

STOPANSKA BANKA AD - SKOPJE

**Financial Statements and
Independent Auditors' Report
For the year ended December 31, 2013**

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Diomidis Nikolettopoulos

Mrs. Milica Chaparovska - Jovanovska

Chief Executive Officer
Chairman of the Board of Directors

Chief Retail Officer
Member of the Board of Directors

Mr. Toni Stojanovski

Mr. Theodoulos Skordis

Chief Risk Officer,
Member of the Board of Directors

Chief Corporate Officer
Member of the Board of Directors

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS ASSEMBLY AND SUPERVISORY BOARD OF STOPANSKA BANKA AD - SKOPJE

We have audited the accompanying financial statements (page 4 to 128) of Stopanska Banka AD – Skopje (hereinafter referred to as the Bank), which comprise the balance sheet as at December 31, 2013 and the income statement, the statement of comprehensive income, the statement of changes in equity and reserves and the statement of cash flows for the year then ended, and the summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Trade Companies, regulations of the National Bank of the Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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 risks from material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with accounting regulations applied in the Republic of Macedonia and the regulation of the National Bank of the Republic of Macedonia.

(continued)

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS ASSEMBLY AND SUPERVISORY BOARD
OF STOPANSKA BANKA AD - SKOPJE**

Report on other legal and regulatory requirements

The Bank management is responsible for preparing the Annual Report (Appendix 1 to the Financial statements) and Annual Account (Appendix 2 to the Financial statements), in accordance with the Companies Law. They were accepted and approved by the Bank management on April 30, 2014.. Our responsibility is to issue an opinion in relation to the consistency of the Annual Report with the Annual Account and financial statements of the Bank. We conducted our procedures in compliance with the Audit Law in the Republic of Macedonia and the International Audit Standard 720 – Responsibilities of the auditor in relation to other information in documents which contain audited financial statements . According to our opinion, the historical financial data disclosed in the Annual Report are consistent with the Annual Account and with the attached audited financial statements of the Bank for the year ended as at 31 December 2013.

Deloitte DOO

Skopje, 30 April 2014

Lidija Nanus
Director
Certified Auditor

Aleksandar Arizanov
Certified Auditor

INCOME STATEMENT
for the period from January 1, 2013 to December 31, 2013
(In thousands of Denars)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Interest income		4,625,397	4,634,327
Interest expense		<u>(1,827,235)</u>	<u>(2,066,489)</u>
Net interest income	6	2,798,162	2,567,838
Fee and commission income		999,071	1,025,772
Fee and commission expense		<u>(89,487)</u>	<u>(84,388)</u>
Net fee and commission income	7	909,584	941,384
Trading income, net	8	70,049	51,477
Trading income from other financial instruments recorded at fair value, net	9	-	-
Foreign exchange gains/(losses), net	10	95,421	106,507
Other operating income	11	250,176	219,219
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(891,181)	(1,039,086)
Impairment losses on non-financial assets, net	13	(152,651)	(74,051)
Personnel expenses	14	(734,228)	(714,768)
Depreciation and amortization	15	(141,194)	(168,399)
Other operating expenses	16	(1,208,421)	(1,090,320)
Share in the loss of associated companies	24	<u>-</u>	<u>-</u>
Profit before tax		995,717	799,801
Income tax	17	<u>(5,772)</u>	<u>(4,322)</u>
Net profit for the year		989,945	795,479
Earnings per share	41		
Basic earnings per share (in MKD)		56.70	45.56
Diluted earnings per share (in MKD)		56.70	45.56

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

The financial statements were approved by the Banks's Board of Directors on January 27, 2014 and adopted by the Bank's Supervisory Board on January 29, 2014.

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Diomidis Nikolettopoulos
Chief Executive Officer
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska
Chief Retail Officer
Member of the Board of Directors

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

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

STATEMENT OF COMPREHENSIVE INCOME
for the period from January 1, 2013 to December 31, 2013
(In thousands of Denars)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Profit / (loss) for the financial year		989.945	795.479
Other profit/ (losses) in periods not shown in the Income Statement (before taxation)			
Revaluation reserve for assets available-for- sale			
- unrealized net- changes in fair value of assets available-for sale		(22.134)	(2.502)
- realized net-profit/(losses) from assets available for sale, reclassified in the Income Statement		-	-
Revaluation reserve for assets taken on the basis of outstanding claims			
- revaluation reserve at the date of acquisition of the asset		-	-
- reduction in the revaluation reserve reclassified in the Income Statement		-	-
Reserves for cash flow risk protection instruments			
- unrealized net- changes in fair value of cash flow risk protection instruments		-	-
- realized net-profit/(losses) from cash flow risk protection instruments, reclassified in the Income Statement		-	-
Reserve for instruments to protect against the risk of net investments in foreign operations		-	-
Reserve of foreign exchange differences from investment in foreign operations		-	-
Share in other gains / (losses) of affiliated companies not shown in the Income Statement	24	-	-
Other gains / (losses) not shown in the Income Statement		-	-
Income tax from other gains / (losses) not shown in the Income Statement	17	-	-
Total other gains / (losses) in the periods not shown in the Income Statement		<u>(22.134)</u>	<u>(2.502)</u>
Comprehensive income /(loss) for the financial year		<u><u>967.811</u></u>	<u><u>792.977</u></u>

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

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Chief Corporate Officer
Member of the Board of Directors

BALANCE SHEET
As at December 31, 2013
(In thousands of Denars)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
ASSETS			
Cash and cash equivalents	18	16.616.744	23.937.430
Trading financial assets	19	233.064	181.051
Financial assets at fair value through Income Statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	310.654	296.295
Loans to customers	22.2	48.057.104	45.597.846
Investments in securities	23	11.977.024	3.394.746
Investments in associates	24	-	-
Income tax receivable (current)	30.1	-	4.884
Other receivables	25	213.736	214.365
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	517.824	686.216
Intangible assets	28	72.314	85.053
Property and equipment	29	900.377	952.629
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
Total assets		<u>78.898.841</u>	<u>75.350.515</u>
LIABILITIES			
Trading financial liabilities	32	-	-
Financial liabilities at fair value through Income Statement determined as such at initial recognition	33	-	-
Derivative obligations held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	189.764	264.962
Deposits from customers	34.2	63.168.377	59.255.539
Issued debt securities	35	-	-
Borrowings	36	944.151	2.518.847
Subordinated debt	37	2.777.763	2.777.163
Special reserve and provisions	38	180.206	139.386
Income tax payable (current)	30.1	888	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	948.069	672.806
Liabilities directly related to disposal group of assets	31	-	-
Total liabilities		<u>68.209.218</u>	<u>65.628.703</u>

BALANCE SHEET (continued)
As at December 31, 2013
(In thousands of Denars)

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
EQUITY AND RESERVES			
Subscribed capital	40	3.511.242	3.511.242
Share premium		-	-
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves	40	(24.694)	(2.560)
Other reserves	40	831.373	831.373
Retained earnings		6.371.702	5.381.757
Total equity and reserves		<u>10.689.623</u>	<u>9.721.812</u>
Total liabilities and equity and reserves		<u>78.898.841</u>	<u>75.350.515</u>
Contingent liabilities	42	10.748.359	10.666.889
Contingent assets	42	-	-

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

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Member of the Board of Directors

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Member of the Board of Directors

STOPANSKA BANKA AD - SKOPJE

STATEMENT OF CHANGES IN EQUITY AND RESERVES
for the period from January 1, 2013 to December 31, 2013

(In thousands of Denars)

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

STOPANSKA BANKA AD - SKOPJE

**STATEMENT OF CHANGES IN EQUITY AND RESERVES
for the period from January 1, 2013 to December 31, 2013**

(In thousands of Denars)

	Equity				Revalued reserves					Other reserves			Retained earnings			Total equity and reserves
	Subscribed capital	Share premium	(Treasury shares)	Other equity instruments	Revalued reserve for assets available for sale	valuation reserve for assets taken on outstandings claims	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumulated losses)	
As at December 31, 2012 / January 1, 2013	3.511.242	-	-	-	-	(2.560)	-	-	-	-	830.290	-	1.083	1.615.458	3.766.299	
Comprehensive income/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	-	-	989.945	-	
Other income/(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in the fair value for assets available-for-sale	-	-	-	-	-	(22.134)	-	-	-	-	-	-	-	-	-	
Changes in the fair value for protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in the fair value for protection against net-investment risk in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Exchange rate differences of investment in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred tax assets/(liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other profit/(loss) not shown in the Income Statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total unrealized profit/(loss) recognized in the equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total comprehensive profit/(loss) for the financial year	-	-	-	-	-	(22.134)	-	-	-	-	-	-	-	989.945	-	
Transactions with shareholders, recognized in the equity and reserves																
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sold treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transactions with shareholders, recognized in the equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
On December 31, 2013	3.511.242	-	-	-	-	(24.694)	-	-	-	-	830.290	-	1.083	2.605.403	3.766.299	

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Diomidis Nikolettopoulos
Chief Executive Officer
Chairman of the Board of Directors

Mrs. Milica Chaparovska - Jovanovska
Chief Retail Officer
Member of the Board of Directors

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

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

STATEMENT OF CASH FLOW
for the period from January 1, 2013 to December 31, 2013
(In thousands of Denars)

	Note	2013	2012
Cash flows (used in)/ generated from operating activities			
Profit before taxation		995.717	799.801
<i>Adjustments for:</i>			
Depreciation of:			
- intangible assets	15/28	39.497	40.435
- property and equipment	15/29	101.697	127.964
Capital gain on sale of:			
- intangible assets		-	-
- property and equipment	11	(2.135)	(2.495)
- assets acquired through foreclosures	11	(17.789)	-
Capital loss on sale of:			
- intangible assets		-	-
- property and equipment		170	-
- assets acquired through foreclosures	16	-	-
Interest income	6	(4.625.397)	(4.634.327)
Interest expense	6	1.827.235	2.066.489
Net trading expense / (income)	8	(70.049)	(51.477)
Impairment losses of financial assets, on a net basis			
- Additional impairment losses	12	1.629.192	1.396.643
- Release of impairment losses	12	(738.011)	(357.557)
Impairment loss of non-financial assets, on a net basis:			
- Additional impairment loss	13	152.651	74.051
- Release of impairment loss		-	-
Special reserves:			
- additional provisions	38	89.535	26.708
- release of provisions	38	(48.205)	(40.145)
Dividend income		(4.090)	(4.520)
Share in profit/(loss) of associates		-	-
Other rectifications – gains from sale of available for sale assets	11	(3.383)	(5.000)
Interest received		4.630.509	4.635.192
Interest paid		(1.819.688)	(2.083.487)
Operating profit before changes in operating assets		2.137.456	1.988.275
<i>(Increase)/decrease of operating assets:</i>			
Trading assets		13.670	(39.223)
Derivative assets held for risk management		-	-
Due from banks and financial institutions		(17.661)	(173.208)
Loans to customers		(3.347.285)	(2.389.378)
Pledged assets		-	-
Assets acquired through foreclosure proceedings		14.492	116.759
Reserve requirements in foreign currency		(198.393)	199.566
Obligatory deposit with NBRM in accordance with special legislative		(16)	(24.369)
Other receivables		629	(11.094)
Deferred tax assets		-	-
Non-current assets held for sale and disposal group		-	-
<i>Increase/(decrease) of operating liabilities:</i>			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks and financial institutions		(75.198)	118.790
Deposits from customers		3.912.838	2.553.923
Other liabilities		274.753	58.811
Liabilities directly related to group of assets for disposal		-	-
Net cash flows (used in)/ generated from operating activities before tax		2.715.285	2.398.852
(Paid)/Received on income tax		(5.671)	(1.670)
Net cash flows (used in)/ generated from operating activities		2.709.614	2.397.182

STATEMENT OF CASH FLOW (continued)
for the period from January 1, 2013 to December 31, 2013
(In thousands of Denars)

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Cash flows from investing activities			
(Investments in securities)		(13.847.926)	(2.891.449)
Inflows from sale of investments in securities		5.258.592	1.336.957
(Outflows for investments in subsidiaries and affiliates)		-	-
Inflows from sale of investments in subsidiaries and affiliates		-	-
(Acquisition of intangible assets)		(26.758)	(18.838)
Inflows from sale of intangible assets		-	-
(Acquisition of property and equipment)		(58.005)	(36.138)
Inflows from sale of property and equipment		8.560	2.599
(Outflows for non-current assets held for sale)		-	-
Inflows from non-current assets held for sale		-	-
(Other outflows from investing activities)		-	-
Other inflows from investing activities		17.788	1.802
Net cash flows from investing activities		(8.647.749)	(1.605.067)
Cash flows from financing activities			
(Repayment of issued debt securities)		-	-
Inflows from issued debt securities		-	-
(Repayment of loan payables)		(2.072.183)	(192.275)
Increase in loan payables		498.087	1.875.572
(Repayment of issued subordinated debt)		-	-
Inflows from issued subordinated debt		-	-
Inflows from issued shares/equity instruments within the period		-	-
Acquisition of treasury shares)		-	-
Disposal of treasury shares		-	-
(Paid dividends)		(5.211)	(6,555)
(Other outflows from financing activities)		-	-
Other inflows from financing activities		-	-
Net cash flows from financing activities		(1.579.307)	1.676.742
Effects from allowance for impairment of cash and cash equivalents		(1.653)	(26.046)
Effects from foreign exchange gains/losses of cash and cash equivalents		-	-
Net-increase/(decrease) of cash and cash equivalents		(7.519.095)	2.442.811
Cash and cash equivalents as at January 1		21.229.652	18.786.841
Cash and cash equivalents as at December 31		13.710.557	21.229.652

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

Signed on behalf of Stopanska Banka AD - Skopje:

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Chairman of the Board of Directors

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION

a) General Information

Stopanska Banka AD - Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 64 branches (2012: 64 branches).

