
Net cash flows from investing activities	<u>969,453</u>	<u>382,514</u>
Cash flows from financing activities		
Net increase of loans (including subordinated debt)	354,955	227,098
Dividends paid	(8,139)	(10,251)
Net cash flows from financing activities	<u>346,816</u>	<u>216,847</u>
Net increase of cash and cash equivalents	1,298,687	2,371,596
Cash and cash equivalents, beginning of the year	<u>17,514,200</u>	<u>15,142,604</u>
Cash and cash equivalents at the end of the year	<u><u>18,812,887</u></u>	<u><u>17,514,200</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

1. 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 St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with a network of 64 branches (2010: 66branches).

The Bank is registered as a universal type of commercial bank in accordance with the 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, deposit certificates);
- 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 to 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, incorporated in Greece, which has 94.64% (2010: 94.64%) shareholding in the Bank and represents its ultimate parent company.

The shares of the Bank are not listed on the Regular Market on the Macedonian Stock Exchange (MSE), but are listed on MSE on the Market of publicly held companies with the special disclosure requirements and the ID quotation code is the following:

<u>Symbol</u>	<u>ISIN code</u>
STB (common shares)	MKSTBS101014
STBP (preference shares)	MKSTBS120014

The Bank's financial statements of the Bank for the year ended December 31, 2011 have been approved by the Bank's Supervisory Board on February 28, 2012.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards adopted by the International Accounting Standards Board (the "IASB").

The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (included derivative financial instruments) held at fair value through profit or loss, under the going concern assumption.

(c) Functional and reporting currency

The financial statements are presented in Denars which is the Bank's functional currency. All financial information is presented in Denars rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated 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 values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 3.22 to the financial statements.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

e) Standards and Interpretations Effective in the Current Period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IAS 24 "Related Party Disclosures"** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. Basis of Preparation of Financial Statements(Continued)

e) Standards and Interpretations Effective in the Current Period (Continued)

- **Amendments to various standards and interpretations “Improvements to IFRSs (2010)”** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **Amendments to IFRIC 14 “IAS 19 - The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction”** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”** (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Entity's accounting policies.

f) Standards and Interpretations in Issue not yet Adopted

At the date of authorisation of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2015),
- **IFRS 10 “Consolidated Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 “Joint Arrangements”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 “Disclosures of Involvement with Other Entities”** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 “Fair Value Measurement”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) “Separate Financial Statements”** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”** - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures”** – Mandatory Effective Date and Transition Disclosures,

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

2. Basis of Preparation of Financial Statements(Continued)

f) Standards and Interpretations in Issue not yet Adopted (Continued)

- **Amendments to IAS 1 “Presentation of financial statements”** -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes”** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 “Employee Benefits”** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 “Financial instruments: presentation”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**(effective for annual periods beginning on or after 1 January 2013).

The Entity has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

g) Comparative Figures

In order to conform with the presentation of the figures in the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2010. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the financial statements. Details of reclassifications are described in Note 37.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3.2 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.

3.3 Dividend income

Dividend income is recognized when the right to receive payment is established for all shareholders who participate in income distribution.

3.4 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.

3.5 Financial assets

Financial assets are classified into the following specified categories: held-for-trading financial assets, 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.

Held-for-trading financial assets

Held-for-trading financial assets, 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 transaction price, which represents the fair value and subsequently measured at fair value as determined based on their market price.

The held-for-trading financial assets include derivative financial instruments of foreign exchange contracts and initially and subsequently are measured/re-measured at fair value. These contracts do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held-for-trading, i.e. fair value gains and losses are recognized in net-trading income.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Held-for-trading financial assets (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 transaction price, which represents the fair value, 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.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other comprehensive income and accumulated in the revaluation reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously accumulated in the revaluation reserves should be recognized in profit or loss. However, interest calculated using the effective interest method 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 and deferred loan's origination fees.

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, a significant or prolonged decline in the fair value of the security below its cost is 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Impairment losses on loans and advances

Allowances for losses on impairment and un-collectability 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 is presented within the provisions. Additions to provision are recognized through impairment losses on financial assets in the income statement. The allowances for losses on impairment and un-collectability are determined on the basis of the degree (size) of the risk of un-collectability 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 un-collectability 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 un-collectability of loans in the loan portfolio that may not be identified on a specific basis, the allowances for losses on impairment and un-collectability 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 un-collectability 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 un-collectability are reviewed and tested at least quarterly, 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 un-collectability recorded 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 un-collectability. Further collections are recorded as reduction of losses on impairment and un-collectability in the income statement.

Renegotiated loans

Once the terms of the loan have been renegotiated, the loan is no longer considered past due provided that all conditions required under the new arrangement are satisfied. The Bank continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Derecognition of financial assets

The Bank derecognizes financial assets when the right to receive cash from the financial asset have expired or has transferred its rights to receive cash flows from the asset and substantially all the risks and rewards of ownership of the assets to another entity.

3.6 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, held-for-trading financial liabilities, loans payable and other payables.

Deposits from banks and other financial institutions and customers

These financial liabilities are initially recognized at fair value net of transaction costs incurred. Subsequently are measured at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

Held-for-trading financial liabilities

These financial liabilities include derivative financial instruments of foreign exchange contracts and initially and subsequently are measured/re-measured at fair value. These contracts do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held-for-trading, i.e. fair value gains and losses are recognized in net-trading income.

Loans payable

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

Other payables

Other payables are stated at their nominal amounts.

Derecognition of financial liabilities

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

3.7 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 reviewed 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets include:

- Computer software and software that was acquired apart from hardware;
- Leasehold improvements; and
- Other intangibles.

Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The leasehold improvements and other intangible assets are amortized on a straight-line basis over the relevant contract period. The Bank annually reviewed its intangible assets and assess 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.

3.9 Impairment of tangible and intangible assets

The Bank's management reviews regularly the carrying amounts of the Bank's 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.

3.10 Investment property

Investment property includes buildings owned by the Bank with the intention of earning rentals or for capital appreciation or both, and is initially recorded at cost, which includes transaction costs. The classification of the investment property is based on the criteria that the property is mostly held to earn rentals when compared to the property used by the Bank for its own needs.

Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation of investment property is calculated on straight-line basis in a way to write off the cost value of assets over their estimated useful lives, which approximates the useful life of similar assets included in property and equipment.

Investment property is annually reviewed for impairment. 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.

3.11 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 are reported in other assets as non-current assets held for sale. Initially, these asset 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 arises) 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 at least annually and are measured at the lower of their carrying amount less estimated costs to sell and accumulated impairments.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand and nostro accounts, 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 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.

3.14 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, 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.

Employment benefits

Health, pension and social insurance contributions from gross 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 and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3.15 Income tax

The current income tax payable is calculated based on the local tax regulation by 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.

3.16 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of the Bank. The Bank has determined the Management Board as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

Geographical areas include income from assets that are either located or are managed in the respective geographical area.

3.18 Offsetting

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

3.19 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: a) the unamortized balance of the related fees received and deferred, and b) the best estimate of the amount required to settle the guarantee at the reporting date.

3.20 Related party transactions

Related parties are related to the Bank if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Bank (this includes parent and fellow subsidiaries in the NBG Group) and has an interest in the Bank that gives it significant influence over the Bank, or the party is a member of the key management personnel of the Bank or its parent or is a close member of the family of any individual which is described above. A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. All banking transactions entered into which related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

3.21 Earnings per share

A basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

A diluted earnings per share ratio is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 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 are 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 standardized 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.

Useful lives 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Risk related to the Greek crisis and the European debt crisis

The escalation in the European crisis and in effect the crisis in the Greek economy, resulted in impairment losses in several classes of assets like Greek government bonds and other loans in Greece which have adversely impacted the financial position, the results, cash flows and regulatory ratios of NBG and consequently of the Group. Furthermore, the crisis has reduced NBG's access to liquidity from other financial institutions. The recapitalization program for Greek banks was established as an integral part of the financial assistance under the second economic adjustment program for Greece, adopted by the Council of the EU (the "Eurogroup") meetings on 21 February 2012 and 13 March 2012 (the "Program"). The Program, which has already been approved by the EU and the International Monetary Fund (the "IMF"), along with a specific sequencing of disbursements, commits funds for the recapitalization plan, amounting to about €50 billion and is now in the implementation phase under the auspices of the Bank of Greece (the "BoG").

Despite the negative global trends in the financial services industry, Stopanska banka AD Skopje remained well-capitalized, highly liquid, and primarily funded by domestic deposits. The Bank has no exposure to any foreign European government debt nor significant placements or significant financial commitments with its Parent company. The recent stress test, performed under strict criteria demonstrated that the Bank is adequately capitalized and sufficiently liquid, and the management believes that any eventual withdrawal of the deposits by the Parent would not affect significantly the liquidity of Stopanska banka AD Skopje. As disclosed in Note 29 and Note 34, the Bank has received two subordinated loans from its Parent company amounting to EUR 20 and 25 million as of December 31, 2011 (representing 4.54% of the total liabilities of the Bank). The subordinated term debt is used as supplementary capital reserve to meet the requirements of the National Bank of the Republic of Macedonia regulations on capital adequacy. The maturity of debt is until December 2016 and November 2018 and the loans cannot be withdrawn by the Parent without the prior consent of the National Bank of Republic of Macedonia. The strong capital base with a capital adequacy ratio of 17.64%, enables the Bank to face any reasonably foreseeable adversity. Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. 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 to reflect changes in markets, products and emerging best practice.

The Bank's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Supervisory Board, Board of Directors, Senior Management, as well as between the Bank and the NBG Group, its customers and any other stakeholders. 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 and capital 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 and the Senior Management. These include the establishment of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as, other critical support functions fall into this category.
- Operational (business line) level – It involves management of risks at the point where they are actually created. 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 operational procedures and guidelines set by management.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 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).

4.2.1 Credit risk measurement, limits and mitigation policies

Initially, when approving loans and loan commitments, the authorized Credit Approval Committees assess creditworthiness of the clients depending on the type and size of the exposure and 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 Risk Management Committee, Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The Bank has an internal system of classification of customers whose main aim is determining their creditworthiness and evaluation of the acceptable level of credit risk in starting lending. Classification of customers to which the Bank is exposed are reviewed at least annually. The Bank has implemented a system of early warning signals in order to timely identify any deterioration in the creditworthiness of the client and take appropriate action to mitigate credit risk.

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

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

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral, also limit of the exposure to Bank internal persons, and large exposures, exposure by sector of activity are set in the Risk Strategy and further detailed in the Bank's credit risk management policies and procedures. 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.

The loan portfolio of the Bank remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks. For that purpose, the Bank has introduced a set of limits that control the exposure of the Bank towards different types of borrowers, industry sectors, geographic location and type of collateral.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies

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

The individual approach encompasses at least 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 basis are determined by evaluation of generated loss on the balance sheet date, which represents the difference between the carrying and present value of projected future cash flows. Effective interest rate is used for discounting the future cash over a year.

All non-performing loans are assessed for impairment on individual basis.

The calculated impairment losses on group basis are provisioned on portfolios of homogenous assets that are individually lower than the materiality thresholds and for which sufficient long data series for the average life of the portfolio to calculate the parameters for correction. Impairment and provisioning are calculated by using parameters that are obtained from historical data on the delinquency rate 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 impairment on individual basis, and which can be grouped in homogenous portfolios according to credit risk similarity, are included in the collective assessment for impairment calculation.

The impairment methodology assists Management in determining whether objective evidence of impairment exists under IAS 39 in full, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest,
- Initiated bankruptcy procedures or some form of financial reorganization,
- Significant financial difficulty of the debtor,
- Loss of significant customer(s),
- Damage of property, plant or equipment, used in the obligor's operations or taken as collateral,
- Conviction for criminal activities,
- Fraud relating to the granting of the loan,
- Obligor operates in an industry sector with financial difficulties, or in a country whose economy is in recession.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Credit risk exposure relating to on balance sheet assets		
Cash and cash equivalents	21,695,862	20,329,498
Held-for-trading financial assets	141,828	120,862
Available-for-sale financial assets	93,984	349,751
Held-to-maturity financial assets	1,741,696	2,620,766
Placement with, and loans to banks	123,289	120,349
Loans to customers	44,598,280	42,446,073
Other receivables (less foreclosure assets)	216,173	168,649
	<u>68,611,112</u>	<u>66,155,948</u>
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	4,085,774	4,206,895
Standby letters of credits	188,412	561,143
Commitments to extend credits	6,862,320	8,379,308
Other off-balance sheet commitments	326,671	318,283
Gross exposure	<u>11,463,177</u>	<u>13,465,629</u>
Less: Provision for off-balance sheet items	<u>(136,347)</u>	<u>(108,694)</u>
	<u>11,326,830</u>	<u>13,356,935</u>
Total credit risk exposure	<u>79,937,942</u>	<u>79,512,883</u>

Deposits, property, cars, government bonds, pledges over machines and other movables are accepted as collateral in order to secure the credit exposures.

Mortgages are fully secured by property (residential and business premises) or deposits with a loan to value ratio up to 75%. Consumer loans in the amounts over EUR 10,000 are fully secured by property (only residential premises) or deposits.

Auto loans (included in category-consumer loans) are secured by vehicles.

The corporate loans and small business lines are secured with different types of collaterals: residential mortgage, commercial premises, cars, pledge over machines and other movables, L/Gs from first-class banks, corporate L/Gs and personal bills of exchange taking into consideration the quality of the collateral and the loan to value ratio.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

Loans to customers are summarized below:

a) Loans to customers neither past due nor impaired

	Neither past due nor impaired	Past due but not impaired	Individ. imp aired	Total gross	Allowance for individ. impaired loans	Allowance for collectivel y impaired loans	Total allowance for impairm.	Total net
December 31, 2011								
Cards	2,257,609	445,463	5,303	2,708,375	(3,472)	(111,272)	(114,744)	2,593,631
Consumer	13,820,332	4,507,730	109,561	18,437,623	(25,399)	(1,049,050)	(1,074,449)	17,363,174
Mortgage	5,769,534	1,162,728	359,151	7,291,413	(44,086)	(17,934)	(62,020)	7,229,393
Small business loans	6,038,010	1,495,762	2,117,607	9,651,379	(1,143,018)	(49,809)	(1,192,827)	8,458,552
Corporate loans	6,985,892	526,877	2,962,902	10,475,671	(1,479,436)	(42,705)	(1,522,141)	8,953,530
Total	34,871,377	8,138,560	5,554,524	48,564,461	(2,695,411)	(1,270,770)	(3,966,181)	44,598,280

	Neither past due nor impaired	Past due but not impaired	Individ. impaired	Total gross	Allowance for Individ. imp aired loans	Allowance for collectivel y impaired loans	Total allowance for impairm.	Total net
December 31, 2010								
Cards	2,217,295	360,024	50,087	2,627,406	(2,690)	(85,582)	(88,272)	2,539,134
Consumer	14,047,892	3,470,666	39,810	17,558,368	(12,673)	(785,806)	(798,479)	16,759,889
Mortgage	5,431,360	1,108,167	266,457	6,805,984	(63,714)	(23,999)	(87,713)	6,718,271
Small business loans	3,422	-	9,076,086	9,079,508	(1,503,969)	-	(1,503,969)	7,575,539
Corporate loans	8,514	-	10,290,389	10,298,903	(1,445,663)	-	(1,445,663)	8,853,240
Total	21,708,483	4,938,857	19,722,829	46,370,169	(3,028,709)	(895,387)	(3,924,096)	42,446,073

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

a) Loans to customers neither past due nor impaired (Continued)

All the loans to customers neither past due nor impaired have been mapped to the group of the satisfactory credit risk based on the criteria of the internal credit-quality grading system.

b) Loans to customers past due but not individually impaired

	<u>Past due up to 30 days</u>	<u>Past due 31-60 days</u>	<u>Past due 61-90 days</u>	<u>Past due 91-180 days</u>	<u>Past due 180-365 days</u>	<u>Past due 1-2 years</u>	<u>Past due over 2 years</u>	<u>Total</u>
December 31, 2011								
Cards	276,117	32,917	8,058	54,425	-	73,946	-	445,463
Consumer	2,491,943	541,171	186,750	372,139	151,484	764,243	-	4,507,730
Mortgage	921,477	156,373	47,624	20,826	800	15,628	-	1,162,728
Small-business loans	1,495,762	-	-	-	-	-	-	1,495,762
Corporate loans	526,877	-	-	-	-	-	-	526,877
Total	<u>5,712,176</u>	<u>730,461</u>	<u>242,432</u>	<u>447,390</u>	<u>152,284</u>	<u>853,817</u>	<u>-</u>	<u>8,138,560</u>

	<u>Past due up to 30 days</u>	<u>Past due 31-60 days</u>	<u>Past due 61-90 days</u>	<u>Past due 91-180 days</u>	<u>Past due 180-365 days</u>	<u>Past due 1-2 years</u>	<u>Past due over 2 years</u>	<u>Total</u>
December 31, 2010								
Cards	221,106	28,862	13,701	64,400	-	31,955	-	360,024
Consumer	1,789,806	459,790	190,296	530,755	156,637	343,382	-	3,470,666
Mortgage	926,415	101,376	32,320	19,998	8,027	20,031	-	1,108,167
Total	<u>2,937,327</u>	<u>590,028</u>	<u>236,317</u>	<u>615,153</u>	<u>164,664</u>	<u>395,368</u>	<u>-</u>	<u>4,938,857</u>

The fair value of collateral is based on valuation techniques that are used for similar assets.

The fair value of collateral for retail portfolio is as follows:

	<u>2011</u>	<u>2010</u>
Cash and balances with the Central bank	377,951	176,087
Movable property	3,621,802	3,942,373
Residential property	24,077,359	20,279,973
Other real estate	4,203,427	3,347,105
Total	<u>32,280,539</u>	<u>27,745,538</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

b) Loans to customers past due but not individually impaired (Continued)

The fair value of collateral for corporate portfolio is summarized below:

	<u>2011</u>	<u>2010</u>
Cash and balances with the Central bank	472,072	577,198
Financial and corporate guarantees	4,629,260	5,568,087
Movable property	11,706,976	19,347,240
Real estate	<u>24,078,871</u>	<u>37,431,645</u>
Total	<u><u>40,887,179</u></u>	<u><u>62,924,170</u></u>

c) Renegotiated loans to customers

The Bank is renegotiating the loan to the borrower due to a diminishing of the borrower's creditworthiness, if it has:

- a. Extended the principal and interest maturity;
- b. Decreased the interest rate on the loan approved;
- c. Reduced the amount of debt, principal or interest;
- d. Made other concessions, which place the borrower in better financial position.

Upon renegotiating of the loan, the Bank performs a financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is renegotiated..

During 2011 the Bank has renegotiated loans at a total value of Denar 1,426,042 thousand (2010: nil).

4.2.5 Foreclosed assets

During 2011, the Bank engaged two external appraisal companies in order to determine the fair value of the foreclosed assets.

In this period, the Bank sold 34 assets (2010: 23 assets) at a total value of Denar 107,486 thousand (2010: Denar 12,754 thousand), whereas it foreclosed 5 facilities (2010: 31 facilities) at a total value of Denar 36,678 thousand (2010: Denar 284,015 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it. The Bank utilizes such facilities for its own activities very rarely.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2011 and 2010. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

<i>Geographical region</i>	Cash and cash equivalents		Held-for-trading financial assets		Available-for-sale financial assets		Held-to-maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Republic of Macedonia	17,274,602	15,910,646	31,473	42,592	93,953	349,720	1,741,696	2,620,766	-	-	44,598,280	42,446,073	216,173	168,649	63,956,177	61,512,080
EU member countries	3,323,839	3,491,958	-	-	31	31	-	-	64,174	62,235	-	-	-	-	3,388,044	3,554,194
Europe (other)	745,440	648,093	-	-	-	-	-	-	-	-	-	-	-	-	-	648,093
OECD member countries (less European OECD member countries)	351,981	278,801	103,372	69,817	-	-	-	-	-	-	-	-	-	-	848,812	348,618
Other	-	-	6,983	8,453	-	-	-	-	59,115	58,114	-	-	-	-	418,079	61,114
Total	21,695,862	20,329,498	141,828	120,862	93,984	349,751	1,741,696	2,620,766	123,289	120,349	44,598,280	42,446,073	216,173	168,649	68,611,112	66,112,080

Credit risk exposure relating to net to off-balance sheet items entirely relates to the geographical region of the Republic of Macedonia.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector

The table breaks down the Bank's main credit exposure of the on balance sheet financial assets at their carrying amounts, as summarized by the industry sectors of the counterparties

	Cash and cash equivalents		Held-for-trading financial assets		Available- for-sale financial assets		Held- to- maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<i>Industry</i>																
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	2,166	-	2,166	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-	764,127	654,825	19	251	764,146	655,076
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	168,420	82,646	179	-	168,599	82,646
Manufacturing	-	-	-	-	-	2,190	-	-	-	-	5,827,015	6,422,675	32,773	1,000	5,859,788	6,425,865
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	-	-	1,698,080	1,085,638	3	-	1,698,083	1,085,638
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	-	-	5,473	-	103	-	5,576	-
Construction	-	-	-	-	-	-	-	-	-	-	1,504,570	1,207,437	357	-	1,504,927	1,207,437
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	890	1,563	-	-	-	-	4,988,377	4,266,914	157,378	120,187	5,146,645	4,388,664
Transportation and storage	-	-	-	-	-	-	-	-	-	-	754,852	894,295	622	286	755,474	894,581
Accommodation and food service activities	-	-	-	-	-	-	-	-	-	-	376,661	465,665	6	71	376,667	465,736
Information and communication	-	-	-	-	-	-	-	-	-	-	52,467	-	-	-	52,467	-
Financial and insurance activities	19,845,979	19,239,187	110,355	80,867	93,094	89,203	-	308,464	123,289	120,349	56,826	24,114	1	-	20,229,544	19,862,184
Real estate activities	-	-	-	-	-	-	-	-	-	-	194,850	197,956	355	-	195,205	197,956
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	-	-	426,017	-	7	-	426,024	-
Administrative and support service activities	-	-	-	-	-	-	-	-	-	-	172,843	-	-	-	172,843	-
Public administration and defence; compulsory social security	1,849,883	1,090,311	31,473	39,995	-	256,795	1,741,696	2,312,302	-	-	-	40,333	981	4,140	3,624,033	3,743,876
Education	-	-	-	-	-	-	-	-	-	-	160,033	713,160	-	-	160,033	713,160
Human health and social work activities	-	-	-	-	-	-	-	-	-	-	144,004	176,985	27	9	144,031	176,994
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-	85,730	-	12	-	85,742	-
Other service activities	-	-	-	-	-	-	-	-	-	-	21,295	109,729	-	39	21,295	109,768
Individuals	-	-	-	-	-	-	-	-	-	-	27,196,640	26,076,508	15,370	9,691	27,212,010	26,086,199
Individual merchants and individuals not considered to be merchants	-	-	-	-	-	-	-	-	-	-	-	27,193	5,814	32,975	5,814	60,168
Total	21,695,862	20,329,498	141,828	120,862	93,984	349,751	1,741,696	2,620,766	123,289	120,349	44,598,280	42,446,073	216,173	168,649	68,611,112	66,155,948

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure (Continued)

Industry sector (Continued)

The table breaks down the Bank's main credit exposure of the off-balance sheet items at their carrying amounts, as summarized by the industry sectors of the counterparties.