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

- accept deposits and other repayable sources of funds,
- lend in the country, including factoring and financing commercial transactions,
- lend abroad, including factoring and financing commercial transactions,
- issuance and administration of means of payment (payment cards, checks, traveller's checks, bills of exchange),
- financial leasing,
- currency exchange operations,
- domestic and international payment operations, including purchase and sale of foreign currency,
- fast money transfer,
- issuance of payment guarantees, backing guarantees and other forms of collateral,
- lease of safe deposit boxes, depositories and depots,
- trade in instruments on the money market trade in foreign assets, including trade in precious metals,
- trade in securities,
- trade in financial derivatives,
- asset and securities portfolio management for clients and/or investment advising for clients,
- provides custodian services for investment and pension funds,
- purchase and sale, underwriting or placement of securities issue,
- custody of clients' securities,
- giving advices to legal entities in relation to the structure of capital, business strategy or other related issues, or providing services related to merging or acquisition of legal entities,
- sale of insurance policies,
- intermediation in concluding credit and loan agreements,
- process and analyze information on the legal entities' creditworthiness,
- economic and financial consulting, and
- other financial services specified by law allowed to be performed exclusively by a bank.

The Bank is controlled by National Bank of Greece, headquartered in Greece, which owns 94.64% (2012:94.64%) of the capital of the Bank and represents its ultimate parent company.

The shares of the Bank quote at the Official market of the Macedonian Stock Exchange, subsegment Mandatory Listing, and the code under which they are quoted is:

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

1. INTRODUCTION (continued)

a) General Information (continued)

The financial statements of the Bank for the year ended December 31, 2013 were approved by the Bank's Board of Directors on January 27, 2014 and adopted by the Bank's Supervisory Board on January 29, 2014.

b) Basis of preparation of the financial statements

Accounting standards for preparation of the financial statements

The financial statements of the Bank have been prepared in accordance with the Company Law, Law on Banks, the bylaws issued by the National Bank of Republic of Macedonia (hereinafter referred to as "NBRM"), and in accordance with the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (hereinafter referred to as "Methodology") ("Official Gazette of RM" no. 169/10, 165/12, 50/13, and 110/13) and the Decision on the types and contents of financial statements of banks ("Official Gazette of RM" no. 169/10, 152/11, 54/12 and 166/13), as prescribed by the NBRM, applicable since December 31, 2011.

Presentation of financial statements

The accompanying financial statements of the Bank have been presented in accordance with the prescribed form and contents of the balance sheet schemes prescribed in the Decision on the types and contents of banks' financial statements ("Official Gazette of RM" no. 169/2010, 152/2011, 54/2012 and 166/2013), (hereinafter referred to as "Decision"), which in certain aspects differ from the presentation of certain positions in the financial statements in accordance with the requirements of the International Accounting Standard (IAS) 1 - Presentation of financial statements. Specifically, certain reclassifications in certain aspects were made in order to present the financial statements in form required by the Decision, and which potentially differ in significant with respect to IAS 1 in the following:

- The Presentation of "Investment property" in accordance with IAS 40, with net carrying amount as at December 31, 2013 of Denar 90,409 thousand (2012: Denar 114,421 thousand) has not been made and is included in Property and equipment and Assets acquired in foreclosures in the amount of Denar 36,147 thousand and Denar 54,262 thousand, respectively (2012: Denar 37,591 thousand and Denar 76,830 thousand, respectively).

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

1. INTRODUCTION (continued)

b) Basis of preparation of the financial statements(continued)

Presentation of financial statements (continued)

These financial statements have been prepared under the historical cost principle, except for the valuation of investment in financial assets available for sale which have been stated at fair value, as well as other financial assets and financial liabilities which have been stated at fair value through the profit and loss under the going concern assumption.

The presentation of the financial statements in conformity with the accounting standards applied in the Republic of Macedonia requires the Bank management to make the best possible estimates and reasonable assumptions that affects the presented values of assets and liabilities, as well as the revenues and expenses arising within the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for estimation of the carrying amounts of assets and liabilities for which no other data is available. Actual results may differ from these estimates.

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

The estimates and assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if it affects only that period, or in the period of estimation and future periods if the revised estimation affects both current and future periods.

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

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

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

c) Significant accounting policies

Interest income and expense

Interest income and expense are recognized in the Profit and loss for all interest-bearing instruments on an accrual basis, measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)**c) Significant accounting policies (continued)**

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.

Fee and commission income

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

Dividend income

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

Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at exchange rates set by the NBRMat dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the end of reporting period 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 profit and loss in the period in which they occur.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the end of reporting period.

Financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Securities held-for-trading

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

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

Available-for-sale financial assets

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

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

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

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 determines to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale. These securities are measured at amortized cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Loans originated by the Bank

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

Impairment of financial assets

The Bank assesses at each end of reporting period 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 profit and loss. Impairment losses recognized in the profit and loss on equity instruments are not reversed through the profit and loss. 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 profit and loss.

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

Impairment losses on loans and advances

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Impairment losses on loans and advances (continued)

The allowances for impairment and uncollectability of loans and advances and for other active on-balance sheet and off-balance sheet items, are determined in accordance with the regulations prescribed by the NBRMruling on each end of reporting period, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet items into groups on the basis of the degree (size) of the risk and assess the amount of potential impairment losses which are calculated by applying objective and subjective metrics, as of December 31, 2013 and December 31, 2012 by applying the following percentages:

<u>Risk category</u>	<u>2013</u>	<u>2012</u>
A	from 0% to 5%	from 0% to 10%
B	above 5% to 20%	above 10% to 25%
C	above 20% to 45%	above 25% to 50%
D	above 45% to 70%	above 50% to 75%
E	above 70% to 100%	above 75% to 100%

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

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

Financial liabilities

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

Deposits from banks and other financial institutions and clients

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

Loans payable

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

Other payables

Other payables are stated at their nominal amounts.

Derivative financial instruments

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

Derecognition of financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Property and equipment

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

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

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

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

Intangible assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

1. INTRODUCTION (continued)

c) Significant accounting policies (continued)

Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial recovery of a related loan and is disclosed in foreclosed assets. Initially, these assets are measured at the initial carrying amount i.e. lower value than 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 appraiser on the date of asset foreclosure. For all assets acquired after April 6th 2013, the Bank shows impairment means at least 20% of its initial carrying amount. If the impairment of the loan value collected by foreclosure procedure is higher than 20% than the initial value of the acquired asset, the difference is recognized within the revaluation reserves of the Bank.

After initial recognition, at least once per year the foreclosed assets are reviewed due to impairment losses and the same are measured with lower value of 80% from the previous accounting value and the appraised value decreased by the estimated sale cost. The impairment is recognized in the Income statement of the Bank.

Cash and cash equivalents

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

Managed funds

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

Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Employment benefits**

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

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay its employees a termination severance upon retirement in the amount of 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 end of reporting period less the fair value of previously recognized assets (there are currently no previous assets recognized), together with adjustments for unrecognized actuarial gains or losses less past service costs which are not recognized yet. The defined benefit obligation is calculated annually by independent actuary using the projected unit credit method.

Income tax

The Bank's liability for current tax is calculated using the prescribed tax rates that have been enacted or substantively enacted at the end of reporting period.

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

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

Leases

The Bank rents and leases out assets as operating lease. Rental income and expenditures from investment property is recognized in the profit and loss on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates**

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

Fair value of financial instruments

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

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

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

Allowance for loan losses

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates (continued)****Useful lifetime of tangible and intangible assets**

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

Actuarial assumptions in respect of defined benefit plan

The eventual expenses that may occur in the Bank, depend on actual future experience and in particular change in discount rate and increase in salaries. Other factors will also change the overall liability in this matter such as the number of employees leaving service before the retirement and the number of new employees.

Financial crisis

As disclosed in Note 1, the Bank is part of National Bank of Greece Group. Although the NBG Group's deposits in Greece increased by EUR 4.8 billion in 2013, the crisis in the Greek economy, in conjunction with the strict international supervisory rules, continue to restrict the NBG Group's access to liquidity from other financial institutions and therefore the Euro system remains a major source of liquidity for the NBG Group.

The credit risk is appropriately managed and the Bank management believes that on the day of the Balance Sheet, the coverage of nonfunctional loans with the existing level of the impairment is adequate to absorb the potential losses from the credit portfolio. The strong capital base (with a capital adequacy ratio of 18.06%,) 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.

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

Except as stated in Note 1.b), there are no changes in the accounting policies, accounting estimates or correction of errors in these financial statements. As mentioned in Note 1.b) in the section Presentation of financial statements, certain Notes in the accompanying financial statements are presented in compliance with the presentation method by the Decision.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

1. INTRODUCTION (continued)

f) Compliance with legislation

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

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

During year 2013, the NBRM supervised the Bank's compliance in the segment of Foreign exchange operation and AML/TFC activities of SB. There were no fines and penalties imposed related to supervised activities in the final Report.

Additionally, at fourth quarter of the year the NBRM supervised the Bank's compliance in the segment of credit, operational, AML, Compliance and IT risk and compliance with new Decision on methodology for determining capital adequacy. There is no report published until end of the year.

Cash Management Department within the NBRM conducted on-site supervision over the operations of the Bank on at second quarter of the year, covering the period of cash operations in the course of 2012 and the first quarter of 2013 (analysed period).

Subject of the supervision was the implementation of the Decision on the method and conditions for replacing the bank notes and coins which became unsuitable for circulation ("Official Gazette of the Republic of Macedonia" no. 91/2011 and 153/2012).

After the supervision, NBRM issued a Minutes in which relevant findings were detected, upon which the Bank proposed Action plan for implementation of the recommendations. Up to end of October 2013 all recommendations were fulfilled, except one related to activities for additional improvement of the premises of the vault, which are planned for 2014.

g) Risk management disclosure

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

h) Events after the Balance Sheet date

The Bank has no significant events after the balance sheet date for which an adjustment in the financial statements will be made.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT

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

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

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

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

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

2.1 Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure based on defined criteria. The Bank credit risk management, which encompasses identification, measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and impairment for potential losses, commitments and contingencies and it is mainly based on reports and analysis 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 internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of corporative clients to which the Bank is exposed to is reviewed at least on semiannual basis. The Bank has implemented a system of early warning signals for the purpose of identifying timely possible downward trends in the client's creditworthiness and for mitigating the credit risk.

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

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

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

2.1.2 Impairment and provisioning policies

The impairment losses are identified losses of the Bank credit portfolio that incurred until the end of reporting period 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, 2013

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

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

Impairment provision of individually assessed items on individual base are determined by evaluation of generated loss on the end of reporting period, which represents difference between the carrying and current value of projected future cash flows. Effective interest rate is used at discounting the future cash flows that include also the collateral value.

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

Calculated impairment provision moves within the following limits:

- 0-5% (2012:0% up to 10%) of credit risk exposure classified into A risk category
- 5-20% (2012: above 10% up to 25%) of credit risk exposure classified into B risk category
- 20-45% (2012: above 25% up to 50%) of credit risk exposure classified into C risk category
- 45-70% (2012: above 50% up to 75%) of credit risk exposure classified into D risk category
- 70-100% (2012: above 75% up to 100%) of credit risk exposure classified into E risk category

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of exposure to credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	
I. Carrying amount of exposures for which an allowance for impairment/special reserve has been allocated																			
<i>Carrying amount of separate significant exposures before the allowance for impairment and special reserve on an individual basis</i>																			
A risk category	310.654	296.295	39.845.128	11.890.529	11.310.509	144.453	667.319	1.201.478	16.615.303	17.506.246	10.174	2.152	20.257	19.151	7.930.996	1.007.061	76.710.340	32.067.365	
B risk category	-	-	2.486.307	1.859.418	-	-	-	-	-	-	613	916	7.217	-	155.367	37.745	2.649.504	1.898.079	
C risk category	-	-	1.715.630	2.061.414	-	-	-	-	-	-	2.126	372	29.363	7.761	20.153	6.681	1.767.272	2.076.228	
D risk category	-	-	613.501	396.352	-	-	-	-	2.624	2.457	3.430	3.479	-	21	246	5.033	619.801	407.342	
E risk category	26.515	23.519	4.868.733	4.423.072	269.504	282.557	-	-	-	-	36.008	24.001	29.102	54.293	74.313	74.673	5.304.175	4.882.115	
	<u>337.169</u>	<u>319.814</u>	<u>49.529.299</u>	<u>20.630.785</u>	<u>11.580.013</u>	<u>427.010</u>	<u>667.319</u>	<u>1.201.478</u>	<u>16.617.927</u>	<u>17.508.703</u>	<u>52.351</u>	<u>30.920</u>	<u>85.939</u>	<u>81.226</u>	<u>8.181.075</u>	<u>1.131.193</u>	<u>87.051.092</u>	<u>41.331.129</u>	
(Allowance for impairment and special reserve on an individual basis)	(26.515)	(23.519)	(5.605.882)	(4.913.786)	(270.308)	(283.361)	-	-	(1.183)	(1.231)	(40.100)	(23.885)	(36.255)	(53.203)	(104.990)	(84.001)	(6.085.233)	(5.382.986)	
Carrying amount of separate significant exposures less the allowance for impairment and special reserve on an individual basis	<u>310.654</u>	<u>296.295</u>	<u>43.923.417</u>	<u>15.716.999</u>	<u>11.309.705</u>	<u>143.649</u>	<u>667.319</u>	<u>1.201.478</u>	<u>16.616.744</u>	<u>17.507.472</u>	<u>12.251</u>	<u>7.035</u>	<u>49.684</u>	<u>28.023</u>	<u>8.076.085</u>	<u>1.047.192</u>	<u>80.965.859</u>	<u>35.948.143</u>	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
<i>Carrying amount of exposures assessed on a group basis before the allowance for impairment and the special reserve on a group basis</i>																			
- separate insignificant exposures (small loans portfolio)	-	-	-	16.452.830	-	-	-	-	-	-	-	106	-	-	-	6.085.332	-	22.538.268	
- separate significant exposures not impaired on a separate basis	-	-	4.165.903	13.530.177	-	-	-	-	-	-	39	222	15.422	2.636	2.678.474	2.915.387	6.859.838	16.448.422	
(Allowance for impairment and special reserve on a group basis)	-	-	(32.216)	(102.160)	-	-	-	-	-	-	-	(3)	-28	-	(6.200)	(20.007)	(38.444)	(122.170)	
Carrying amount of exposures assessed on a group basis less the allowance for impairment and special reserve on a group basis	-	-	4.133.687	29.880.847	-	-	-	-	-	-	39	325	15.394	2.636	2.672.274	8.980.712	6.821.394	38.864.520	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
II. Carrying amount of exposures for which there has been no allowance for impairment/special reserve allocated																			
mature receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Maturity structure of mature receivables for which no allowance for impairment has been allocated up to 30 days</i>																			
Carrying amount of mature receivables for which no allowance for impairment has been allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-mature receivables																			
Restructured receiv.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount of non-mature receivable for which no allowance for impairment has been allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

A. Analysis of exposure to credit risk (continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012
	Total carrying amount of receivables with credit risk before the allowance for impairment and the special reserve	337.169	319.814	53.695.202	50.613.792	11.580.013	427.010	667.319	1.201.478	16.617.927	17.508.703	52.390	33.246	101.361	83.862	10.859.549	10.131.912	93.910.930
(Total allowance for impairment and special reserve)	(26.515)	(23.519)	(5.638.098)	(5.015.946)	(270.308)	(283.361)	-	-	(1.183)	(1.231)	(40.100)	(23.888)	(36.283)	(53.203)	(111.190)	(104.008)	(6.123.677)	(5.505.156)
Total carrying amount of receivables with credit risk less the allowance for impairment and special reserve	310.654	296.295	48.057.104	45.597.846	11.309.705	143.649	667.319	1.201.478	16.616.744	17.507.472	12.290	9.358	65.078	30.659	10.748.359	10.027.904	87.787.253	74.814.661

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) for mitigating of credit risk

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012
<i>Value of collateral of the credit exposure assessed for impairment on an individual basis</i>																
First-class collateral instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	1.409.110	707.138	-	-	-	-	-	-	-	-	6.278	352	1.415.388	707.490
government securities	-	-	11.799	11.797	-	-	-	-	-	-	-	-	-	-	11.799	11.797
government unconditional guarantees	-	-	1.845.339	-	-	-	-	-	-	-	-	-	-	-	1.845.339	-
bank guarantees	-	-	152.938	186.775	-	-	-	-	-	-	-	-	58.418	28.256	211.356	215.031
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	941.123	1.220.652	-	-	-	-	-	-	-	-	-	-	941.123	1.220.652
Guarantees from individuals	-	-	353.201	-	-	-	-	-	-	-	-	-	2.030	-	355.231	-
Property pledge:																
private property (flats, houses)	-	-	28.575.915	9.174.525	-	-	-	-	-	-	-	-	9.128	8.101	28.585.043	9.182.626
commercial property	-	-	19.121.030	18.125.213	-	-	-	-	-	-	-	-	134.268	18.427	19.255.298	18.143.640
Pledge over movables	-	-	8.291.301	8.378.279	-	-	-	-	-	-	-	-	9.163	5.769	8.300.464	8.384.048
Other types of security	-	-	3.702.677	3.757.079	-	-	-	-	-	-	-	-	19.492	2.860	3.722.169	3.759.939
Total value of collateral of credit exposure assessed for impairment on an individual basis	-	-	64.404.433	41.561.458	-	-	-	-	-	-	-	-	238.777	63.765	64.643.210	41.625.223

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

B. Value of collateral (fair value) for mitigating of credit risk(continued)

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012
<i>Value of collateral of the credit exposure assessed for impairment on a group basis</i>																
First-class collateral instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	200.563	609.125	-	-	-	-	-	-	-	-	32.346	38.207	232.909	647.332
government securities	-	-	1.749	1.749	-	-	-	-	-	-	-	-	-	-	1.749	1.749
government unconditional guarantees	-	-	-	1.845.000	-	-	-	-	-	-	-	-	-	-	-	1.845.000
bank guarantees	-	-	11.795	-	-	-	-	-	-	-	-	-	13.160	19.250	24.955	19.250
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	2.246.342	664.419	-	-	-	-	-	-	-	-	755.286	13.926	3.001.628	678.345
Guarantees from individuals	-	-	61.511	-	-	-	-	-	-	-	-	-	-	-	61.511	-
Property pledge:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	1.716.574	20.495.442	-	-	-	-	-	-	-	-	141.289	126.466	1.857.863	20.621.908
commercial property	-	-	4.755.818	8.250.574	-	-	-	-	-	-	-	-	1.175.879	1.205.757	5.931.697	9.456.331
Pledge over movables	-	-	1.954.539	2.892.974	-	-	-	-	-	-	-	-	667.837	281.101	2.622.376	3.174.075
Other types of security	-	-	3.879.154	1.239.868	-	-	-	-	-	-	-	-	3.549.674	516.566	7.428.828	1.756.434
Total value of collateral of credit exposure assessed for impairment on a group basis	-	-	14.828.045	35.999.151	-	-	-	-	-	-	-	-	6.335.471	2.201.273	21.163.516	38.200.424

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by industries and activities

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, Forestry and Fishing	-	-	616.099	735.042	-	-	-	-	-	-	8	268	2.000	47	14.256	11.206	632.363	746.563
Mining and quarrying	-	-	116.710	142.211	-	-	-	-	-	-	10	9	379	11	23.311	21.961	140.410	164.192
Food industry	-	-	1.576.807	1.509.883	-	-	-	-	-	-	300	85	5.119	278	72.312	44.326	1.654.538	1.554.572
Textile industry and clothing and footwear production	-	-	711.418	595.115	-	-	-	-	-	-	-	19	2.310	1	37.982	29.573	751.710	624.708
Chemical industry, production of construction materials, production and processing of fuels, pharmaceutical industry	-	-	890.518	554.031	-	-	-	-	-	-	-	9	2.891	69	451.801	620.624	1.345.210	1.174.733
Production of metals, machinery, tools and equipment	-	-	3.191.827	3.063.152	-	-	-	-	-	-	2.594	413	10.363	25.091	650.187	282.443	3.854.971	3.371.099
Other manufacturing industries	-	-	269.977	672.276	-	-	-	-	-	-	1.078	1.247	877	-	3.393	7.830	275.325	681.353
Electricity, gas, steam and air conditioning supply	-	-	2.157.384	1.975.314	-	-	-	-	-	-	-	11	7.004	-	32.980	75.347	2.197.368	2.050.672
Water supply, wastewater disposal, waste management and activities on remediation of the environment	-	-	19.261	9.906	-	-	-	-	-	-	-	10	63	-	9.478	264	28.802	10.180
Construction, Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	1.560.740	1.553.898	-	-	-	-	-	-	348	-	5.067	-	1.367.633	1.218.631	2.933.788	2.772.529
Transportation and storage	-	-	4.947.922	4.752.358	906	1.137	-	-	-	-	354	94	16.065	1.520	427.756	318.132	5.393.003	5.073.241
Facilities for accommodation and food service activities	-	-	675.124	653.033	-	-	-	-	-	-	96	540	2.192	125	197.385	168.717	874.797	822.415
Information and Communications	-	-	309.115	353.679	-	-	-	-	-	-	20	1.109	1.004	4	3.221	1.474	313.360	356.266
Financial and insurance activities	-	-	79.982	35.861	-	-	-	-	-	-	18	-	260	-	11.933	289	92.193	36.150
	310.654	296.295	20	81.733	67.104	91.205	-	-	10.153.898	11.133.875	-	78	-	61.755	32.721	10.593.431	11.635.907	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

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

	In thousands of Denars																	
	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012
Activities related to real estate	-	-	317.648	241.996	-	-	-	-	-	-	-	-	1.031	-	462.370	511.337	781.049	753.333
Professional, scientific and technical activities	-	-	299.896	310.166	-	-	-	-	-	-	420	250	974	875	48.223	65.993	349.513	377.284
Administrative and support service activities	-	-	72.949	111.075	-	-	-	-	-	-	-	2	237	-	11.024	14.882	84.210	125.959
Public administration and defence, compulsory social security	-	-	-	-	11.241.695	51.307	667.319	1.201.478	6.462.846	6.373.597	-	-	-	-	15.036	-	18.386.896	7.626.382
Education	-	-	83.102	134.846	-	-	-	-	-	-	-	-	270	-	16.327	-	99.699	134.846
Activities of Health and Social Care	-	-	27.113	26.562	-	-	-	-	-	-	-	-	88	-	548	-	27.749	26.562
Arts, entertainment and recreation	-	-	94.942	74.216	-	-	-	-	-	-	280	37	308	-	35.554	12.307	131.084	86.560
Other service activities	-	-	25.395	24.808	-	-	-	-	-	-	663	21	82	2	2.710	599	28.850	25.430
Activities of households as employers; activities of households that produce goods and perform a diverse range of services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extraterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	30.013.155	27.986.685	-	-	-	-	-	-	6.101	5.156	6.494	2.636	6.791.183	6.589.248	36.816.933	34.583.725
Proprietors and individuals who are not considered as merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	296.295	48.057.104	45.597.846	11.309.705	143.649	667.319	1.201.478	16.616.744	17.507.472	12.290	9.358	65.078	30.659	10.748.358	10.027.904	87.787.252	74.814.661

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.1 Credit risk (continued)

C. Concentration of credit risk by geographical location

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012	current year 2013	previous year 2012
<i>Geographical location</i>																		
Republic of Macedonia	-	-	48.057.104	45.597.846	11.309.703	143.618	667.319	1.201.478	14.254.796	14.481.167	12.290	9.358	65.078	30.659	10.696.527	9.995.185	84.997.739	71.459.311
EU member countries	-	237.236	-	-	2	31	-	-	2.361.948	2.820.404	-	-	-	-	3.819	13.654	2.533.041	3.071.325
Europe (other)	167.272	-	-	-	-	-	-	-	-	88.971	-	-	-	-	15.375	143.382	104.346	
OECD member countries (less European OECD member countries)	143.382	-	-	-	-	-	-	-	-	116.930	-	-	-	-	-	-	-	116.930
Other (more than 10% of total credit risk exposure)	-	59.059	-	-	-	-	-	-	-	-	-	-	-	-	48.013	3.690	48.013	62.749
Total	310.654	296.295	48.057.104	45.597.846	11.309.705	143.649	667.319	1.201.478	16.616.744	17.507.472	12.290	9.358	65.078	30.659	10.748.359	10.027.904	87.722.175	74.814.661

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**2. RISK MANAGEMENT (continued)****2.2 Liquidity risk**

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

2.2.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

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

							In thousands of Denars
December 31, 2013							
	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
FINANCIAL ASSETS							
Cash and cash equivalents	16.616.744	-	-	-	-	-	16.616.744
Trading assets	217.272	-	8.476	7.316	-	-	233.064
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	698	-	143.381	-	-	166.575	310.654
Loans to customers	3.236.998	4.740.181	15.622.390	4.820.034	9.474.636	10.162.865	48.057.104
Investment securities	134.628	1.125.962	9.019.094	-	1.629.300	68.040	11.977.024
Investments in affiliates	-	-	-	-	-	-	-
Income Tax receivable (current)	-	-	-	-	-	-	-
Other receivables	213.736	-	-	-	-	-	213.736
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	20.420.076	5.866.143	24.793.341	4.827.350	11.103.936	10.397.480	77.408.326
FINANCIAL LIABILITIES							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	189.764	-	-	-	-	-	189.764
Deposits from customers	24.001.416	7.403.637	23.632.596	5.484.245	2.418.121	228.362	63.168.377
Loans payable	209.833	15.183	141.748	180.153	397.234	-	944.151
Subordinated debt	-	9.755	-	-	2.768.008	-	2.777.763
Income tax liabilities (current)	888	-	-	-	-	-	888
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	857.091	-	-	-	-	90.978	948.069
Total financial liabilities	25.258.992	7.428.575	23.774.344	5.664.398	5.583.363	319.340	68.029.012
Off balance items							
Off balance assets	-	-	-	-	-	-	-
Off balance liabilities	7.662.527	413.004	1.510.286	504.456	400.751	368.525	10.859.549
Net liquidity gap	(12.501.443)	(1.975.436)	(491.289)	(1.341.504)	5.119.822	9.709.615	(1.480.235)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.2 Liquidity risk (continued)

2.2.1 Liquidity risk management process (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)**2.2 Liquidity risk (continued)****2.2.1 Liquidity risk management process (continued)****Analysis according to the maturity of financial assets and liabilities (remaining maturity) (continued)**

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2013 and 2012, except for loans and receivables from other clients and unutilized limits – potential credit exposure where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, allowed overdrafts etc.) is made by using the historical data on the collection amount in relation to the total on-balance sheet receivables under these products, i.e. the amount of utilization of funds under the approved limits.