<i>Industry</i>	In thousands of Denars	
	2011	2010
Non-residents	9,993	-
Agriculture, forestry and fishing	-	11,297
Mining and quarrying	86,361	1,705
Manufacturing	1,198,722	1,288,203
Electricity, gas, steam and air conditioning supply	620,235	1,291,939
Water supply; sewerage, waste management and remediation activities	909,495	-
Construction	564,058	1,475,589
Wholesale and retail trade; repair of motor vehicles and motorcycles	254,451	279,189
Transportation and storage	14,269	263,682
Accommodation and food service activities	2,887	3,535
Information and communication	1,262,996	-
Financial and insurance activities	181,930	1,481,940
Real estate activities	39,517	12,300
Professional, scientific and technical activities	82,965	-
Administrative and support service activities	3,232	-
Education	24,327	335
Human health and social work activities	19,040	285
Arts, entertainment and recreation	1,559	-
Other service activities	-	101,163
Individuals	6,050,793	7,139,028
Individual merchants and individuals not considered to be merchants	-	6,745
Total	11,326,830	13,356,935

4.3 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).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 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:

	In thousands of Denars December 31, 2011					
	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	5,974,151	1,272,786	1,184,445	8,431,382	13,264,480	21,695,862
Held-for-trading financial assets	38,456	103,372	-	141,828	-	141,828
Available-for-sale financial assets	31	-	-	31	93,953	93,984
Held-to-maturity financial assets	1,741,696	-	-	1,741,696	-	1,741,696
Placement with, and loans to banks	23,875	70,915	28,499	123,289	-	123,289
Loans to customers	25,215,156	629,768	28,373	25,873,297	18,724,983	44,598,280
Other receivables	24,950	3,990	177	29,117	187,056	216,173
Total assets	33,018,315	2,080,831	1,241,494	36,340,640	32,270,472	68,611,112
LIABILITIES						
Deposits from banks	75,174	4,845	66,153	146,172	-	146,172
Deposits from customers	24,256,660	1,998,828	1,106,442	27,361,930	29,339,686	56,701,616
Loans payable	624,084	25,242	-	649,326	183,175	832,501
Subordinated debt	2,780,212	-	-	2,780,212	-	2,780,212
Other liabilities	176,355	-	-	176,355	437,640	613,995
Total liabilities	27,912,485	2,028,915	1,172,595	31,113,995	29,960,501	61,074,496
Net currency gap	5,105,830	51,916	68,899	5,226,645	2,309,971	7,536,616

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars December 31, 2010						
	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	5,649,166	1,018,377	1,106,004	7,773,547	12,555,951	20,329,498
Held-for-trading financial assets	42,592	69,817	8,453	120,862	-	120,862
Available-for-sale financial assets	200,026	-	-	200,026	149,725	349,751
Held-to-maturity financial assets	2,620,766	-	-	2,620,766	-	2,620,766
Placement with, and loans to banks	36,590	77,769	5,990	120,349	-	120,349
Loans to customers	24,441,752	713,962	261,795	25,417,509	17,028,564	42,446,073
Other receivables	20,422	3,735	118	24,275	144,374	168,649
Total assets	33,011,314	1,883,660	1,382,360	36,277,334	29,878,614	66,155,948
LIABILITIES						
Deposits from banks	2,209,820	6,686	93,196	2,309,702	10,511	2,320,213
Deposits from customers	24,730,070	1,800,985	1,018,717	27,549,772	25,957,396	53,507,168
Loans payable	260,767	34,477	-	295,244	183,175	478,419
Subordinated debt	2,779,339	-	-	2,779,339	-	2,779,339
Other liabilities	167,619	391	1,353	169,363	333,626	502,989
Total liabilities	30,147,615	1,842,539	1,113,266	33,103,420	26,484,708	59,588,128
Net currency gap	2,863,699	41,121	269,094	3,173,914	3,393,906	6,567,820

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

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.

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.

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2011 and 2010.

	In thousand of Denars December 31, 2011		
	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	20,331,532	1,364,330	21,695,862
Held-for-trading financial assets	31,090	110,738	141,828
Available-for-sale financial assets	-	93,984	93,984
Held-to-maturity financial assets	1,729,272	12,424	1,741,696
Placement with, and loans to banks	63,575	59,714	123,289
Loans to customers	43,436,509	1,161,771	44,598,280
Other receivables	-	216,173	216,173
Total assets	65,591,978	3,019,134	68,611,112
LIABILITIES			
Deposits from banks	51,612	94,560	146,172
Deposits from customers	56,502,893	198,723	56,701,616
Loans payable	680,457	152,044	832,501
Subordinated debt	2,767,725	12,487	2,780,212
Other liabilities	-	613,995	613,995
Total liabilities	60,002,687	1,071,809	61,074,496
Net interest gap:	5,589,291	1,947,325	7,536,616

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

	In thousands of Denars December 31, 2010		
	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	19,259,739	1,069,759	20,329,498
Held-for-trading financial assets	39,507	81,355	120,862
Available-for-sale financial assets	256,797	92,954	349,751
Held-to-maturity financial assets	2,606,693	14,073	2,620,766
Placement with, and loans to banks	61,943	58,406	120,349
Loans to customers	41,937,720	508,353	42,446,073
Other receivables	-	168,649	168,649
Total assets	64,162,399	1,993,549	66,155,948
LIABILITIES			
Deposits from banks	2,252,324	67,889	2,320,213
Deposits from customers	53,192,909	314,259	53,507,168
Loans payable	327,114	151,305	478,419
Subordinated debt	2,767,725	11,614	2,779,339
Other liabilities	-	502,989	502,989
Total liabilities	58,607,186	980,942	59,588,128
Net interest gap:	5,555,213	1,012,607	6,567,820

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.4 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.

4.4.1 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 process of managing liquidity and liquidity risk is implemented through the establishment of adequate daily liquidity management through developing liquidity plans. The plans reflect the liquidity provided by cash flows and liquidity needed to funding the cash outflows.

During preparation of plans and projections for liquidity on a daily, weekly, monthly and long-term basis, all relevant aspects are taken in consideration - the established limits, maintaining the required currency structure, maturity matching of assets and sources of funds and other regulatory rules.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

	In thousands of Denars December 31, 2011						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	20,624,475	1,071,387	-	-	-	-	21,695,862
Held-for-trading financial assets	110,356	-	8,400	8,018	15,054	-	141,828
Available-for-sale financial assets	-	-	-	-	-	93,984	93,984
Held-to-maturity financial assets	143,387	131,965	401,046	532,419	532,879	-	1,741,696
Placement with, and loans to banks	59,714	-	-	-	-	63,575	123,289
Loans to customers	3,095,487	3,902,368	14,230,567	5,031,826	9,213,659	9,124,373	44,598,280
Other receivables	216,173	-	-	-	-	-	216,173
Total assets	24,249,592	5,105,720	14,640,013	5,572,263	9,761,592	9,281,932	68,611,112
LIABILITIES AND EQUITY							
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
Other liabilities	613,995	-	-	-	-	-	613,995
Total liabilities and equity	22,014,724	7,801,518	22,482,115	4,425,093	2,469,035	1,882,011	61,074,496
Net liquidity gap	2,234,868	(2,695,798)	(7,842,102)	1,147,170	7,292,557	7,399,921	7,536,616

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

	In thousands of Denars December 31, 2010						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	19,226,298	1,103,200	-	-	-	-	20,329,498
Held-for-trading financial assets	120,862	-	-	-	-	-	120,862
Available-for-sale financial assets	-	29,769	227,027	-	-	92,955	349,751
Held-to-maturity financial assets	142,664	128,996	751,799	1,064,426	532,881	-	2,620,766
Placement with, and loans to banks	58,406	-	-	-	-	61,943	120,349
Loans to customers	3,393,177	4,541,746	14,553,077	3,699,782	8,004,085	8,254,206	42,446,073
Other receivables	168,649	-	-	-	-	-	168,649
Total assets	23,110,056	5,803,711	15,531,903	4,764,208	8,536,966	8,409,104	66,155,948
LIABILITIES AND EQUITY							
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
Other liabilities	502,989	-	-	-	-	-	502,989
Total liabilities and equity	24,776,913	7,625,556	20,953,624	1,859,216	1,239,085	3,133,734	59,588,128
Net liquidity gap	(1,666,857)	(1,821,845)	(5,421,721)	2,904,992	7,297,881	5,275,370	6,567,820

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. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 43,605,326 thousand (2010: Denar 39,453,904 thousand) which helps the maturity non-reconciliation to be overcome.

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow)

The table below presents the cash flows payable by the Bank by remaining contractual maturities of non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.2 Contractual maturity analysis for non-derivative financial liabilities (undiscounted cash flow) (Continued)

									In thousands of Denars December 31, 2011	
	<u>Sight</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 2 years</u>	<u>From 2- 3 years</u>	<u>From 3- 4 years</u>	<u>From 4- 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
LIABILITIES										
Deposits from banks	146,172	-	-	17	-	-	-	-	-	146,189
Deposits from customers	16,145,095	5,199,387	8,045,272	23,104,942	4,563,207	479,569	219,334	362,180	195,527	58,314,513
Loans payable (including subordinated debt)	9,264	79,006	32,241	214,990	282,823	259,040	216,626	154,732	3,104,272	4,352,994
Other liabilities	613,995	-	-	-	-	-	-	-	-	613,995
Total	<u>16,914,526</u>	<u>5,278,393</u>	<u>8,077,513</u>	<u>23,319,949</u>	<u>4,846,030</u>	<u>738,609</u>	<u>435,960</u>	<u>516,912</u>	<u>3,299,799</u>	<u>63,427,691</u>

									In thousands of Denars December 31, 2010	
	<u>Sight</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 2 years</u>	<u>From 2- 3 years</u>	<u>From 3- 4 years</u>	<u>From 4- 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
LIABILITIES										
Deposits from banks	167,322	1,926,125	125,005	564,943	6,623	874	490	-	-	2,791,382
Deposits from customers	17,147,799	5,174,546	7,840,135	21,013,658	1,881,290	875,617	152,602	153,478	222,289	54,461,414
Loans payable (including subordinated debt)	1,130	122,734	168,863	308,843	187,984	181,459	167,940	134,178	2,992,230	4,265,361
Other liabilities	502,989	-	-	-	-	-	-	-	-	502,989
Total	<u>17,819,240</u>	<u>7,223,405</u>	<u>8,134,003</u>	<u>21,887,444</u>	<u>2,075,897</u>	<u>1,057,950</u>	<u>321,032</u>	<u>287,656</u>	<u>3,214,519</u>	<u>62,021,146</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.3 Contractual maturity analysis for off-balance sheet items (undiscounted cash flow)

									In thousands of Denars December 31, 2011	
	<u>Sight</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 2 years</u>	<u>From 2 to 3 years</u>	<u>From 3 to 4 years</u>	<u>From 4 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Commitments to extend credits	6,862,321	-	-	-	-	-	-	-	-	6,862,321
Financial guarantees and LCs	<u>-</u>	<u>342,726</u>	<u>1,927,283</u>	<u>1,527,252</u>	<u>178,768</u>	<u>63,049</u>	<u>-</u>	<u>-</u>	<u>235,108</u>	<u>4,274,186</u>
Total	<u>6,862,321</u>	<u>342,726</u>	<u>1,927,283</u>	<u>1,527,252</u>	<u>178,768</u>	<u>63,049</u>	<u>-</u>	<u>-</u>	<u>235,108</u>	<u>11,136,507</u>

									In thousands of Denars December 31, 2010	
	<u>Sight</u>	<u>Up to 1 month</u>	<u>From 1 to 3 months</u>	<u>From 3 to 12 months</u>	<u>From 1 to 2 years</u>	<u>From 2 to 3 years</u>	<u>From 3 to 4 years</u>	<u>From 4 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Commitments to extend credits	8,379,307	-	-	-	-	-	-	-	-	8,379,307
Financial guarantees and LCs	<u>-</u>	<u>242,846</u>	<u>662,119</u>	<u>1,495,830</u>	<u>2,132,811</u>	<u>8,885</u>	<u>-</u>	<u>190</u>	<u>225,357</u>	<u>4,768,038</u>
Total	<u>8,379,307</u>	<u>242,846</u>	<u>662,119</u>	<u>1,495,830</u>	<u>2,132,811</u>	<u>8,885</u>	<u>-</u>	<u>190</u>	<u>225,357</u>	<u>13,147,345</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

	Carrying amount		In thousands of Denars Fair value	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Financial assets				
Cash and cash equivalents	21,695,862	20,329,498	21,695,862	20,329,498
Held-for-trading financial assets	141,828	120,862	141,828	120,862
Available-for-sale financial assets	93,984	349,751	93,984	349,751
Held-to-maturity financial assets	1,741,696	2,620,766	1,741,696	2,620,766
Placement with, and loans to banks	123,289	120,349	123,289	120,349
Loans to customers	44,598,280	42,446,073	44,598,280	42,446,073
Other receivables (less foreclosure assets)	216,173	168,649	216,173	168,649
	<u>68,611,112</u>	<u>66,155,948</u>	<u>68,611,112</u>	<u>66,155,948</u>
Financial liabilities				
Deposits from banks	146,172	2,320,213	146,172	2,320,213
Deposits from customers	56,701,616	53,507,168	56,701,616	53,507,168
Loans payable	832,501	478,419	832,501	478,419
Subordinated debt	2,780,212	2,779,339	2,780,212	2,779,339
Other liabilities	613,995	502,989	613,995	502,989
	<u>61,074,496</u>	<u>59,588,128</u>	<u>61,074,496</u>	<u>59,588,128</u>

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. Fair value of treasury and other eligible bills is based on discounted cash flows.

Held-for-trading financial assets

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

Available-for-sale financial assets

Their fair value is measured based on quoted prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

Held-to-maturity financial assets

Taking into consideration the nature of these instruments (fixed maturity and fixed and determinable payments), as well as the existing market information, the management's opinion is that the fair value of such instruments approximates their carrying amount.

Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and sight placements 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

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

Deposits from banks

The fair value of sight and time deposits from banks and other financial institutions is their carrying amount.

Held-for-trading financial liabilities

Fair value as determined by inputs derived from market prices.

Deposits from customers

The fair value of the sight deposits and the 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.

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.

Other liabilities

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy

The Bank classifies all financial assets and liabilities at fair value, using fair value hierarchy which reflects the significance of inputs used in determining fair value. The fair value hierarchy includes the following levels:

- a) Level 1 – Fair value is determined directly with reference to quoted market prices of the financial instruments in active markets;
- b) Level 2 - Fair value is determined using valuation techniques that include active markets inputs, which can be direct, i.e. prices, or indirect, i.e. derived from prices;
- c) Level 3 - Fair value is determined using valuation techniques that include inputs that cannot be directly or indirectly followed on the active markets, or are not visible.

There were no transfers between Level 1 and 2 in the period.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which fair value is observable.

	In thousands of Denars December 31, 2011			
	Fair value	Level 1	Level 2	Level 3
Financial assets				
Cash and cash equivalents	21,695,862	-	8,789,704	-
Held-for-trading financial assets	141,828	141,828	-	-
Available-for-sale financial assets	93,984	-	93,984	-
Held-to-maturity financial assets	1,741,696	-	1,741,696	-
Placement with, and loans to				
banks	123,289	-	-	-
Loans to customers	44,598,280	-	-	-
Other receivables	216,173	-	-	-
	<u>68,611,112</u>	<u>141,828</u>	<u>10,625,384</u>	<u>-</u>
Financial liabilities				
Deposits from banks	146,172	-	-	-
Deposits from customers	56,701,616	-	-	-
Loans payable	832,501	-	-	-
Subordinated debt	2,780,212	-	-	-
Other liabilities	613,995	-	-	-
	<u>61,074,496</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

	Fair value	Level 1	In thousands of Denars December 31, 2010	
			Level 2	Level 3
Financial assets				
Cash and cash equivalents	20,329,498	-	9,078,126	-
Held-for-trading financial assets	120,862	120,862	-	-
Available-for-sale financial assets	349,751	-	349,751	-
Held-to-maturity financial assets	2,620,766	-	2,620,766	-
Placement with, and loans to banks	120,349	-	-	-
Loans to customers	42,446,073	-	-	-
Other receivables (less foreclosure assets)	168,649	-	-	-
	<u>66,155,948</u>	<u>120,862</u>	<u>12,048,643</u>	<u>-</u>
Financial liabilities				
Deposits from banks	2,320,213	-	-	-
Deposits from customers	53,507,168	-	-	-
Loans payable	478,419	-	-	-
Subordinated debt	2,779,339	-	-	-
Other liabilities	502,989	-	-	-
	<u>59,588,128</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

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

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide 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 regulatory capital are regularly monitored by the Bank's management, employing techniques prescribed by national regulatory authority, i.e. the National Bank of Republic of Macedonia. The required information is submitted to regulatory authority on a quarterly basis.

The regulatory authority requires that each Bank has to maintain capital adequacy ratio above 8%.

The Bank's regulatory capital is divided in two groups:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of 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 capital, cumulative preferred shares and premium 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 measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit risk associated with – each asset and counterparty, taking into consideration any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

Calculation of capital adequacy ratio includes regulatory capital and total of credit risk-weighted assets and FX risk-weighted assets.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements to which the Bank is subject.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (continued)

	In thousands of Denars
	December 31,
	2011
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	4,350,569
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	<u>7,837,828</u>
Tier 2 capital	
Cumulative non-voting shares	90,978
Revaluation reserves	19,141
Subordinated debt	2,521,705
Total qualifying Tier 2 capital	<u>2,631,824</u>
Total regulatory capital	<u>10,469,652</u>
Credit risk-weighted assets	
On-balance sheet	45,021,385
Off-balance sheet	6,780,013
Total credit risk-weighted assets	<u>51,801,398</u>
FX risk-weighted assets	<u>7,557,758</u>
Risk-weighted assets	<u>59,359,156</u>
Capital adequacy ratio	<u>17.64%</u>

	In thousands of Denars
	December 31,
	2010
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	3,984,148
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	<u>7,471,407</u>
Tier 2 capital	
Cumulative non-voting shares and share premium	90,978
Revaluation reserves	18,665
Subordinated debt	2,767,725
Total qualifying Tier 2 capital	<u>2,877,368</u>
Total regulatory capital	<u>10,348,775</u>
Credit risk-weighted assets	
On-balance sheet	44,397,533
Off-balance sheet	8,101,626
Total credit risk-weighted assets	<u>52,499,159</u>
FX risk-weighted assets	<u>5,596,664</u>
Risk-weighted assets	<u>58,095,823</u>
Capital adequacy ratio	<u>17.81%</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

The currency risk management, performed by monitoring the assets and liabilities in foreign currencies, is supplemented by conducting sensitivity analysis of the Bank's foreign currencies assets and liabilities. Therefore, appropriate scenario (change of the exchange rates by +10% i.e. -10%, with respect to the Denar) is used.

In thousands of Denars			
December 31, 2011			
	Change in exchange rate		
	Total	+10%	-10%
ASSETS			
Cash and cash equivalents	21,695,862	843,138	(843,138)
Held-for-trading financial assets	141,828	14,182	(14,182)
Available-for-sale financial assets	93,984	3	(3)
Held-to-maturity financial assets	1,741,696	174,170	(174,170)
Placement with, and loans to banks	123,289	12,329	(12,329)
Loans to customers	44,598,280	2,587,330	(2,587,330)
Other receivables	216,173	2,912	(2,912)
Total assets	<u>68,611,112</u>	<u>3,634,064</u>	<u>(3,634,064)</u>
LIABILITIES			
Deposits from banks	146,172	14,617	(14,617)
Deposits from customers	56,701,616	2,736,193	(2,736,193)
Loans payable (including subordinated debt)	3,612,713	342,954	(342,954)
Other liabilities	613,995	17,636	(17,636)
Total liabilities	<u>61,074,496</u>	<u>3,111,400</u>	<u>(3,111,400)</u>
Net currency gap:	<u>7,536,616</u>	<u>522,664</u>	<u>(522,664)</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