2.3 Market risk

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

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2013 and 2012.

Risk from changes in interest rates

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

Risk from changes in interest rates (continued)

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

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2013 and 2012.

Operational risk

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

2.3.1. Sensitivity Analysis of assets and liabilities on change in market risk

A. Sensitivity Analysis on the changes of market risk on assets and liabilities

	Profit/loss	Own funds	Risk weighted assets	Capital adequacy ratio
December 31, 2013				
Amount prior to the sensitivity analysis /stress tests (as of 31.12.2013)	-	9.897.712	54.810.434	18,06%
Effects from application of scenarios				
Risk from foreign exchange rate change				
Denar to depreciate by 10% in relation of all other F/X	225.408	10.123.120	55.035.895	18,39%
Denar to appreciate by 10% in relation of all other F/X	(225.408)	9.672.304	54.584.973	17,72%
Denar to depreciate by 20% in relation of all other F/X	450.817	10.348.529	55.261.356	18,73%
Denar to appreciate by 20% in relation of all other F/X	(450.817)	9.446.895	54.359.512	17,38%
Risk from interest rate change				
Increasing of interest rates by 200 b.p.	30.799	9.928.511	54.810.434	18,11%
Decreasing of interest rates by 200 b.p.	(30.799)	9.866.913	54.810.434	18,00%
Increasing of interest rates by 400 b.p.	61.598	9.959.310	54.810.434	18,17%
Decreasing of interest rates by 400 b.p.	(61.598)	9.836.114	54.810.434	17,95%
Cumulative	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk (continued)

A. Sensitivity Analysis on the changes of market risk on assets and liabilities(continued)

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

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

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

The table presents analysis of assets and liabilities sensitivity to market risk changes as at 31 December 2013 and 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.1 Sensitivity Analysis of assets and liabilities on change in market risk(continued)

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

	2013				In thousands of Denars 2012			
	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)	Balance on December 31	Average value	Highest value (maximum)	Lowest value (minimum)
Amount exposed to risk at interest- bearing instruments								
Amount exposed to risk at instruments in foreign currency	-	-	-	-	-	-	-	-
Amount exposed to risk at equity instruments	-	-	-	-	-	-	-	-
Amount (effects on netting)	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets)

A Interest rate sensitivity analysis

	Currency	2013	2012
NET WEIGHTED POSITION FOR CURRENCY EUR (FKS+VKS+PKS)	EUR	17.947	(24.464)
NET WEIGHTED POSITION FOR CURRENCY MKD (FKS+VKS+PKS)	MKD	7.157	38.237
NET WEIGHTED POSITION FOR CURRENCY MKDcEUR (FKS+VKS+PKS)	MKDcEUR	195.482	60.658
NET WEIGHTED POSITION FOR other CURRENCIES (FKS+VKS+PKS)	Other	6.671	(12.938)
TOTAL WEIGHTED VALUE – CHANGE IN THE ECONOMIC VALUE OF BANK’S ACTIVITY PORTFOLIO		227.257	61.493
OWN FUNDS		10.451.931	10.713.497
TOTAL WEIGHTED VALUE / OWN FUNDS		2,17%	0,57%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

B. Analysis of reconciliation of interest rates

In thousands of Denars	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	Total interest bearing assets /liabilities
December 31, 2013							
ASSETS							
Cash and cash equivalents	15.442.132	-	-	-	-	-	15.442.132
Financial assets at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Loans and receivables from banks	-	-	143.381	-	-	112.842	256.223
Loans and receivables from other customers	1.504.410	19.425.004	21.237.499	1.794.834	2.754.150	1.016.212	47.732.109
Investments in securities	132.587	1.125.962	8.996.525	-	1.629.300	-	11.884.374
Other interest-sensitive unstated assets	-	-	-	-	-	-	-
Total interest-sensitive financial assets	17.079.129	20.550.966	30.377.405	1.794.834	4.383.450	1.129.054	75.314.838
LIABILITIES							
Financial liabilities at fair value through profit and loss account designated as such at initial recognition	-	-	-	-	-	-	-
Deposits of banks	189.761	-	-	-	-	-	189.761
Deposits of other customers	26.337.092	10.963.244	21.058.904	3.683.398	747.992	59.817	62.850.447
Issued debt securities	-	-	-	-	-	-	-
Borrowings	208.637	15.183	141.695	180.153	397.234	-	942.902
Subordinated liabilities and hybrid instruments	-	2.768.009	-	-	-	-	2.768.009
Other unspecified interest-sensitive liabilities	-	-	-	-	-	-	-
Total interest-sensitive financial liabilities	26.735.490	13.746.436	21.200.599	3.863.551	1.145.226	59.817	66.751.119
Net - balance position							
Off-balance sheet interest-sensitive assets positions	-	-	-	-	-	-	-
Off-balance sheet interest-sensitive liabilities positions	-	-	-	-	-	-	-
Net positions - off-balance sheet position	-	-	-	-	-	-	-
Total net-position	(9.656.361)	6.804.530	9.176.806	(2.068.717)	3.238.224	1.069.237	8.563.719

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.2 Sensitivity analysis of changes in interest rates of financial assets and liabilities (excluding trading assets) (continued)

B. Analysis of reconciliation of interest rates(continued)

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

	In thousands of Denars 31 December 2013				
	MKD	EUR	USD	Other currency	Total
MONETARY ASSETS					
Cash and cash equivalents	10.882.371	4.250.808	265.045	1.218.520	16.616.744
Trading assets	-	15.793	212.858	4.413	233.064
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	543	167.194	119.824	23.093	310.654
Placement with and loans to customers	22.747.818	23.941.718	1.367.069	500	48.057.104
Investments in securities	9.725.989	2.248.989	-	2.045	11.977.024
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	-	-	-	-	-
Other receivables	196.770	13.450	3.365	151	213.736
Collateralized assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Total monetary assets	<u>43.553.492</u>	<u>30.637.952</u>	<u>1.968.160</u>	<u>1.248.722</u>	<u>77.408.327</u>
MONETARY LIABILITIES					
Trading liabilities	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	-	36.461	94.179	59.124	189.764
Deposits from customers	35.672.112	24.566.819	1.775.540	1.153.906	63.168.377
Issued Debt Securities	-	-	-	-	-
Borrowings	171.051	768.361	4.740	-	944.151
Subordinated debt	-	2.777.763	-	-	2.777.763
Income tax payable (current)	888	-	-	-	888
Deferred tax liabilities	-	-	-	-	-
Other liabilities	824.548	108.447	14.210	865	948.069
Total monetary liabilities	<u>36.668.599</u>	<u>28.257.851</u>	<u>1.888.668</u>	<u>1.213.895</u>	<u>68.029.013</u>
Net – position	<u>6.884.893</u>	<u>2.380.102</u>	<u>79.492</u>	<u>34.827</u>	<u>9.379.314</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

2. RISK MANAGEMENT (continued)

2.3 Market risk (continued)

2.3.3 Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

3. CAPITAL ADEQUACY**Capital management**

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

3. CAPITAL ADEQUACY (continued)

Own assets

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2013 and 2012.

	In thousands of Denars	
	current year 2013	previous year 2012
Paid and registered ordinary and non-cumulative preferred shares and their premium	3.511.242	3.511.242
Nominal value	3.511.242	3.511.242
Nominal value of common shares	3.511.242	3.511.242
Nominal value of non-cumulative preferred shares	-	-
Premium	-	-
Premium under ordinary shares	-	-
Premium under non-cumulative preferred shares	-	-
Reserves and retained profit or loss	4.596.589	4.596.589
Reserve fund	830.291	830.291
Retained earnings restricted for distribution to shareholders	3.766.298	3.766.298
Accumulated loss from previous years	-	-
Current profit	-	-
Positions as a result of consolidation	-	-
Minority share	-	-
Reserves under foreign exchange gains/losses	-	-
Other differences	-	-
Deductible items	(23.983)	(23.983)
Loss at the year-end or current loss	-	-
Purchased own shares	-	-
Intangible assets	-	-
Difference between the amount of required and made impairment/special reserves	(23.983)	(23.983)
Amount of allocated impairment and special reserves as a result of accounting delay	-	-
Unrealized loss from own instruments available for sale	-	-
Other deducted items	-	-
Initial capital	8.083.848	8.083.848

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

	In thousands of Denars	
	current year 2013	previous year 2012
Additional capital I		
Paid-in and subscribed cumulative preferred shares and premium under these shares	90.978	90.978
Nominal value	90.978	90.978
Premium	-	-
Revaluation reserves	569	17.138
Hybrid capital instruments	-	-
Subordinated instruments	1.722.317	2.275.500
Amount of cumulative preferred shares and subordinated instruments that can be part of the additional capital I	1.813.295	2.366.478
Additional capital I	1.813.864	2.383.616
Deducted items		
Investments in capital of other banks or financial institutions that are over 10% of the capital of those institutions	-	-
Investments in subordinated and hybrid capital instruments and other instruments of the aforementioned institutions	-	-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of of initial and additional capital	-	-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies	-	-
Amount for exceeding the limits for investments in non-financial institutions	-	-
Positions as a result of consolidation (negative amounts)	-	-
Deductible items	-	-
Initial capital after deductions	8.083.848	8.083.848
Additional capital I after deductible items	1.813.864	2.383.616
OWN ASSETS	9.897.712	10.467.464

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

3. CAPITAL ADEQUACY (continued)

Own assets

Capital adequacy ratio

The table below gives an overview of the Report of the rate of capital adequacy (Form CA) prepared in accordance with the Guidelines for implementation of the Decision on the methodology for determining the capital adequacy according to the applicable prescribed regulations from NBRM as at December 31, 2013 and 2012.

	In thousands of Denars	
	current year 2013	previous year 2012
Credit risk weighted assets		
Credit risk weighted assets by applying standardized approach	46.307.661	45.085.849
Capital required for covering the credit risk	3.704.613	3.606.868
Currency risk weighted assets		
Currency risk weighted assets	2.254.609	2.476.462
Aggregate foreign currency position	-	-
Net position in gold	180.639	198.117
Capital required for covering the currency risk	2.254.609	2.476.462
Operational risk weighted assets		
Capital required for covering the operational risk by applying the basic indicator approach	-	-
Capital required for covering the operational risk by applying the standardized approach	499.853	503.750
Operational risk weighted assets	6.248.164	6.296.869
Other risk weighted assets		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the positional risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity instruments	-	-
Capital required for covering the general risk of investments in equity instruments	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
Other risk weighted assets	-	-
Risk weighted assets	54.810.434	53.859.180
Capital required for covering the risks	4.384.835	4.308.734
Own assets	9.897.712	10.467.464
Capital adequacy ratio	18,06%	19,43%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

4. SEGMENT REPORTING

A. Operating segments

In thousands of Denars
December 31, 2013

	<u>Retail banking</u>	<u>Corporate banking</u>	<u>Investme nt banking</u>	<u>All other significant operating segments</u>	<u>Unalloca ted</u>	<u>Total</u>
Net interest income /(expense)	1.263.653	1.205.012	329.497	-	-	2.798.162
Net fees and commissions income / (expense)	493.573	434.639	(23.100)	4.472	-	909.584
Net trading income	-	-	70.049	-	-	70.049
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	194.728	48.694	-	-	102.175	345.597
Income realized between segments	-	-	-	-	-	-
Total income by segments	<u>1.951.954</u>	<u>1.688.345</u>	<u>376.446</u>	<u>4.472</u>	<u>102.175</u>	<u>4.123.392</u>
Allowance for impairment of financial assets, on net basis	56.898	(1.063.045)	114.966	-	-	(891.181)
Impairment loss of non-financial assets, on net-basis	(62.084)	(58.697)	-	-	(31.870)	(152.651)
Depreciation	(57.425)	(54.292)	-	(13.240)	(16.237)	(141.194)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	(23.592)	(22.304)	-	(5.438)	(6.671)	(58.005)
Other expenses	(766.246)	(724.789)	-	(268.245)	(125.364)	(1.884.644)
Total expenses by segments	<u>(852.449)</u>	<u>(1.923.127)</u>	<u>114.966</u>	<u>(286.923)</u>	<u>(180.142)</u>	<u>(3.127.675)</u>
Financial result by segment	1.099.505	(234.782)	491.412	(282.451)	(77.967)	995.717
Income tax	-	-	-	-	(5.772)	(5.772)
Profit/(loss) for the financial year	<u>1.099.505</u>	<u>(234.782)</u>	<u>491.412</u>	<u>(282.451)</u>	<u>(83.739)</u>	<u>989.945</u>
Total assets by segment	17.570.693	49.118.060	12.207.453	-	-	78.896.206
Unallocated assets per segment	-	-	-	-	2.635	2.635
Total assets						<u>78.898.841</u>
Total liabilities by segment	44.904.737	23.300.204	-	-	-	68.204.941
Unallocated liabilities by segment	-	-	-	-	4.277	4.277
Total liabilities						<u>68.209.218</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