In thousands of Denars December 31, 2010			
Change in exchange rate			
	Total	+10%	-10%
ASSETS			
Cash and cash equivalents	20,329,498	777,354	(777,354)
Held-for-trading financial assets	120,862	12,086	(12,086)
Available-for-sale financial assets	349,751	20,002	(20,002)
Held-to-maturity financial assets	2,620,766	262,077	(262,077)
Placement with, and loans to banks	120,349	12,035	(12,035)
Loans to customers	42,446,073	2,541,751	(2,541,751)
Other receivables	168,649	2,427	(2,427)
Total assets	<u>66,155,948</u>	<u>3,627,732</u>	<u>(3,627,732)</u>
LIABILITIES			
Deposits from banks	2,320,213	230,970	(230,970)
Deposits from customers	53,507,168	2,754,977	(2,754,977)
Loans payable (including subordinated debt)	3,257,758	307,458	(307,458)
Other liabilities	502,989	16,363	(16,363)
Total liabilities	<u>59,588,128</u>	<u>3,309,768</u>	<u>(3,309,768)</u>
Net currency gap:	<u>6,567,820</u>	<u>317,964</u>	<u>(317,964)</u>

At December 31, 2010, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 522,664 thousand higher (2010: Denar 317,964 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 522,664 thousand lower (2010: Denar 317,964 thousand). The higher sensitivity of the Bank's assets and liabilities in case of change in foreign exchange rates compared to the previous year is a result of the higher open currency position as of December 31, 2011.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

	In thousands of Denars December 31, 2011		
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	21,695,862	406,631	(406,631)
Held-for-trading financial assets	141,828	622	(622)
Available-for-sale financial assets	93,984	-	-
Held-to-maturity financial assets	1,741,696	34,585	(34,585)
Placement with, and loans to banks	123,289	1,272	(1,272)
Loans to customers	44,598,280	868,730	(868,730)
Other receivables	216,173	-	-
Total assets	68,611,112	1,311,840	(1,311,840)
LIABILITIES			
Deposits from banks	146,172	1,032	(1,032)
Deposits from customers	56,701,616	1,130,058	(1,130,058)
Loans payable (including subordinated debt)	3,612,713	13,609	(13,609)
Other liabilities	613,995	-	-
Total liabilities	61,074,496	1,144,699	(1,144,699)
Net interest gap:	7,536,616	167,141	(167,141)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

	In thousands of Denars December 31, 2010		
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	20,329,498	385,195	(385,195)
Held-for-trading financial assets	120,862	790	(790)
Available-for-sale financial assets	349,751	5,136	(5,136)
Held-to-maturity financial assets	2,620,766	52,134	(52,134)
Placement with, and loans to banks	120,349	1,239	(1,239)
Loans to customers	42,446,073	838,754	(838,754)
Other receivables	168,649	-	-
Total assets	66,155,948	1,283,248	(1,283,248)
LIABILITIES			
Deposits from banks	2,320,213	46,389	(46,389)
Deposits from customers	53,507,168	1,063,858	(1,063,858)
Loans payable (including subordinated debt)	3,257,758	55,355	(55,355)
Other liabilities	502,989	-	-
Total liabilities	59,588,128	1,165,602	(1,165,602)
Net interest gap:	6,567,820	117,646	(117,646)

As a part of interest rate risk management, the Bank analyzes the sensitivity of the balance sheet items. The sensitivity analysis is performed taking into account interest bearing assets and liabilities. Hence, it was tested what would happen, if interest rates decreased/increased by 200 bp.

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2011, profit for the year would have been Denar 167,141 thousand (2010: Denar 117,646 thousand lower) higher. Conversely, if the interest rates had been 200 bp lower with all other variables held constant, profit for the year would have been Denar 167,141 thousand (2010: Denar 117,646 thousand higher) lower. Such an effect arises due to lower sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

Retail banking includes all individual customers to whom the Bank, through extended network of branches, offers various types of loan, deposit as well as wide range of other traditional services and products.

Corporate banking

Corporate includes lending to all large, medium-sized and small companies. The Bank offers its corporate customers a wide range of products and services, deposit accounts, loans, foreign exchange and trade service activities.

Investment banking

Investment banking includes safekeeping and administration of financial instruments for clients, including custodianship and related services and own portfolio management -bonds investment portfolio (available for sale and held to maturity)

Other

This segment includes all other insignificant operating activities.

Unallocated

The segment unallocated include accrued revenue from activities that cannot be readily mapped into a particular business line such as commissions, income derived from insurance or income from extraordinary or non-regular items.

5.1 Operating segments

	In thousands of Denars December 31, 2011					
	Retail banking	Corporate banking	Investment banking	Other	Unallocated	Total
Net interest income	768,357	1,275,156	(2,441)	(212)	-	2,040,860
Net fee and commission income	341,304	369,978	114,782	21,614	-	847,678
Net trading income	-	-	26,607	-	-	26,607
Other operating income	37,345	23,904	-	-	152,904	214,153
Total income	1,147,006	1,669,038	138,948	21,402	152,904	3,129,298
Profit/(loss) before tax	350,621	287,921	45,470	(12,571)	114,260	785,701
Income tax expense	-	-	-	-	(17,569)	(17,569)
Net profit for the year						<u>768,132</u>
Total assets	27,212,745	41,175,645	1,977,508	379	182,056	70,548,333
Total liabilities	45,635,268	15,294,268	-	23,036	295,821	61,248,393
Impairment of financial assets, net	(10,549)	(260,919)	(43,473)	(27,926)	-	(342,867)
Impairment of non-financial assets	(4,543)	(1,503)	-	-	(54)	(6,100)
Depreciation and amortization	(74,395)	(98,205)	-	(6,047)	(7,430)	(186,077)
Property and equipment purchases	(18,449)	(27,297)	-	-	-	(45,746)
Other expenses	(706,898)	(1,020,490)	(50,005)	-	(31,160)	(1,808,553)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars December 31, 2010						
	Retail banking	Corporate banking	Invest- ment banking	Other	Unallo- cated	Total
Net interest income	833,248	937,608	377,493	221,096	-	2,369,445
Net fee and commission income	350,749	492,433	1,175	62,355	-	906,712
Net trading income	-	-	(19,148)	-	-	(19,148)
Other operating income	52,614	30,512	-	-	191,458	274,584
Total income	1,236,611	1,460,553	359,520	283,451	191,458	3,531,593
Profit before tax	268,599	347,164	119,390	-	144,842	879,995
Income tax expense						(3,747)
Net profit for the year						876,248
Total assets	26,654,855	38,597,091	2,834,351	-	171,682	68,257,979
Total liabilities	42,198,483	16,362,426	-	725,002	463,982	59,749,893
Impairment of financial assets, net	(164,281)	(212,334)	(131,866)	(78,718)	-	(587,199)
Impairment of non-financial assets	(20,703)	(26,758)	-	-	(14,696)	(62,157)
Depreciation and amortization	(64,009)	(82,731)	-	(28,451)	(15,901)	(191,092)
Property and equipment purchases	(33,053)	(21,631)	(14,693)	-	(8,770)	(78,147)
Other expenses	(611,923)	(802,180)	(275,871)	-	(121,176)	(1,811,150)

5.2 Geographical areas

In thousands of Denars December 31, 2011						
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallo- cated	Total
Total income	2,781,791	187,758	6,841	4	152,904	3,129,298
Total assets	63,983,729	4,369,630	82,560	43	2,112,371	70,548,333

In thousands of Denars December 31, 2010						
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallo- cated	Total
Total income	3,419,724	90,431	8,509	11,204	1,725	3,531,593
Total assets	64,134,595	3,377,982	81,634	492,086	171,682	68,257,979

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

6. INTEREST INCOME AND EXPENSE

Interest income and expense analyzed by category of financial instruments is as follows:

	In thousands of Denars	
	Year ended December 31, 2011	Year ended December 31, 2010
Interest income:		
Cash and cash equivalents	353,427	476,366
Placement with, and loans to banks	38,832	1,014
Loans to customers	3,793,283	4,209,752
Held-to-maturity investment securities	110,770	68,972
Other receivables	47,212	367
	<u>4,343,524</u>	<u>4,756,471</u>
Interest expense:		
Deposits from banks and financial institutions	4,644	3,834
Deposits from customers	2,175,555	2,278,583
Loans payable	9,642	6,314
Subordinated debt	106,161	90,035
Other liabilities (dividends of preference shares)	6,662	8,260
	<u>2,302,664</u>	<u>2,387,026</u>
Net interest income	<u>2,040,860</u>	<u>2,369,445</u>

The sector analysis of interest income and expense is as follows:

	In thousands of Denars			
	Year ended December 31, 2011		Year ended December 31, 2010	
	Income	Expense	Income	Expense
Enterprises	1,143,158	262,911	1,118,174	286,538
State	136,573	4,833	99,415	5,445
Not-for-profit institutions	1,388	14,549	1,393	16,828
Banks	46,183	9,921	7,862	5,180
Other non-banking financial entities	368,952	51,252	442,294	53,675
Households	2,647,270	1,833,544	3,087,333	1,914,539
Non-residents	-	125,654	-	104,821
	<u>4,343,524</u>	<u>2,302,664</u>	<u>4,756,471</u>	<u>2,387,026</u>
Net interest income	<u>2,040,860</u>		<u>2,369,445</u>	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense is analyzed by financial activity as follows:

	Year ended December 31, 2011		In thousands of Denars Year ended December 31, 2010	
	Income	Expense	Income	Expense
Loans provided	94,581	-	146,557	-
Domestic payment operations	194,711	78,177	193,006	70,851
Foreign payment operations	112,011	10,124	113,424	9,063
Letters of credit and guaranties	65,557	-	66,714	-
Brokerage	3,682	-	4,171	-
Assets administering	673	-	843	-
Credit cards	311,960	5,787	304,758	-
Consumer credit	-	349	-	-
Mortgage credit	-	188	-	-
Deposits	96,096	-	82,304	-
Safe box	6,650	-	6,392	-
Third party collection	1,915	-	8,138	-
Other	57,302	2,835	61,256	937
	<u>945,138</u>	<u>97,460</u>	<u>987,563</u>	<u>80,851</u>
Net fee and commission income	<u>847,678</u>		<u>906,712</u>	

The sector analysis of fee and commission income and expense is as follows:

	Year ended December 31, 2011		In thousands of Denars Year ended December 31, 2010	
	Income	Expense	Income	Expense
Enterprises	549,177	1,680	574,031	22
State	1,047	-	275	-
Not-for-profit institutions	168	-	134	-
Banks	22,793	65,765	30,569	54,462
Other non-banking financial entities	-	23,691	-	26,367
Households	340,085	6,324	357,351	-
Non-residents	31,868	-	25,203	-
	<u>945,138</u>	<u>97,460</u>	<u>987,563</u>	<u>80,851</u>
Net fee and commission income	<u>847,678</u>		<u>906,712</u>	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

8. TRADING INCOME/(EXPENSE), NET

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
<i>Held-for-trading financial assets:</i>		
Net loss on fair valuation of debt securities	(1,896)	(912)
Net gain/(loss) on fair valuation of equity securities	27,439	(20,830)
Dividend income	1,064	262
Gain on fair valuation on foreign exchange derivative contracts	-	2,594
	<u>26,607</u>	<u>(18,886)</u>

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Realized exchange gains, net	133,200	138,582
Unrealized exchange gains, net	596	19,190
	<u>133,796</u>	<u>157,772</u>

10. OTHER OPERATING INCOME

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Dividend from available-for-sale investments	3,070	2,624
Gain on sale of property and equipment	2,619	13,053
Gain on sale of foreclosure assets	17,461	8,427
Rental income (Note 35d)	2,704	2,531
Court claims collections	3,908	5,735
Early withdrawal of deposits and operations with non-residents	33,592	33,657
Write off of liabilities for bonuses	-	8,840
Income from mediation at mortgage insurance	3,804	4,509
Equity investment in Jubmes (income from new shares received)	-	703
Income from collected damage from insurance companies	1,187	1,040
Other	12,012	35,431
	<u>80,357</u>	<u>116,550</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

11. IMPAIRMENT LOSSES, NET

	In thousands of Denars	
	Year ended December 31, 2011	2010
Impairment losses on financial assets, net	342,867	587,199
Impairment losses on non-financial assets	6,100	62,157
	<u>348,967</u>	<u>649,356</u>

Impairment losses on financial assets, net

	December 31,2011			In thousands of Denars December 31, 2010		
	Charge	Release	Net	Charge	Release	Net
Placement with, and loans to banks (Note 20)	-	(69)	(69)	-	-	-
Loans to customers (Note 21)	1,856,418	(1,571,356)	285,062	1,853,100	(1,298,265)	554,835
Other assets(Note 22)	12,077	(7,170)	4,907	30,339	(5,023)	25,316
Available-for-sale financial assets (Note 18)	25,314	-	25,314	-	-	-
Off-balance sheet items (Note 31)	83,298	(55,645)	27,653	26,460	(19,412)	7,048
	<u>1,977,107</u>	<u>(1,634,240)</u>	<u>342,867</u>	<u>1,909,899</u>	<u>(1,322,700)</u>	<u>587,199</u>

Accrued Interest income on impaired financial assets as at December 31, 2011 amount to Denar 11,505 thousand (2010: Denar 15,769 thousand).