4. SEGMENT REPORTING (continued)

A. Operating segments (continued)

In thousands of Denars
December 31, 2012

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

4. SEGMENT REPORTING (continued)

B. Concentration of total revenue and expenses by customers

	In thousands of Denars					Total
	Retail banking	Corporate banking	Investment banking	All other significant operating segments	Unallocated	
Current year, 2013						
Customer 1						
Income	1.076	146.628	-	-	-	147.704
(Expenses)	(14.431)	(85.809)	-	-	-	(100.240)
Customer 2						
Income	673	135.249	-	-	-	135.922
(Expenses)	(13.280)	(55.877)	-	-	-	(69.157)
Customer 3						
Income	673	78.592	-	-	-	79.265
(Expenses)	(10.427)	(35.282)	-	-	-	(45.709)
Customer 4						
Income	538	63.697	-	-	-	64.235
(Expenses)	(10.204)	(33.025)	-	-	-	(43.229)
Customer 5						
Income	538	47.480	-	-	-	48.018
(Expenses)	(9.624)	(28.744)	-	-	-	(38.368)
Total by segment	(54.468)	232.909	-	-	-	178.441
Previous year, 2012						
Customer 1						
Income	5.592	123.293	-	-	-	128.885
(Expenses)	(11.870)	(80.411)	-	-	-	(92.281)
Customer 2						
Income	2.140	90.348	-	-	-	92.488
(Expenses)	(11.571)	(43.312)	-	-	-	(54.883)
Customer 3						
Income	1.762	79.758	-	-	-	81.520
(Expenses)	(10.304)	(41.338)	-	-	-	(51.642)
Customer 4						
Income	1.656	77.919	-	-	-	79.575
(Expenses)	(9.181)	(39.708)	-	-	-	(48.889)
Customer 5						
Income	1.597	53.309	-	-	-	54.906
(Expenses)	(8.668)	(32.464)	-	-	-	(41.132)
Total by segment	(38.847)	187.394	-	-	-	148.547

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. SEGMENT REPORTING(continued)

C. Geographic areas

	In thousands of Denars December 31, 2013						
	Republic of Macedonia	Member countries of European Union	Europe (other)	Member- countries of OECD (without European Member- countries of OECD)	Other	Unallocat ed	Total
Current year, 2013							
Total income	5.841.996	165.391	9.825	22.902	-	-	6.040.114
Total assets	<u>75.394.177</u>	<u>3.189.189</u>	<u>184.152</u>	<u>131.323</u>	-	-	<u>78.898.841</u>
Previous year, 2012							
Total income	5.769.159	244.010	15.686	8.447	-	-	6.037.302
Total assets	<u>72.003.674</u>	<u>3.045.573</u>	<u>175.859</u>	<u>125.409</u>	-	-	<u>75.350.515</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A. Fair value of financial assets and liabilities

	December 31, 2013		In thousands of Denars December 31, 2012	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Cash and cash equivalents	16.616.744	16.616.744	23.937.430	23.937.430
Trading assets	233.064	233.064	181.051	181.051
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	310.654	310.654	296.295	296.295
Placement with, and loans to other customers	48.057.104	48.057.104	45.597.846	45.597.846
Investment securities	11.977.024	11.977.024	3.394.746	3.394.746
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	-	-	4.884	4.884
Other receivables	213.736	213.736	214.365	214.365
Collateralized assets	-	-	-	-
Differed tax assets	-	-	-	-
	77.408.326	77.408.326	73.626.617	73.626.617
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	189.764	189.764	264.962	264.962
Deposits from other customers	63.168.377	63.168.377	59.255.539	59.255.539
Issued debt securities	-	-	-	-
Borrowings	944.151	944.151	2.518.847	2.518.847
Subordinated debt	2.777.763	2.777.763	2.777.163	2.777.163
Income tax liabilities (current)	888	888	-	-
Differed tax liabilities	-	-	-	-
Other liabilities	-	-	672.806	672.806
	67.080.943	67.080.943	65.489.317	65.489.317

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

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

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

	Note	In thousands of Denars			
		Level 1	Level 2	Level 3	Total
Current year, 2013					
Financial assets measured at fair value					
Trading assets	19	233.064			233.064
Financial assets at fair value through income statement, determined as such upon initial recognition	20				-
Derivative assets held for risk management	21				-
Investments in securities available for sale	23.1	43.633	24.407		68.040
Total		276.697	24.407	-	301.104
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-
Previous year, 2012					
Financial assets measured at fair value					
Trading assets	19	181.051	-	-	181.051
Financial assets at fair value through income statement, determined as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	67.934	-	24.407	92.341
Investments in securities available for sale	23.1				
Total		248.985	-	24.407	273.392
Financial liabilities					
Liabilities for trading	32	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

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

B.2 Transfers between fair value level 1 and 2

	<u>Current year, 2013</u>		<u>Previous year, 2012</u>	
	Transfers from level 1 to level 2	Transfers from level 2 to level 1	Transfers from level 1 to level 2	Transfers from level 2 to level 1
Financial assets measured at fair value				
Trading assets	-	-	-	-
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investments in securities, available for sale	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities				
Liabilities for trading	-	-	-	-
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

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

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

B.3 Reconciliation of the Movements in Fair Values Measured at Level 3 During the Year

	Assets for trading	Financial assets at fair value through profit and loss account designated as such at initial recognition	Investments in securities available –for-sale	Total assets	Liabilities for trading	In thousands of Denars	
						Financial assets at fair value through profit and loss account designated as such at initial recognition	Total liabilities
Balance at January 1, 2012							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not recognized in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2012	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2012	-	-	-	-	-	-	-
Balance at January 1, 2013							
Profit/(loss) recognized in:							
- Income Statement	-	-	-	-	-	-	-
- Other income /(loss) in the period not shown in the Income Statement	-	-	-	-	-	-	-
Purchased financial assets in the period	-	-	-	-	-	-	-
Sold financial assets in the period	-	-	-	-	-	-	-
Issued financial instruments in the period	-	-	-	-	-	-	-
Paid financial instruments in the period	-	-	-	-	-	-	-
Re-classified financial instruments to/from Level 3	-	-	-	-	-	-	-
Re-classified in loans and claims	-	-	-	-	-	-	-
Balance at December 31, 2013	-	-	-	-	-	-	-
Total profit /(loss) recognized in the Income Statement for the financial assets and liabilities that are held on December 31, 2013	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

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

b) Held-for-trading financial assets

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

c) Placement with, and loans to banks

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

d) Placements with and loans to customers

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

e) Investment in securities

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

f) Other receivables

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

g) Deposits from banks

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

h) Deposits from other customers

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

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

i) Loans payable (including subordinated debt)

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

j) Other liabilities

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

6. NET INTEREST INCOME/(EXPENSE)

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

	In thousands of Denars	
	Current year 2013	Previous year 2012
Interest income		
Cash and cash equivalents	339.437	413.881
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	19.724	27.431
Placements with and loans to customers	3.794.038	3.835.685
Investments in securities	308.692	171.192
Other receivables	11.546	3.332
(Allowance for impairment of income interest, on net-basis)	(66.171)	(94.424)
Collected previously written-off interest	218.131	277.230
Total interest income	4.625.397	4.634.327
Interest expense		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	-	-
Deposits from other customers	1.735.152	1.954.651
Issued debt securities	-	-
Borrowings	10.416	11.345
Subordinated debt	74.431	89.653
Other liabilities	7.236	10.840
Total interest expense	1.827.235	2.066.489
Net interest income / (expense)	2.798.162	2.567.838

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

B. Sector analysis of interest income and expenses by sector

	In thousands of Denars	
	current year 2013	previous year 2012
Interest income		
Non-financial companies	1.164.791	1.222.448
Government	334.261	172.772
Non-profit institutions servicing households	879	1.288
Banks	19.779	27.446
Other financial companies (non-banking)	321.787	414.549
Households	2.631.940	2.613.018
Non-residents	-	-
(Allowance for impairment of interest income, on net-basis)	(66.171)	(94.424)
Collected previously written-off interest	218.131	277.230
Total interest income	4.625.397	4.634.327
Interest expense		
Non-financial companies	241.985	237.707
Government	5.948	8.406
Non-profit institutions servicing households	11.976	11.240
Banks	9.815	13.030
Other financial companies (non-banking)	41.702	44.308
Households	1.423.290	1.643.513
Non-residents	92.519	108.285
Total interest expense	1.827.235	2.066.489
Net interest income / (expense)	2.798.162	2.567.838

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

7. NET FEE AND COMMISSION INCOME/(EXPENSE)

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

	In thousands of Denars	
	current year 2013	previous year 2012
Fee and commission income		
Financing	106.634	116.632
Payment operations		
domestic	314.662	281.751
international	97.519	107.570
L/Cs and L/Gs	69.216	69.599
Brokerage operations	1.740	2.337
Asset management	425	488
Commission and creditor activities	142	-
Issue of securities	-	-
Card operations	273.600	370.131
Deposit operations	1.578	6.144
Renting safe-deposit-boxes	6.437	6.391
Third party accounts collection	9.485	6.979
Other	117.633	57.750
<i>Total fee and commission income</i>	999.071	1.025.772
Fee and commission expense		
Financing	-	-
Payment operations		
domestic	67.494	68.726
international	13.960	10.990
L/Cs and L/Gs	-	-
Brokerage operations	-	-
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	8.033	4.672
<i>Total fee and commission expense</i>	89.487	84.388
Net fee and commission income / (expense)	909.584	941.384

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

B. Sector analysis of fee and commission income and expense

	In thousands of Denars	
	current year 2013	previous year 2012
Fee and commission income		
Non-financial companies	566.755	568.171
Government	4.373	5.316
Non-profit institutions servicing households	148	102
Banks	16.779	18.354
Other financial companies (non-banking)	-	-
Households	382.072	406.707
Non-residents	28.944	27.122
<i>Total fee and commission income</i>	999.071	1.025.772
Fee and commission expense		
Non-financial companies	7.117	4.120
Government	7	-
Non-profit institutions servicing households	-	-
Banks	57.500	55.954
Other financial companies (non-banking)	24.863	24.314
Non-residents	-	-
<i>Total fee and commission expense</i>	89.487	84.388
Net fee and commission income / (expense)	909.584	941.384

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

8. NET TRADING INCOME

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	33	62
unrealized	(1.861)	(2.798)
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	67.545	49.460
Income from dividend from trading assets	926	1.185
Income from interest from trading assets	3.406	3.568
<i>Trading liabilities</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit /(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	-	-
Net trading income	70.049	51.477

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

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

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
Net income from other financial instruments carried at fair value	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

10. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	In thousands of Denars current year 2013	previous year 2012
Realized net foreign exchange gains/(losses)	120.091	125.535
Non-realized net foreign exchange gains/(losses)		
foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	(13.053)	(10.904)
foreign exchange gains/(losses) of special reserve for off balance sheet exposure, on net basis		-
other foreign exchange gains/(losses), on net basis	(11.617)	(8.124)
Net foreign exchange gains/(losses)	95.421	106.507

11. OTHER OPERATING INCOME

	In thousands of Denars current year 2013	previous year 2012
Profit from sales of assets available for sale	3.976	5.000
Dividend from equity instruments available for sale	4.090	4.520
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
property and equipment	19.924	2.495
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for disposal (sale)	-	-
Income from rent	3.116	3.126
Income from won court disputes	10.689	10.238
Collected previously written-off receivables	151.118	135.425
Release of special reserves and provisions for:		
off-balance sheet credit exposures	-	11.264
contingent liabilities based on court disputes	-	1.493
pensions and other benefits for employees	-	-
restructuring	-	-
unfavourable agreements	-	-
other provisions	-	-
Other:		
managing accounts for the Ministry of Finance	-	-
early withdrawal of deposits of non-residents	39.660	32.880
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	7.951	4.773
other income	9.652	8.005
Total other operating income	250.176	219.219

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

12. IMPAIRMENT LOSSES OF FINANCIAL ASSETS, NET

In thousands of Denars

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total
December 31, 2013								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment,	3.597	1.538.968	-	-	1.605	8.910	33.578	1.586.658
(Release of allowance for impairment)	(395)	(581.035)	-	-	(1.653)	(784)	(41.704)	(625.571)
	<u>3.202</u>	<u>957.933</u>	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>8.126</u>	<u>(8.126)</u>	<u>961.087</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment,	-	42.534	-	-	-	-	-	42.534
(Release of allowance for impairment)	-	(112.440)	-	-	-	-	-	(112.440)
	<u>-</u>	<u>(69.906)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69.906)</u>
Total allowance for impairment of financial assets, on net-basis	<u>3.202</u>	<u>888.027</u>	<u>-</u>	<u>-</u>	<u>(48)</u>	<u>8.126</u>	<u>(8.126)</u>	<u>891.181</u>
December 31, 2012								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	368	1.350.226	-	-	1.231	10.436	16.012	1.378.273
(Release of allowance for impairment)	(175)	(304.596)	-	-	-	(220)	(5.768)	(310.759)
	<u>193</u>	<u>1.045.630</u>	<u>-</u>	<u>-</u>	<u>1.231</u>	<u>10.216</u>	<u>10.244</u>	<u>1.067.514</u>
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	18.370	-	-	-	-	-	18.370
(Release of allowance for impairment)	-	(46.798)	-	-	-	-	-	(46.798)
	<u>-</u>	<u>(28.428)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28.428)</u>
Total allowance for impairment of financial assets, on net-basis	<u>193</u>	<u>1.017.202</u>	<u>-</u>	<u>-</u>	<u>1.231</u>	<u>10.216</u>	<u>10.244</u>	<u>1.039.086</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

13. IMPAIRMENT LOSSES OF NON-FINANCIAL ASSETS, NET

	In thousands of Denars					Total
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	
December 31, 2013						
Additional impairment loss	-	-	152.651	-	-	152.651
(Release of impairment loss)	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	152.651	-	-	152.651
December 31, 2012						
Additional impairment loss	-	-	74.051	-	-	74.051
(Release of impairment loss)	-	-	-	-	-	-
Total impairment loss of non-financial assets, on net-basis	-	-	74.051	-	-	74.051

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

14. PERSONNEL EXPENSES

	In thousands of Denars current year 2013	previous year 2012
Short-term personnel benefits		
Salaries	447.382	443.952
Compulsory contributions for social and health insurance	213.515	210.797
Short-term paid leaves	-	-
Costs for temporary employment	14.680	13.244
Share in profit and remuneration	-	-
Non-monetary benefits	-	-
Other personnel benefits	58.122	46.608
	<u>733.699</u>	<u>714.601</u>
Post retirement benefits		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	529	167
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	-	-
	<u>529</u>	<u>167</u>
Total personnel expenses	<u><u>734.228</u></u>	<u><u>714.768</u></u>

The amounts referring to provisions for retirement benefits in the amount of Denar2,488thousand (2012: Denar2,149 thousand) are presented in Note 38.

	current year 2013	previous year 2012
Average number of employees for the period	1028	1.021
Number of permanent employees at year-end	1045	1.024
Number of temporary employees at year-end	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

15. DEPRECIATION

	In thousands of Denars	
	current year 2013	previous year 2012
Depreciation of intangible assets		
Internally developed software	-	-
Software acquired from external suppliers	39.497	40.435
Other internally developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>39.497</u>	<u>40.435</u>
Depreciation of property and equipment		
Buildings	28.682	29.502
Means of transport	55	1.245
Furniture and equipment	54.415	75.373
Other equipment	2.197	3.322
Other items of property and equipment	1.444	1.444
Property and equipment leasehold improvements	14.904	17.078
	<u>101.697</u>	<u>127.964</u>
Total depreciation	<u>141.194</u>	<u>168.399</u>

16. OTHER OPERATING EXPENSES

	In thousands of Denars	
	current year 2013	previous year 2012
Losses from sale of assets available for sale	50	-
Software licensing expense	-	-
Deposit insurance premia	336.190	324.922
Premia on property and employee insurance	15.015	16.680
Materials and services	594.810	539.529
Administrative and marketing expense	112.935	103.472
Other taxes and contributions	3.691	3.196
Rental expense	63.405	61.913
Court dispute expense	11.657	10.224
Special reserve for off-balance sheet exposure, on a net basis	7.183	-
Provisions for pension and other employee benefits, on a net basis	2.488	2.149
Provisions for contingent liabilities based on court disputes, on a net basis	32.265	-
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	170	-
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	6.178	7.378
other costs	22.384	20.857
Total other operating expenses	<u>1.208.421</u>	<u>1.090.320</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

17. INCOME TAX

A. Expenses/(income) based on current and deferred income tax

	In thousands of Denars	
	current year 2013	previous year 2012
Current income tax		
Expenses/(income) for current income tax for the year	5.772	4.322
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	<u>5.772</u>	<u>4.322</u>
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total income tax expenses/(returns)	<u><u>5.772</u></u>	<u><u>4.322</u></u>

	In thousands of Denars	
	current year 2013	previous year 2012
Current income tax		
Recognized in income statement	5.772	4.322
Recognized in capital and reserves	-	-
	<u>5.772</u>	<u>4.322</u>
Deferred income tax		
Recognized in income statement	-	-
Recognized in capital and reserves	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total income tax expenses/(returns)	<u><u>5.772</u></u>	<u><u>4.322</u></u>

In accordance with amendments to income tax implemented in fiscal 2013, the realized profit, after taxation of certain expenses that are not tax recognized, is not taxable in full if it is not intended for paying dividends and other distributions from the profit in cash or non-cash that are taxable at the time of their disbursement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

17. INCOME TAX (continued)

A. Expenses/(income) based on current and deferred income tax (continued)

For the fiscal 2013 and 2012, the Bank used the right to full exemption from paying income tax based on undistributed profit realized for the current year.

B. Reconciliation of the effective average tax rate with the applicable tax rate

	in %	In thousands of Denars	in%	In thousands of Denars
	current year 2013		previous year 2012	
Profit/(loss) before taxation	100,00	995.117	100,00	799.801
Income tax as per applicable tax rate	10,00	99.572	10,00	79.980
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	0,69	6.877	0,65	5.211
Tax-exempted income	-	-	-	-
Tax exemptions unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	10,00	(100.677)	(10,11)	(80.869)
Total expenses/(return) on income tax	10,00	5.772	(10,11)	(80.869)
Average effective tax rate	0,58		0,54	

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

17. INCOME TAX (continued)

B Income tax from other gains / (losses) in the period not disclosed in the Income Statement

	In thousands of Denars					
	Current year, 2013			Previous year, 2012		
	Before taxation	Expenditure/ return of income tax	Less Income tax	Before taxation	Expenditure/ return of income tax	Less Income tax
Revaluated reserve for assets available for sale	-	-	-	-	-	-
Reserve for instruments for protection against the cash flow risk	-	-	-	-	-	-
Reserve for instruments for protection against the risk of net investments in foreign operations	-	-	-	-	-	-
Reserve of foreign exchange differences from investments in foreign operations	-	-	-	-	-	-
Share in other gains / (losses) of affiliates companies that are not shown in the Income Statement	-	-	-	-	-	-
Other gains / (losses) not shown in the Income Statement	-	-	-	-	-	-
Total other gains / (losses) in the period that are not shown in the Income Statement	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

18. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	current year 2013	previous year 2012
Cash on hand	1.229.271	1.108.956
Accounts and deposits with NBRM, besides mandatory FCdeposits	3.653.423	4.691.236
Current accounts and transaction deposits with foreign banks	1.168.427	1.635.732
Current accounts and transaction deposits with local banks	1.587	1.047
Treasury bills that may be traded in the secondary market	6.462.846	8.106.267
Government bills that may be traded in the secondary market	-	4.323.977
Time deposits up to 3 months	1.193.521	1.361.048
Other short-term highly liquid assets	246	266
Receivables based on interest (allowance for impairment loss)	2.419 (1.183)	2.354 (1.231)
Included in cash and cash equivalents for the needs of the Statement on cash flows	13.710.557	21.229.652
Mandatory FC deposits	2.875.194	2.676.801
Restricted deposits (allowance for impairment loss)	30.993 -	30.977 -
Total	16.616.744	23.937.430

	In thousands of Denars	
	current year 2013	previous year 2012
Movement of allowance for impairment		
On January 1	1.231	26.046
Allowance for impairment for the year		
Additional allowance for impairment	1.605	1.231
(release from allowance for impairment)	(1.653)	(26.046)
(foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	-
On December 31	1.183	1.231

Level of mandatory deposits in foreign currency is determined in the amount of 2.875.194 thousand of Denars (2012: 2.676.801 thousand of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with NBRM. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies are calculated interest amount of 0,1% per annum (2012: 0,1% per annum)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

18. CASH AND CASH EQUIVALENTS (continued)

The accounts and deposits with NBRM, except for the mandatory deposits in foreign currency in the amount of 3.653.423 thousand of Denars (2012: 4.691.236 thousand of Denars), represent mandatory reserve in Denars. The mandatory reserves in Denars bear an interest at a rate of 1% p.a. (2012: 2% p.a.).

Treasury bills that can be traded at the secondary market in the amount of 3.653.423 thousand of Denars (2012: 8.106.267 thousand of Denars) have been purchased from NBRM with maturity period of 35 days. Depending on maturity, interest rates on these bills are 3,25% (2012: 3,75%).

Government bills that can be traded at the secondary market in amount of 0 thousands of Denars (2012: 4.323.977 thousands of Denars) have been purchased from the Ministry of Finance of the Republic of Macedonia with a maturity in the following three months. Depending on maturity, interest rates range from 3.60% to 4.25% (2012: 4,00 to 4,20 p.a.)

19. TRADING ASSETS

A Structure of trading assets by type of financial instrument

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Trading securities</i>		
<i>Debt securities for trading</i>		
Treasury bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	15.793	23.161
Corporate bonds	-	-
Other debt instruments	-	-
	<u>15.793</u>	<u>23.161</u>
Quoted	15.793	23.161
Unquoted	-	-
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	217.271	157.890
Other equity instruments	-	-
	<u>217.271</u>	<u>157.890</u>
Quoted	217.271	157.890
Unquoted	-	-
<i>Trading derivatives</i>	-	-
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	-	-
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IAS 39 criteria	-	-
	<u>-</u>	<u>-</u>
Total trading assets	<u>233.064</u>	<u>181.051</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

TRADING ASSETS (continued)

B. Reclassified trading assets

B.1 Balance of the reclassified trading assets

	Reclassified amount (on the date of reclassificati on)	In thousands of Denars			
		Current year,2013		Previous year,2012	
		Book amount on 31.12.2013	Fair value on 31.12.2013	Book amount on 31.12.2013	Fair value on 31.12.2013
Trading assets, reclassified in 2013 (current year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
Trading assets, reclassified in 2012 (previous year) in:					
- financial assets available-for-sale	-	-	-	-	-
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-

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

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

B.2 Profit and loss from reclassified trading assets

	In thousands of Denars					
	Reclassified in 2013 (Current year)		Reclassified in 2012 (previous year)			
	Income Statement 2013 (Current year)	Other profit /(loss) 2013 (Current year)	Income Statement 2013 (Current year)	Other profit /(loss)2013 (Current year)	Income Statement 2013 (Current year)	Other profit /(loss)2013 (Current year)
Period before reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers	-	-	-	-	-	-
- Net income from trading	-	-	-	-	-	-
Period after reclassification						
Trading assets, reclassified in financial assets available-for-sale						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
- changes in the fair value on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from banks						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-
Trading assets, reclassified in loans and receivables from other customers						
- Interest income	-	-	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

19. TRADING ASSETS (continued)

B. Reclassified trading assets (continued)

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

	In thousands of Denars		
	Reclassified in 2013 (Current year)	Reclassified in 2012 (previous year)	
	Income Statement 2013 (Current year)	Income Statement 2013 (Current year)	Income Statement 2012 (Current year)
Trading assets, reclassified in financial assets available-for-sale			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from banks			
- Net income from trading	-	-	-
Trading assets, reclassified in loans and receivables from other customers			
- Net income from trading	-	-	-

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

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
Total financial assets at fair value through the income statement determined as such at initial recognition	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

	current year 2013		In thousands of Denars previous year 2012	
	derivative assets	(derivative liabilities)	derivative assets	(derivative liabilities)
A. Derivatives for protection against risk/Derivatives held for risk management				
A.1 <i>by type of variable</i>				
Derivatives held for risk management				
Agreements dependant on interest rate change	-	-	-	-
Agreements dependant on exchange rate change	-	-	-	-
Agreements dependant on changes in price of securities	-	-	-	-
Other agreements that meet the IAS 39 criteria	-	-	-	-
Total derivatives held for risk management	-	-	-	-
A.2 <i>by type of protection against risk</i>				
Protection against risk to fair value	-	-	-	-
Protection against risk to cash flows	-	-	-	-
Protection against risk to net investment in international operations	-	-	-	-
Total derivatives held for risk management	-	-	-	-
B. Inherent derivatives				
Agreements dependant on interest rate change	-	-	-	-
Agreements dependant on exchange rate change	-	-	-	-
Agreements dependant on changes in price of securities	-	-	-	-
Other agreements that meet the IAS 39 criteria	-	-	-	-
Total inherent derivatives	-	-	-	-
Total derivatives held for risk management	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

22. LOANS AND PLACEMENTS

22.1 PLACEMENTS WITH AND LOANS TO BANKS

	current year 2013		In thousands of Denars previous year 2012	
	short-term	long-term	short-term	long-term
Loans to banks				
domestic banks	205	-	205	-
foreign banks	80.249	-	82.374	-
Time deposits at maturity period of over 3 months				
domestic banks	-	-	-	-
foreign banks	145.769	110.454	140.718	-
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	544	-	-	-
foreign banks	-	-	-	96.215
Receivables based on interests	154	-	302	-
Current maturity	-	-	-	-
Total placements with and loans to banks before allowance for impairment	226.921	110.454	223.599	96.215
(Allowance for impairment)	(26.721)	-	(23.519)	-
Total placements with and loans to banks less allowance for impairment	200.200	110.454	200.080	96.215

	In thousands of Denars	
	current year 2013	previous year 2012
Movements of allowance for impairment		
As at January 1	23.519	23.712
Allowance for impairment for the year		
Additional allowance for impairment	3.597	368
(Release of allowance for impairment)	(395)	(175)
(Foreclosed assets based on outstanding receivables)	-	-
Effect of foreign exchange differences	-	-
(Written off receivables)	-	(386)
As at December 31	26.721	23.519

Part of loans and advances with banks amounting to 65.609 thousand of Denars (2012: 73.548 thousand of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002. (Note 34.1).