Impairment losses on non-financial asset

	In thousands of Denars	
	Year ended December 31, 2011	2010
Investment property (Note 23)	1,013	3,842
Assets acquired through foreclosure procedures (Note 22)	5,087	58,315
	<u>6,100</u>	<u>62,157</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

12. PERSONNEL EXPENSES

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Wages and salaries	461,426	475,109
Social security cost	208,065	218,629
Other staff costs	75,422	64,995
Pension costs based on defined benefit plans, net	(11,549)	(8,949)
	<u>733,364</u>	<u>749,784</u>
Average number of employees during the period	1,048	1,092
Number of permanent employees at the end of the year	1,021	1,067

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Depreciation of property and equipment	124,671	137,169
Depreciation of investment property	3,648	362
Amortization of intangible assets	57,758	53,561
	<u>186,077</u>	<u>191,092</u>

14. OTHER OPERATING EXPENSES

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Insurance premiums for deposits	305,320	272,939
Insurance premiums for property and employees	16,913	15,286
Material and services	538,630	537,959
Administrative and marketing costs	96,595	98,718
Other taxes and contributions	3,142	2,321
Rent (Note 35d)	62,161	57,522
Court claims	12,872	21,614
Travel expenses	6,414	9,740
Loss on sale of property and equipment	4,717	-
Other expenses	28,425	45,267
	<u>1,075,189</u>	<u>1,061,366</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

15. INCOME TAX EXPENSE

The major components of income taxes in the income statement are as follows:

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Current income tax expense	2,065	9,567
Deferred income tax expense/(income)	15,504	(5,820)
	<u>17,569</u>	<u>3,747</u>

The total charge for the year can be reconciled to the accounting profit as follows:

	In thousands of Denars	
	Year ended December 31,	
	2011	2010
Profit before tax	785,701	879,995
Income tax at the statutory income tax rate of 10%	78,570	87,999
Tax on expenses not allowed for tax purposes	7,167	11,295
Tax on income not taxable for tax purposes	-	-
Deferred tax income relating to the origination and reversal of temporary differences	15,504	(5,820)
Tax exemption on non-distribution of the net profit	(83,672)	(89,727)
At effective rate of 2.24% (2010: 0.42%)	<u>17,569</u>	<u>3,747</u>

Effective from January 1, 2009, amendments of the local Income Tax Law have been introduced, with the major change on the taxation of the 2011, 2010 and 2009 net profit. Such change provide entirely exemption of income tax, after taxation of certain expenses not deductible for tax purposes, if net profit for the year is not intended for distribution of dividends, and will be taxed at the time dividends are paid. The above change has no effect on the distribution of accumulated profits from 2008 and before. For fiscal year 2011, 2010 and 2009, the Bank has taken advantage of the income tax exemption for the above.

Recognized deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2011			In thousands of Denars		
	December 31, 2010					
	Assets	Liabilities	Net	Assets	Liabilities	Net
Recognized in:						
<i>Income statement:</i>						
Other assets	-	-	-	15,504	-	15,504
	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,504</u>	<u>-</u>	<u>15,504</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

15. INCOME TAX EXPENSE (Continued)

The movement of the temporary differences during the year is as follows:

	Balance1 January	Income Statement	In thousands of Denars Equity	Balance December 31,
December 31, 2011				
<i>Deferred tax assets</i>				
Other assets	15,504	(15,504)	-	-
Net deferred tax assets	15,504	(15,504)	-	-
December 31, 2010				
<i>Deferred tax assets</i>				
Other assets	9,684	5,820	-	15,504
Net deferred tax assets	9,684	5,820	-	15,504

16. CASH AND CASH EQUIVALENTS

	In thousands of Denars December 31, 2011	December 31, 2010
Cash on hand	1,350,340	1,076,968
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	4,247,173	2,934,019
Accounts and deposits with foreign banks	518,404	548,510
Accounts and deposits with domestic banks	1,892	1,047
Treasury bills which can be traded on the secondary market	6,937,341	7,987,816
Other eligible bills which can be traded on the secondary market	1,849,883	1,090,311
Time deposits up to three months	3,900,472	3,869,733
Other short-term highly liquid assets	392	1,591
Interest receivable	6,990	4,205
Included in Statement of Cash Flows	18,812,887	17,514,200
Mandatory reserves in foreign currency	2,876,367	2,815,298
Restricted deposits	6,608	-
	<u>21,695,862</u>	<u>20,329,498</u>

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

Treasury bills which can be traded on the secondary market in the amount of Denar 6,937,341 thousand (2010: 7,987,816 thousand) represent bills issued by the Central Bank with a maturity of 28 days. Interest rates are 4.0% (2010: 4.0% p.a.).

Other eligible bills which can be traded on the secondary market in the amount of Denar 1,849,883 thousand (2010: 1,090,311 thousand) represent bills issued by the Ministry of Finance of the Republic of Macedonia with a maturity of up to three months. Depending on maturity, interest rates range from 4.20% to 4.30% p.a. (2010: from 4.30% to 4.55% p.a.).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

17. HELD-FOR-TRADING FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Debt securities issued by the Government	31,473	39,995
Equity securities issued by the banks	110,355	78,270
Derivatives held for trading	-	2,597
	<u>141,828</u>	<u>120,862</u>

The Bank trades with the 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 banks in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these entities.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Debt securities issued by the Government	-	256,797
Equity securities issued by banks	3,476	3,476
Equity securities issued by other entities	407,901	379,036
	<u>411,377</u>	<u>639,309</u>
Less: Allowance for impairment	<u>(317,393)</u>	<u>(289,558)</u>
	<u>93,984</u>	<u>349,751</u>

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Balance at the beginning of the year	289,558	285,196
Charge for the year (Note 11)	25,314	-
Foreign exchange effects	2,521	4,362
	<u>317,393</u>	<u>289,558</u>

19. HELD-TO-MATURITY FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Government debt securities	1,741,696	2,312,302
Corporate debt securities	-	308,464
	<u>1,741,696</u>	<u>2,620,766</u>

Part of the Government debt securities amounting to Denar 1,726,969 thousand (2010: Denar 2,254,106 thousand) represent government debt securities issued by the Republic of Macedonia in exchange for the Bank's non-performing receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables by the Republic of Macedonia from the Bank. These debt securities bear an interest rate of three month EURIBOR plus a margin of 1% and are repayable in 56 quarterly installments commencing from 2001 to 2014.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

19. HELD-TO-MATURITY FINANCIAL ASSETS (Continued)

The remaining part of the Government debt securities amounting to Denar 14,727 thousand (2010: Denar 18,791 thousands) represent government securities issued by the Republic of Macedonia in February 2004 for denationalization. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in annual installments commencing from June 2006 to June 2014.

As at December 31, 2010, government debt securities amounting to Denar 39,405 thousand represent debt securities from old savings deposits issued by the Republic of Macedonia in May 2000. These debt securities borne a fixed interest rate of 2% p.a. and were repayable in semi-annual installments commencing from April 2002 to October 2011.

As at December 31, 2010, the corporate debt securities represent security issued from "NLB Tutunska Banka AD"- Skopje in the amount of Denar 308,464 thousand and was non-convertible and non-transferrable corporate debt security. This debt security borne an interest rate of six-month EURIBOR plus 1.2% p.a. with semi-annual payment of interest. The principal amount was repayable in three years commencing from May 2009 to November 2011.

20. PLACEMENTS WITH, AND LOANS TO BANKS

	Year ended December 31, 2011		In thousands of Denars Year ended December 31, 2010	
	Short-term	Long-term	Short-term	Long-term
Loans to domestic banks	205	-	235	-
Loans to foreign banks	82,623	-	81,683	-
Other placement to foreign banks	-	63,575	-	61,943
Interest receivable	609	-	293	-
	83,437	63,575	82,211	61,943
Less: Allowance for impairment	(23,723)	-	(23,805)	-
	59,714	63,575	58,406	61,943
	<u>123,289</u>		<u>120,349</u>	

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Balance at the beginning of the year	23,805	24,741
Release (Note 11)	(69)	-
Write off	(13)	(936)
Balance at the end of the year	<u>23,723</u>	<u>23,805</u>

Part of the loans to foreign banks amounting to Denar 73,269 thousand (2010: Denar 75,975 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26).

Other placement to foreign banks include restricted accounts amounting to Denar 63,575 thousand (2010: Denar 61,943 thousand) and represent deposits held with Barclays' Bank, London, Great Britain as a collateral for the transactions performed with VISA payment cards. These funds are not available for the Bank's daily operations.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

	Year ended December 31, 2011		In thousands of Denars Year ended December 31, 2010	
	Short-term	Long-term	Short-term	Long-term
Non-financial entities				
principal amount	9,047,398	10,901,365	9,827,167	9,348,516
interest receivable	99,702	-	85,241	-
State				
principal amount	7,618	6,236	18,719	19,790
interest receivable	78	-	213	-
Not-for-profit organizations				
principal amount	442	12,713	884	14,563
interest receivable	93	-	67	-
Households				
principal amount				
housing loans	175,722	7,075,181	139,752	6,619,781
consumer loans	692,835	8,635,401	527,620	6,646,834
auto loans	78,810	1,207,996	81,930	1,606,844
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 receivable	160,727	-	178,472	-
Non-residents, except banks				
principal amount	-	-	19	-
Current maturity	<u>5,147,501</u>	<u>(5,147,501)</u>	<u>4,248,803</u>	<u>(4,248,803)</u>
	<u>16,372,127</u>	<u>32,192,334</u>	<u>16,263,059</u>	<u>30,107,110</u>
Total gross loans	48,564,461		46,370,169	
Less: Allowance for impairment	<u>(3,966,181)</u>		<u>(3,924,096)</u>	
	<u>44,598,280</u>		<u>42,446,073</u>	

The allowance for impairment presented represents total provision and relate to both, short-term and long-term loans to customers.