Part of facilities with foreign banks are as well the restricted accounts totalling 112.841 thousand of Denars (2012: 96.215 thousand of Denars), which represent deposits with Barclays' Bank, London, Great Britain, as collateral for VISA credit card transactions. These funds are not available in Bank's daily operations.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS

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

	current year 2013		In thousands of Denars previous year 2012	
	short-term	long-term	short-term	long-term
Non-finance companies				
receivables upon principal	11.756.317	9.925.892	10.374.158	10.364.640
interest receivables	68.785	-	86.689	-
Government				
receivables upon principal	1.145	1.097	4.780	501
interest receivables	5	-	92	-
Non-profit institutions that serve households				
receivables upon principal	805	3.337	1.741	11.693
interest receivables	25	-	66	-
Financial companies, besides banks				
receivables upon principal	-	-	-	-
interest receivables	-	-	-	-
Households				
receivables upon principal				
housing loans	215.482	8.014.495	215.345	7.470.474
consumer loans	882.298	11.938.727	828.449	9.694.814
auto loans	69.852	466.371	72.888	801.257
mortgage loans	-	-	-	-
credit cards	791.046	7.781.817	836.563	8.137.334
other loans	143.795	1.525.232	135.280	1.463.762
interest receivables	108.544	-	113.265	-
Non-residents, besides banks				
receivables upon principal	-	-	1	-
interest receivables	-	-	-	-
Current maturity	5.949.904	(5.949.904)	5.329.411	(5.329.411)
Total placements with and loans to customers before allowance for impairment	19.988.003	33.707.064	17.998.728	32.615.064
(Allowance for impairment)	(80.280)	(5.557.683)	(136,909)	(4.879.037)
Total placements with and loans to customers less allowance for impairment	19.907.723	28.149.381	17.861.819	27.736.027

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

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

	In thousands of Denars	
	current year 2013	previous year 2012
	<u> </u>	<u> </u>
Movement of allowance for impairment on a separate basis		
As at 1 January	4.913.612	4.135.388
Allowance for impairment for the year		
Additional allowance for impairment	1.538.968	1.350.226
(Release of allowance for impairment)	(581.035)	(304.596)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(266.010)	(267.406)
As at 31 December	<u>5.605.535</u>	<u>4.913.612</u>
Movement of allowance for impairment on a group basis		
As at 1 January	102.334	130.762
Allowance for impairment for the year		
Additional allowance for impairment	42.534	18.370
(Release of allowance for impairment)	(112.440)	(46.798)
(Foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
As at 31 December	<u>32.428</u>	<u>102.334</u>
Total allowance for impairment for placements with and loans to customers	<u><u>5.637.963</u></u>	<u><u>5.015.946</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

22. LOANS AND PLACEMENTS (continued)

22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)

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

	In thousands of Denars	
	current year 2013	previous year 2012
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	1.166.067	997.396
government securities	2.317	3.449
government unconditional guarantees	1.761.460	1.784.650
bank guarantees	159.081	162.723
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	861.681	281.299
Guarantees from individuals	-	-
Property pledge:		
private property (flats, houses)	11.657.569	10.758.104
commercial property	11.368.124	8.511.339
Pledge over movables	2.143.416	2.367.198
Other types of collateral	1.416.294	1.086.837
Unsecured	17.521.095	19.644.851
Total placements with and loans to customers less allowance for impairment	<u>48.057.104</u>	<u>45.597.846</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013**22. LOANS AND PLACEMENTS (continued)****22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)****Risks and uncertainties**

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

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

The Bank's operation could be influenced by the financial trends in case of deterioration of the overall global and local economic environment. In 2013 and 2012, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems given the fact that it undertook measures of strengthening its capital base by retaining the income.

The Management of the Bank has adequately reacted to any developments on the market and the entire economy. Some of the undertaken measures are: limiting the long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening the monitoring of large customers and industrial sectors to which the Bank is mostly exposed, providing appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial market, whereat it is possible to have increase the collateral limits. The aforementioned is focusing on protection and development of the current and future customer/borrower/depositor base heading to achievement of the Bank's goals and objectives for 2013 and beyond.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

23. INVESTMENTS IN SECURITIES

23.1 INVESTMENT IN FINANCIAL ASSETS AVAILABLE-FOR-SALE

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

	In thousands of Denars	
	Current year 2013	Previous year 2012
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	9.590.162	2.049.620
Other instruments in the money market		-
Government bonds	1.651.503	51.307
Corporate bonds	-	-
Other debt instruments	-	-
	<u>11.241.665</u>	<u>2.100.927</u>
Quoted	-	-
Unquoted	11.241.665	2.100.927
<i>Equity instruments</i>		
Equity instruments issued by banks	3.476	3.476
Other equity instruments	334.872	372.226
	<u>338.348</u>	<u>375.702</u>
Quoted	43.632	67.934
Unquoted	294.716	307.768
<i>Total investment in financial instruments available for sale before allowance for impairment</i>	11.580.013	2.476.629
<i>(Allowance for impairment)</i>	<i>(270.308)</i>	<i>(283.361)</i>
<i>Total investment in financial instruments available for sale reduced by the allowance for impairment</i>	<u>11.309.705</u>	<u>2.193.268</u>
	Current year 2013	Previous year 2012
Movements of allowance for impairment		
Balance on January 1	283.361	294.265
Allowance for impairment for the year:		
Additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	(13.053)	(10.904)
(Written off receivables)	-	-
Balance on December 31	<u>270.308</u>	<u>283.361</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

23. INVESTMENTS IN SECURITIES(continued)

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

B. Reclassified financial assets available-for-sale

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

	In thousands of Denars				
	Reclassified amount (on the date of reclassification)	Current year 2013		Previous year 2012	
		Book value on 31.12.2013	Fair value on 31.12.2013	Book value on 31.12.2013	Fair value on 31.12.2013
Assets available-for-sale reclassified in 2013 (current year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-
Assets available-for-sale reclassified in 2012 (previous year) in:					
- loans and receivables from banks	-	-	-	-	-
- loans and receivables from other customers	-	-	-	-	-

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

	In thousands of Denars			
	Income Statement 2013	Other profit /(loss) 2013	Income Statement 2013	Other profit /(loss) 2013
Period before reclassification				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Period after reclassification				
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- amount reposted from Revaluation reserves	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

23. INVESTMENT IN SECURITIES (continued)

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

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

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

	In thousands of Denars			
	Income Statement 2013 (current year)	Other profit /(loss)2013	Income Statement 2012 (previous year)	Other profit /(loss) 2012
Assets available-for-sale reclassified in loans and receivables from banks				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-
Assets available-for-sale reclassified in loans and receivables from other customers				
- interest income	-	-	-	-
- impairment of financial assets on net basis	-	-	-	-
- change of the fair value on net-basis	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

23. INVESTMENT IN SECURITIES (continued)

23.2 INVESTMENT IN HOLD-TO-MATURITY SECURITIES

	In thousands of Denars	
	Current year 2013	Previous year 2012
	<u> </u>	<u> </u>
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	667.319	1.741.696
Corporate bonds	-	-
Other debt instruments	-	-
	<u>667.319</u>	<u>1.741.696</u>
Quoted	667.319	1.741.696
Unquoted	-	-
	<u> </u>	<u> </u>
<i>Total investment in financial instruments hold to maturity before allowance for impairment</i>	667.319	1.741.696
(Allowance for impairment)	-	-
	<u> </u>	<u> </u>
Total investment in financial instruments hold to maturity reduced by the allowance for impairment	<u>667.319</u>	<u>1.741.696</u>

	In thousands of Denars	
	Current year 2013	Previous year 2012
	<u> </u>	<u> </u>
Movements of allowance for impairment		
Balance on January 1	-	-
Allowance for impairment for the year:		
additional allowance for impairment	-	-
(release of the allowance for impairment)	-	-
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	<u> </u>	<u> </u>
Balance on December 31	<u> </u>	<u> </u>

Part of the government bonds in amount of MKD 661,934 thousand (2012: MKD 1.191.204 thousand) are bonds issued by the Republic of Macedonia in exchange for the Bank's receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables from end beneficiaries by the Republic of Macedonia in the Bank. These bonds bear an interest rate of three month EURIBOR plus 1 p.p. and are repayable in 56 equal quarterly instalments commencing from 2001 to 2014.

The remnant part of the government bonds amounting to MKD 5,385 thousand (2012: MKD 10.274 thousand) are bonds from old foreign exchange savings deposits issued by the Republic of Macedonia in February 2004 and March 2005. These bonds are with fix interest rate of 2% per annum and are collectable in annual amounts starting with June 2006 to June 2014, i.e. until June 2015.

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

24. INVESTMENT IN ASSOCIATES

A. Bank's participation percentage in subsidiaries and associates

Name of subsidiaries and associates	Country	Share percentage in ownership		Percentage of voting share	
		Current year	Previous year	Current year	Previous year
		2013	2012	2013	2012
-	-	-	-	-	-

B. Financial data of associates – 100 %

Name of associates	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the fin. year
Current year 2013	-	-	-	-	-
Previous year 2012	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

25. OTHER RECEIVABLES

	In thousands of Denars	
	Current year	Previous year
	<u>2013</u>	<u>2012</u>
Trade receivables	101.361	91.035
Prepaid expenses	7.493	30.732
Diferred income	368	-
Fees and commissions receivables	52.390	46.458
Receivables from the employees	1.267	128
Advances for intangible assets	-	-
Advances for property and equipment	7.204	408
Other:		
Materials in stocks	9.124	13.751
Numismatic collections	9.730	9.738
Arka sub-branch (judicial process)	11.500	11.500
Receivables for disbursements to foreign VISA cards	75.535	79.463
Other	14.143	8.242
Total other receivables before allowance for impairment	290.115	291.455
(Allowance for impairment)	(76.379)	(77.090)
Total other receivables reduced for the allowance for impairment	213.736	214.365

	In thousands of Denars	
	Current year	Previous year
	<u>2013</u>	<u>2012</u>
Movements of allowance for impairment		
Balance on January 1	77.090	63.539
Allowance for impairment for the year:		
Additional allowance for impairment	42.488	26.448
(release of the allowance for impairment)	(42.488)	(5.988)
(foreclosed assets based on outstanding receivables)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	(711)	(6.909)
Balance on December 31	76.379	77.090

26. COLLATERALIZED ASSETS

	In thousands of Denars	
	Current year	Previous year
	<u>2013</u>	<u>2012</u>
Debt securities	-	-
Equity instruments	-	-
Total collateralized assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and apartments	Other valuables	Total
Cost						
Balance on 1 st January 2012	8.805	906.162	34.920	177.755	1.558	1.129.200
Assets acquired during the year	-	1.506	39	4.260	-	5.805
(Sold during the year)	(2.460)	(16.710)	-	(4.512)	-	(23.682)
(Transferred to own assets)	-	(28.685)	-	-	-	(28.685)
Balance on 31st December2012	6.345	862.273	34.959	177.503	1.558	1.082.638
Balance on 1 st January 2013	6.345	862.273	34.959	177.503	1.558	1.082.638
Assets acquired during the year	-	46.597	-	1.252	-	47.849
(Sold during the year)	-	(82.905)	-	(12.429)	-	(95.334)
(Transferred to own assets)	(2)	(13.131)	(6)	13.139	-	-
Balance on 31st December2013	6.343	812.834	34.953	179.465	1.558	1.035.153
Impairment						
Balance on 1 st January 2012	3.500	216.463	32.968	72.073	1.221	326.225
Impairment loss during the year	525	56.139	387	16.933	67	74.051
(Sold during the year)	-	-	-	-	-	-
(Transferred to own assets)	-	(3.854)	-	-	-	(3.854)
Balance on 31st December2012	4.025	268.748	33.355	89.006	1.288	396.422
Balance on 1 st January 2013	4.025	268.748	33.355	89.006	1.288	396.422
Impairment loss during the year	602	127.660	328	24.007	54	152.651
(Sold during the year)	-	(28.734)	-	(3.010)	-	(31.744)
(Transferred to own assets)	-	-	-	-	-	-
Balance on 31st December2013	4.627	367.674	33.683	110.003	1.342	517.329
Current carrying amount						
Balance on 1 st January 2012	5.305	689.699	1.952	105.682	337	802.975
Balance on 31st December2012	2.320	593.525	1.604	88.497	270	686.216
Balance on 31st December2013	1.716	445.160	1.270	69.462	216	517.824

Assets acquired on the basis of outstanding claims consist of assets that are not used in the regular operations of the Bank, except in rare cases when the Bank uses them for its own activities. During 2013, the Bank recorded impairment losses on these assets in the total amount of Denar 152.651 thousand (2012: Denar 74.051 thousand).

During this period, the Bank sold 17 assets (2012: 14 assets) totaling MKD 59.664 thousand (2012: Denar 23,682 thousand), and took over two objects (2012: 2 objects) value totaling Denar 38,146 thousand (2012: Denar 5,766 thousand). Activities are undertaken for the preparation for sale of the assets taken over in 2013 because the Bank's general policy is these facilities to be sold within a period of 3 years.