Movement in allowance for impairment is as follows:

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Balance at the beginning of the year	3,924,096	3,897,580
Charge for the year (Note 11)	1,856,418	1,853,100
Release (Note 11)	(1,571,356)	(1,298,265)
Write off	<u>(242,977)</u>	<u>(528,319)</u>
Balance at the end of the year	<u>3,966,181</u>	<u>3,924,096</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

21. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Agriculture and forestry	764,127	654,825
Mining and quarrying	168,420	82,646
Manufacturing	5,827,015	6,422,675
Electricity, gas, steam and air conditioning supply	1,698,080	1,085,638
Water supply; sewerage, waste management and remediation activities	5,473	-
Construction	1,504,570	1,207,437
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,988,377	4,266,914
Transportation and storage	754,852	894,295
Accommodation and food service activities	376,661	465,665
Information and communication	52,467	-
Financial and insurance activities	56,826	24,114
Real estate activities	194,850	197,956
Professional, scientific and technical activities	426,017	-
Administrative and support service activities	172,843	-
Public administration and defence; compulsory social security	-	40,333
Education	160,033	713,160
Human health and social work activities	144,004	176,985
Arts, entertainment and recreation	85,730	-
Other service activities	21,295	109,729
Individuals	27,196,640	26,076,508
Individual merchants and individuals not considered to be merchants	-	27,193
	<u>44,598,280</u>	<u>42,446,073</u>

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Cash and cash equivalents or restricted accounts held in Bank	644,822	542,221
Government bonds	3,179	4,271
Government guarantees	1,362,359	746,361
Bank guarantees	143,126	133,246
Corporate guarantees	511,850	531,817
Property	20,016,849	19,458,174
Equipment and other movable assets	2,349,684	3,903,362
Other securities	1,682,456	2,814,107
Non-secured	<u>17,883,955</u>	<u>14,312,514</u>
	<u>44,598,280</u>	<u>42,446,073</u>

d) 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

21. LOANS TO CUSTOMERS (Continued)

d) Risks and uncertainties(Continued)

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment for corporate loans 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 will need to be made in the future to provide for any possible shortfall.

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During 2011 and 2010, when the global financial crisis have enforceable to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital basethrough retaining the earnings.

The potential impact of the financial crises 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 undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All of the above is focusing to protect and develop current and future customer/depositor base and achievements 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 unfavorable 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 provision for loan losses. Any additional provision based on the above, if any, cannot be determined at this stage with any reasonably accuracy.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

22. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Foreclosed collateral		
Land	6,350	3,890
Buildings	896,190	914,111
Other	5,154	18,361
	<u>907,694</u>	<u>936,362</u>
Less: Allowance for impairment (Note 11)	<u>(126,009)</u>	<u>(120,922)</u>
	<u>781,685</u>	<u>815,440</u>

b) Other receivables and prepaid expenses

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Trade receivables	101,522	60,973
Prepaid expenses	49,239	51,884
Receivables for commission and fees	28,573	29,394
Advances to suppliers	12,803	5,381
Other receivables	79,968	72,497
	<u>272,105</u>	<u>220,129</u>
Less: Allowance for impairment	<u>(55,932)</u>	<u>(51,480)</u>
	<u>216,173</u>	<u>168,649</u>

The movement in the allowance for impairment in other receivables and prepaid expenses is as follows:

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Balance at the beginning of the year	51,480	28,776
Charge for the year (Note 11)	12,077	30,339
Release (Note 11)	(7,170)	(5,023)
Write off	<u>(455)</u>	<u>(2,612)</u>
Balance at the end of the year	<u>55,932</u>	<u>51,480</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

23. INVESTMENT PROPERTY

	<u>In thousands of Denars</u>
Cost	
Balance at January 1, 2010	160,424
Transfer from assets acquired through foreclosure procedure	1,174
Additions	1,362
Disposals	(1,274)
Balance at December 31, 2010	<u>161,686</u>
Balance at January 1, 2011	161,686
Balance at December 31, 2011	<u>161,686</u>
Accumulated depreciation	
Balance at January 1, 2010	21,184
Charge for the year	362
Disposals	(18)
Balance at December 31, 2010	<u>21,528</u>
Balance at January 1, 2011	21,528
Charge for the year	3,648
Balance at December 31, 2011	<u>25,176</u>
Impairment	
Balance at January 1, 2010	73,369
Charge for the year (Note 11)	3,842
Balance at December 31, 2010	<u>77,211</u>
Balance at January 1, 2011	77,211
Charge for the year (Note 11)	1,013
Balance at December 31, 2011	<u>78,224</u>
Carrying amount	
Balance at December 31, 2011	<u><u>58,286</u></u>
Balance at December 31, 2010	<u><u>62,947</u></u>

As of December 31, 2011, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

24. INTANGIBLE ASSETS, NET

	In thousands of Denars			
	Software	Leasehold improvements	Other intangibles	Total
Cost				
Balance at January 1, 2010	484,483	94,266	9,807	588,556
Additions	31,355	11,769	3,519	46,643
Transfer	530	15,304	(461)	15,373
Balance at December 31, 2010	516,368	121,339	12,865	650,572
Balance at January 1, 2011	516,368	121,339	12,865	650,572
Additions	19,539	6,513	446	26,498
Transfer	5,550	3,769	(5,217)	4,102
Balance at December 31, 2011	541,457	131,621	8,094	681,172
Accumulated amortization				
Balance at January 1, 2010	367,095	50,156	-	417,251
Charge for the year	37,145	16,416	-	53,561
Transfer	-	333	-	333
Balance at December 31, 2010	404,240	66,905	-	471,145
Balance at January 1, 2011	404,240	66,905	-	471,145
Charge for the year	39,133	18,625	-	57,758
Balance at December 31, 2011	443,373	85,530	-	528,903
Carrying amount				
Balance at December 31, 2011	98,084	46,091	8,094	152,269
Balance at December 31, 2010	112,128	54,434	12,865	179,427

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

25. PROPERTY AND EQUIPMENT, NET

	In thousands of Denars			
	<u>Buildings</u>	<u>Furniture and equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost				
Balance at January 1, 2010	1,154,479	1,316,920	42,050	2,513,449
Additions	1,589	29,354	47,204	78,147
Transfer	(5,983)	51,403	(60,793)	(15,373)
Disposals	<u>(9,196)</u>	<u>(82,906)</u>	<u>-</u>	<u>(92,102)</u>
Balance at December 31, 2010	<u>1,140,889</u>	<u>1,314,771</u>	<u>28,461</u>	<u>2,484,121</u>
Balance at January 1, 2011	1,140,889	1,314,771	28,461	2,484,121
Additions	10,507	35,235	4	45,746
Transfer	-	10,129	(14,231)	(4,102)
Disposals	<u>(5,262)</u>	<u>(65,047)</u>	<u>-</u>	<u>(70,309)</u>
Balance at December 31, 2011	<u>1,146,134</u>	<u>1,295,088</u>	<u>14,234</u>	<u>2,455,456</u>
Accumulated depreciation				
Balance at January 1, 2010	358,513	1,053,949	-	1,412,462
Charge for the year	28,201	108,968	-	137,169
Transfer	(333)	-	-	(333)
Disposals	<u>(6,832)</u>	<u>(82,257)</u>	<u>-</u>	<u>(89,089)</u>
Balance at December 31, 2010	<u>379,549</u>	<u>1,080,660</u>	<u>-</u>	<u>1,460,209</u>
Balance at January 1, 2011	379,549	1,080,660	-	1,460,209
Charge for the year	27,959	96,712	-	124,671
Disposals	<u>(1,731)</u>	<u>(65,138)</u>	<u>-</u>	<u>(66,869)</u>
Balance at December 31, 2011	<u>405,777</u>	<u>1,112,234</u>	<u>-</u>	<u>1,518,011</u>
Carrying amount				
Balance at December 31, 2011	<u>740,357</u>	<u>182,854</u>	<u>14,234</u>	<u>937,445</u>
Balance at December 31, 2010	<u>761,340</u>	<u>234,111</u>	<u>28,461</u>	<u>1,023,912</u>

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.

As of December 31, 2011 and 2010 the Bank's property and equipment are free of any pledges and mortgages.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

26. DEPOSITS FROM BANKS

	December 31, 2011		In thousands of Denars December 31, 2010	
	Up to one year	Over one year	Up to one year	Over one year
Current accounts				
domestic banks	22,478	-	16,102	-
foreign banks	50,214	-	78,564	-
	<u>72,692</u>	<u>-</u>	<u>94,666</u>	<u>-</u>
Time deposits				
foreign banks	-	-	1,845,150	-
	<u>-</u>	<u>-</u>	<u>1,845,150</u>	<u>-</u>
Restricted deposits				
domestic banks	-	-	-	307,525
foreign banks	73,480	-	72,097	-
	<u>73,480</u>	<u>-</u>	<u>72,097</u>	<u>307,525</u>
Interest payable on deposits				
domestic banks	-	-	560	-
foreign banks	-	-	215	-
	<u>-</u>	<u>-</u>	<u>775</u>	<u>-</u>
	<u>146,172</u>	<u>-</u>	<u>2,012,688</u>	<u>307,525</u>
Total deposits from banks	<u>146,172</u>		<u>2,320,213</u>	

The restricted deposits held with foreign 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 20).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

27. DEPOSITS FROM CUSTOMERS

	December 31, 2011		In thousands of Denars	
	Up to one year	Over one year	December 31, 2010	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	4,795,199	-	5,382,660	-
Sight 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	-
Interest payable on deposits	64,813	-	64,004	-
	<u>8,402,475</u>	<u>1,037,991</u>	<u>8,575,045</u>	<u>669,784</u>
State				
Current accounts	37,834	-	75,505	-
Time deposits	12,100	-	4,101	-
Restricted deposits	748	-	165	-
Interest payable on deposits	80	-	20	-
	<u>50,762</u>	<u>-</u>	<u>79,791</u>	<u>-</u>
Not-for-profit organizations				
Current accounts	373,502	-	380,675	-
Sight deposits	13	-	19	-
Time deposits	220,065	21,430	224,326	9,180
Restricted deposits	11,230	10,914	4,617	10,914
Interest payable on deposits	4,541	-	4,488	-
	<u>609,351</u>	<u>32,344</u>	<u>614,125</u>	<u>20,094</u>
Financial institutions, except banks				
Current accounts	80,558	-	58,820	-
Time deposits	681,943	271,737	758,228	211,737
Restricted deposits	1	-	494	78
Interest payable on deposits	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	-
Sight 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
Interest payable on 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	-
Time deposits	235,619	62,978	238,021	36,029
Restricted deposits	72,842	1,394	74,673	1,331
Interest payable on deposits	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>
	<u>51,331,578</u>	<u>5,370,038</u>	<u>50,426,934</u>	<u>3,080,234</u>
Total deposits from customers	<u><u>56,701,616</u></u>		<u><u>53,507,168</u></u>	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

28. LOANS PAYABLE

	December 31, 2011		In thousands of Denars	
	Up to one year	Over one year	December 31, 2010	Up to one year
<i>Domestic sources:</i>				
Agency for assets management				
– Matures in 2020. Related fees for these loans are 1.5% p.a.	1,130	149,399	1,130	149,399
Agency for undeveloped regions -Matured in 2011 and interest rate is equal to 3.9% p.a. (2010: 3.9% p.a.)	26,690	-	26,690	-
MBPR -Matures in 2015 and interest rate is equal to 1.0% p.a. (2010: 1.0% p.a.)	1,311	599,032	458	228,655
	29,131	748,431	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% p.a.	154	23,585	204	31,446
ICDF Taiwan - to be repaid in 20 equal semi-annual installments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% p.a.	48	25,195	112	34,368
Other banks	-	5,957	-	5,957
	202	54,737	316	71,771
Current maturity of long-term loans	164,792	(164,792)	65,749	(65,749)
	194,125	638,376	94,343	384,076
Total loans payable	832,501		478,419	

29. SUBORDINATED DEBT

			In thousands of Denars	
	<u>Maturity</u>	<u>Interest rate</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
National Bank of Greece:				
Principal EUR 20,000,000	December 27, 2016	3-month EURIBOR +0.85% p.a.	1,230,100	1,230,100
Principal EUR 25,000,000	November 5, 2018	3-month EURIBOR +3.7%p.a.	1,537,625	1,537,625
Accrued interest			<u>12,487</u>	<u>11,614</u>
			2,780,212	2,779,339

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

29. SUBORDINATED DEBT (Continued)

The purpose of the above mentioned funds is to strengthen the guaranteeing capital of the Bank, realization of the Bank's projected goals in accordance with its Business plan, increase of the competitive and market position of the Bank, its profitability as well as for the increase of Tier two coefficient of the capital adequacy and other qualitative and quantitative indicators of the Bank.

The interest is paid quarterly. It is mutually agreed with the creditor that the subordinated loan shall:

- be unconditionally non-redeemable;
- be fully and readily available for covering the Bank's risk and losses during the Bank's operations;
- not be covered by other type of collateral by the Bank or a person connected 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.

30. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Trade payables	3,000	7,785
Accrued expenses	52,025	36,080
Deferred revenue	60,049	25,753
Preference shares	90,978	90,978
Dividends payable for preferred shares	7,561	9,104
Claimed transactions with VISA cards	9,093	5,414
Unallocated cash receipts due to depositors and others	355,106	302,217
Early repayments of loans and other liabilities	23,015	25,658
Custodian accounts (Note 35b)	13,168	-
	<u>613,995</u>	<u>502,989</u>

The Bank has issued 227,444 non-redeemable cumulative preference shares with a nominal value of Denar 400.

The preference shares give preferential rights for dividends and do not have voting rights and participation in equity in the event of a liquidation of the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

31. PROVISIONS

	Off-balance sheet items	Litigation	In thousands of Denars	
			Employees benefits	Total
Balance at January 1, 2011	108,694	23,233	29,838	161,765
Additions	83,298	2,547	2,947	88,792
Used	-	(1,052)	(14,000)	(15,052)
Release	(55,645)	(5,467)	(496)	(61,608)
Balance at December 31, 2011	<u>136,347</u>	<u>19,261</u>	<u>18,289</u>	<u>173,897</u>

	Off-balance sheet items	Litigation	In thousands of Denars	
			Employees benefits	Total
Balance at January 1, 2010	101,646	15,440	38,787	155,873
Additions	26,460	7,793	2,207	36,460
Used	-	-	(11,156)	(11,156)
Release	(19,412)	-	-	(19,412)
Balance at December 31, 2010	<u>108,694</u>	<u>23,233</u>	<u>29,838</u>	<u>161,765</u>

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:

	2011	2010
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 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.

32. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2011 and 2010 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

During 2010, NBG Athens has bought the shares from IFC and EBRD, so it's stake in shareholders equity in 2010 has been increased by 21.6 percentage points compared to year 2009.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

32. EQUITY (Continued)

a) Share capital (Continued)

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2011 and 2010, officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2011		December 31, 2010	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	<u>100%</u>	<u>3,511,242</u>	<u>100%</u>	<u>3,511,242</u>

b) Revaluation reserves

Revaluation reserves include unrealized gains and losses arising from changes in the fair value of available-for-sale investments.

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2011	December 31, 2010
<i>Available-for-sale financial assets:</i>		
Gains/(Losses) arising during the year, net	23,722	(10,227)
Other comprehensive income	23,722	(10,227)
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	<u>23,722</u>	<u>(10,227)</u>

c) Statutory reserve

In accordance with the local regulations, the Bank is required to set aside 15 percent of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/5 of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute.

d) Special fund

Special fund represent a fund set up based on the internal Bank's policy for various purposes broadly classified as restrictive.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

33. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data in the earnings per share computations:

	December 31, 2011	December 31, 2010
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	768,132	876,248
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	43.99	50.19
Diluted earnings per share (in Denars)	43.99	50.19

34. RELATED PARTY TRANSACTIONS

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 business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

The significant related party balances and transactions are presented as follows:

Statement of financial position

	In thousands of Denars			
	Parent company	Key management personnel	Other related parties	Total
December 31, 2011				
Assets				
Current accounts	7,617	-	6,740	14,357
Loans	-	10,020	-	10,020
Due from banks	1,053,772	-	-	1,053,772
	<u>1,061,389</u>	<u>10,020</u>	<u>6,740</u>	<u>1,078,149</u>
Liabilities				
Deposits	-	28,285	4,292	32,577
Subordinated debt	2,780,212	-	-	2,780,212
Other liabilities	516	-	-	516
	<u>2,780,728</u>	<u>28,285</u>	<u>4,292</u>	<u>2,813,305</u>
Off-balance sheet items				
Issued guarantees	-	-	111,246	111,246
	<u>-</u>	<u>-</u>	<u>111,246</u>	<u>111,246</u>
December 31, 2010				
Assets				
Current accounts	10,694	-	4,286	14,980
Loans	-	1,576	-	1,576
Due from banks	882,101	-	-	882,101
	<u>892,795</u>	<u>1,576</u>	<u>4,286</u>	<u>898,657</u>
Liabilities				
Deposits	1,845,150	34,148	4,275	1,883,573
Subordinated debt	2,779,339	-	-	2,779,339
	<u>4,624,489</u>	<u>34,148</u>	<u>4,275</u>	<u>4,662,912</u>
Off-balance sheet items				
Issued guarantees	-	-	111,246	111,246
	<u>-</u>	<u>-</u>	<u>111,246</u>	<u>111,246</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

34. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

	In thousands of Denars			
	Parent company	Key management personnel	Other related parties	Total
December 31, 2011				
Income				
Interest income	7,222	132	6	7,360
	<u>7,222</u>	<u>132</u>	<u>6</u>	<u>7,360</u>
Expenses				
Interest expense	106,807	-	17	106,824
Fee and commission expense			18	18
Other expenses	-	29,084	-	29,084
	<u>106,807</u>	<u>29,084</u>	<u>35</u>	<u>135,926</u>
December 31, 2010				
Income				
Interest income	1,914	90	11	2,015
	<u>1,914</u>	<u>90</u>	<u>11</u>	<u>2,015</u>
Expenses				
Interest expense	90,599	-	17	90,616
Other expenses	-	24,214	-	24,214
	<u>90,599</u>	<u>24,214</u>	<u>17</u>	<u>114,830</u>

National Bank of Greece, Athens represents the parent and the ultimate parent company of the Bank and provides the Bank with subordinated loans. Other related party transactions relate to United Bulgarian Bank and NBG Tirana branch which are fellow subsidiaries of the NBG Group.

The total compensation and other transactions with key management personnel as follows:

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Short-term compensation and benefits	23,535	17,659
Other	<u>5,549</u>	<u>6,555</u>
	<u>29,084</u>	<u>24,214</u>

The Bank entered into banking transactions with key management personnel in the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

35. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars	
	December 31, 2011	December 31, 2010
Payment guarantees:		
in Denars	1,124,355	1,128,697
in foreign currency	350,052	341,347
in Denars with foreign currency clause	63,010	42,409
Performance guarantees:		
in Denars	646,404	747,960
in foreign currency	102,413	141,231
in Denars with foreign currency clause	1,417,759	1,509,700
Letters of credit in foreign currency	172,209	515,963
Cash covered letter of credit	16,203	45,180
Cash covered letter of guarantees	381,781	295,551
Unused current account overdrafts	2,038,795	2,410,089
Credit cards commitments	4,823,525	5,969,219
Other	326,671	318,283
	11,463,177	13,465,629
Less: provision for off-balance sheet items (Note 31)	(136,347)	(108,694)
	<u>11,326,830</u>	<u>13,356,935</u>

b) Managed funds

The Bank administrates assets on a fee basis on behalf of customers. Such managed funds are not Bank's assets and are not recognized in the balance sheet.

	December 31, 2011			December 31, 2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans in Denars	266,067	266,067	-	266,067	266,067	-
Loans in foreign currency	221,786	221,786	-	233,305	233,305	-
Other receivables in Denars	805,789	805,789	-	680,902	680,902	-
Other receivables in foreign currency	655,781	655,781	-	139,271	139,271	-
Custodian accounts (Note 30)	6,409	19,577	(13,168)	-	-	-
	<u>1,955,832</u>	<u>1,969,000</u>	<u>(13,168)</u>	<u>1,319,545</u>	<u>1,319,545</u>	<u>-</u>

The Bank is not exposed to any credit risk in respect of the above placements, as it does not guarantee placements.

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2011 the legal proceedings filed against the Bank amounted to Denar 19,261 thousand (2010: Denar 23,233 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations. The Bank have reversed provisions for impairment losses upon litigation in the amount of Denar 2,920 thousand (2010: have allocated Denar 7,793 thousand).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

35. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned 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 expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 2,704 thousand (2010: Denar 2,531 thousand) and the operating cost amount to Denar 3,648 thousand (2010: Denar 362 thousand).

The Bank as lessee

The payment for operating lease was recognized within other operating expenses and relate to business premises. Lease contracts are up to one year and have a clause stipulating a 30-days notice period. Rental expense paid by the Bank amounting to Denar 62,161 thousand (2010: Denar 57,522 thousand).

The minimum future lease payments approximate the current rent expense level.

36. TAXATION RISK

The tax authorities may at any time inspect the 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.

37. RECLASSIFICATIONS

Certain amounts in prior year have been reclassified to conform to the current year presentation:

Statement of comprehensive income

	In thousands of Denars December 31, 2010		
	As restated	As previously reported	Reclassificat ion
Trading expenses, net	(18,886)	(19,148)	262
Other operating income	116,550	116,812	(262)
			-

38. EVENTS AFTER THE REPORTING DATE

There are no significant events after the reporting period to be reported.

39. EXCHANGE RATES

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

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