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

28. INTANGIBLE ASSETS

A. Reconciliation of the current book value

	In thousands of Denars						
	Internally developed software	Software bought from external suppliers	Other internally developed intangible assets	Other intangible assets	Intangible assets in preparation	Investments in leased intangible assets	Total
Cost							
Balance at 1 January 2012	-	541.226	-	-	8.091	-	549.317
increases through new purchases	-	17.085	-	-	1.753	-	18.838
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals)	-	(15)	-	-	-	-	(15)
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2012	-	558.296	-	-	9.844	-	568.140
Balance at 1 January 2013	-	558.296	-	-	9.844	-	568.140
increases through new purchases	-	34.410	-	-	(7.652)	-	26.758
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(disposals)	-	(228)	-	-	-	-	(228)
(sale through business combinations)	-	-	-	-	-	-	-
(transfer in non-current assets held for sale)	-	-	-	-	-	-	-
Transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2013	-	592.478	-	-	2.192	-	594.670
Depreciation and impairment							
Balance at 1 January 2012	-	442.667	-	-	-	-	442.667
Depreciation for the year	-	40.435	-	-	-	-	40.435
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	(15)	-	-	-	-	(15)
Balance at 31 December 2012	-	483.087	-	-	-	-	483.087
Balance at 1 January 2013	-	483.087	-	-	-	-	483.087
Depreciation for the year	-	39.497	-	-	-	-	39.497
Impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	(228)	-	-	-	-	(228)
Balance at 31 December 2013	-	522.356	-	-	-	-	522.356
Current book value at							
January 1, 2012	-	98.559	-	-	8.091	-	106.650
December 31, 2012	-	75.209	-	-	9.844	-	85.053
December 31, 2013	-	70.122	-	-	2.192	-	72.314

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

28. INTANGIBLE ASSETS (continued)

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

	In thousands of Denars						
	<u>Internall developed software</u>	<u>Software bought from external suppliers</u>	<u>Other internally developed intangible assets</u>	<u>Other intangibl e assets</u>	<u>Intangible assets in preparation</u>	<u>Investment s in leased intangible assets</u>	<u>Total</u>
Current book value at							
December 31, 2012	-	-	-	-	-	-	-
December 31, 2013	-	-	-	-	-	-	-

On December 31, 2013 and 2012, the Bank has no intangible assets for which there is limitations of ownership and /or pledged as collateral for the liabilities to the Bank.

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

29. REAL ESTATE AND EQUIPMENT

A. Reconciliation of the present carrying amount

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
Cost									
On 1 January 2012	-	1.156.085	23.940	1.194.822	76.345	57.759	14.863	131.626	2.655.440
Increases	-	3.890	-	13.852	808	-	14.122	3.466	36.138
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(81.986)	(8.360)	-	-	-	(90.346)
(entering through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	25.569	-	-	-	-	-	-	25.569
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	-	-	-	-	-	-	-	-
On December 31, 2012	-	1.185.544	23.940	1.126.688	68.793	57.759	28.985	135.092	2.626.801
On 1 January 2012	-	1.185.544	23.940	1.126.688	68.793	57.759	28.985	135.092	2.626.801
Increases	-	9.121	-	46.608	9	-	1.674	593	58.005
increases through business combinations	-	-	-	-	-	-	-	-	-
(Disposals)	-	(11.901)	(18.099)	(74.866)	(2.336)	-	-	-	(107.202)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-	-
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(9.961)	-	9.961	-	-	-	-	-
On December 31, 2013	-	1.172.803	5.841	1.108.391	66.466	57.759	30.659	135.685	2.577.604
Depreciation and impairment									
On 1 January 2012	-	415.748	22.640	1.035.041	58.549	18.724	-	85.750	1.636.452
Depreciation for the year	-	29.502	1.245	75.373	3.322	1.444	-	17.078	127.964
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	-	-	(80.439)	(8.360)	-	-	-	(88.799)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(1.445)	-	-	-	-	-	-	(1.445)
On December 31, 2012	-	443.805	23.885	1.029.975	53.511	20.168	-	102.828	1.674.172
On 1 January 2012	-	443.805	23.885	1.029.975	53.511	20.168	-	102.828	1.674.172
Depreciation for the year	-	28.682	55	54.415	2.197	1.444	-	14.904	101.697
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposals)	-	(3.341)	(18.099)	(74.866)	(2.336)	-	-	-	(98.642)
Transfer to non-current assets held for sale	-	-	-	-	-	-	-	-	-
(Transfer from non-current assets held for sale)	-	-	-	-	-	-	-	-	-
other transfers	-	(9.961)	-	9.961	-	-	-	-	-
On December 31, 2013	-	459.185	5.841	1.019.485	53.372	21.612	-	117.732	1.677.227
Current carrying amount									
On January 1, 2012	-	740.337	1.300	159.781	17.796	39.035	14.863	45.876	1.018.988
On December 31, 2012	-	741.739	55	96.713	15.282	37.591	28.985	32.264	952.629
On December 31, 2013	-	713.618	-	88.906	13.094	36.147	30.659	17.953	900.377

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

29. REAL ESTATE AND EQUIPMENT (continued)

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

	In thousands of Denars								
	Land	Building facilities	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Real estate and equipment in progress	Investment in leased real estate and equipment	Total
Current carrying amount									
On December 31, 2012	-	-	-	-	-	-	-	-	-
On December 31, 2013	-	-	-	-	-	-	-	-	-

Building facilities of the Bank as of December 31, 2013 includes assets with a net book value of Denar 126.226 thousand (2012: Denar 128.061 thousand) for which the Bank does not have the relevant documents of ownership due to incomplete cadastral records.

30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

30.1 Current tax assets and current tax liabilities

	In thousands of Denars	
	Current year 2013	Previous year 2012
Income tax receivable (current)	-	4.884
Income tax payable (current)	888	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

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

30.2 Deferred tax assets and deferred tax liabilities

A. Recognized deferred tax assets and deferred tax liabilities

	31 December 2013			In thousands of Denars 31 December 2012		
	Deferred tax assets	Deferred tax liabilities	Net basis	Deferred tax assets	Deferred tax liabilities	Net basis
Derivative assets held for risk management	-	-	-	-	-	-
Loans to and receivables on banks	-	-	-	-	-	-
Loans to and receivables on other. customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Real estate and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax loans	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the income statement	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Hedging of cash flows	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the equity	-	-	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-	-	-

B. Unrecognized deferred tax assets

	In thousands of Denars	
	Curent year 2013	Previous year 2012
Tax losses	-	-
Tax credits	-	-
Total unrecognized deferred tax assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

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

30.2 Deferred tax assets and deferred tax liabilities(continued)

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

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

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

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

30.2 Deferred tax assets and deferred tax liabilities (continued)

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

	In thousands of Denars			
	Balance at January 1	Recognized in Income Statement	Recognized in equity	Balance at December 31
31 December 2013				
Derivative assets held for risk management	-	-	-	-
Placements with and loans to banks	-	-	-	-
Placements with and loans to other clients	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unutilized tax losses and unutilized tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available-for-sale	-	-	-	-
Cash flow risk mitigation	-	-	-	-
Total recognized deferred tax assets/(liabilities)	-	-	-	-

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

A. Non-current assets held for sale

	In thousands of Denars	
	Current year 2013	Previous year 2012
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

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

B. Group for disposal

	In thousands of Denars	
	Curent year 2013	Previous year 2012
	<u>2013</u>	<u>2012</u>
<i>Group of assets for disposal</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in associates	-	-
Income tax receivables	-	-
Other assets	-	-
Total group of assets for sale	<u>-</u>	<u>-</u>
<i>Liabilities directly related to the group of assets for disposal</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
Total liabilities directly related to the group of assets for disposal	<u>-</u>	<u>-</u>

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

	In thousands of Denars	
	Curent year 2013	Previous year 2012
	<u>2013</u>	<u>2012</u>
Profit/(loss) recognized from sale of held for sale assets and group for disposal	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

32. TRADING LIABILITIES

	In thousands of Denars	
	Curent year 2013	Previous year 2012
	<u> </u>	<u> </u>
<i>Deposits from banks</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Deposits from other clients</i>		
Current accounts, sight deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	<u> </u>	<u> </u>
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	<u> </u>	<u> </u>
	-	-
<i>Other financial liabilities</i>	-	-
<i>Derivatives for trading</i>		
Agreements depending on the change of interest rate	-	-
Agreements depending on changes in the exchange rate	-	-
Agreements depending on the change of the price of securities	-	-
Other agreements that meet the criteria of IAS 39	-	-
	<u> </u>	<u> </u>
Total liabilities held for trading	<u> </u>	<u> </u>
	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

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

	Curent year 2013		In thousands of Denars Previous year 2012	
	Current carrying amount	Agreed amount, payable at maturity	Current carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, sight deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>	-	-	-	-
<i>Other liabilities</i>	-	-	-	-
Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

34. DEPOSITS

34.1 DEPOSITS FROM BANKS

	Curent year 2013		In thousands of Denars Previous year 2012	
	short-term	long-term	short-term	long-term
Current accounts				
with domestic banks	6.123	-	7.437	-
with foreign banks	28.773	-	43.977	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	89.256	-	139.953	-
Restricted deposits				
with domestic banks	-	-	-	-
with foreign banks	65.609	-	73.548	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Interest payable on deposits				
with domestic banks	-	-	-	-
with foreign banks	3	-	47	-
Current maturity	-	-	-	-
Total deposits from banks	189.764	-	264.962	-

The restricted deposits with foreign banks in the amount of Denar 65.609 thousand (2012: Denar 73.548 thousand) represent deposits from banks in Serbia who went into bankruptcy in January 2002 (Note 22.1).

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

34. DEPOSITS (continued)

34.2 DEPOSITS FROM OTHER CLIENTS

	In thousands of Denars			
	Curent year 2013		Previous year 2012	
	<u>short-term</u>	<u>long-term</u>	<u>short-term</u>	<u>long-term</u>
Non-financial companies				
Current accounts	6.709.521	-	5.165.196	-
Demand deposits	90.691	-	48.070	-
Time deposits	3.777.946	1.123.070	3.320.660	727.398
Restricted deposits	264.790	428.635	171.300	485.142
Other deposits	6.139	-	29.430	-
Interest payable on deposits	61.890	-	50.548	-
	<u>10.910.977</u>	<u>1.551.705</u>	<u>8.785.204</u>	<u>1.212.540</u>
State				
Current accounts	115.020	-	128.737	-
Demand deposits	-	-	-	-
Time deposits	48.450	-	64.100	-
Restricted deposits	41	783	652	-
Other deposits	-	-	-	-
Interest payable on deposits	348	-	979	-
	<u>163.859</u>	<u>783</u>	<u>194.468</u>	<u>-</u>
Non-profit institutions serving the households				
Current accounts	414.493	-	371.097	-
Demand deposits	14	-	14	-
Time deposits	223.546	95.482	387.186	12.711
Restricted deposits	4.019	-	6.281	10.572
Other deposits	-	-	-	-
Interest payable on deposits	2.493	-	3.870	-
	<u>644.565</u>	<u>95.482</u>	<u>768.448</u>	<u>23.283</u>
Financial companies, except banks				
Current accounts	43.374	-	49.210	-
Demand deposits	-	-	-	-
Time deposits	454.605	292.421	616.680	316.734
Restricted deposits	707	166	288	53
Other deposits	-	-	-	-
Interest payable on deposits	9.722	-	8.828	-
	<u>508.408</u>	<u>292.587</u>	<u>675.006</u>	<u>316.787</u>
Households				
Current accounts	10.223.309	-	9.534.071	-
Demand deposits	12.400	-	32.610	-
Time deposits	24.107.459	11.812.074	25.018.103	10.091.369
Restricted deposits	487.651	1.499.437	606.961	1.108.558
Other deposits	-	-	-	-
Interest payable on deposits	75.048	-	80.718	-
	<u>34.905.867</u>	<u>13.311.511</u>	<u>35.272.463</u>	<u>11.199.927</u>
Non-residents, except banks				
Current accounts	273.247	-	232.802	-
Demand deposits	1	-	2	-
Time deposits	257.102	180.240	359.195	137.475
Restricted deposits	45.018	26.048	49.458	27.517
Other deposits	-	-	-	-
Interest payable on deposits	977	-	964	-
	<u>576.345</u>	<u>206.288</u>	<u>642.421</u>	<u>164.992</u>
Current maturity	<u>7.319.911</u>	<u>(7.319.911)</u>	<u>6.494.371</u>	<u>(6.494.371)</u>
Total deposits from other clients	<u>55.029.932</u>	<u>8.138.445</u>	<u>52.832.381</u>	<u>6.423.158</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

35. ISSUED DEBT SECURITIES

	In thousands of Denars	
	Curent year 2013	Previous year 2012
	<u> </u>	<u> </u>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest payable on deposits	-	-
	<u> </u>	<u> </u>
Total issued debt securities	<u> </u> -	<u> </u> -

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

36. BORROWINGS

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

	Current year 2013		In thousands of Denars Current year 2012	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	763.995	-	828.453
Repo-transactions	-	-	-	-
Interest payable	1.181	-	1.717	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	15.689	157.261	15.689	165.121
Repo-transactions	-	-	-	-
Interest payable	59	-	1.288	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	1.500.000	-
Interest payable	9	-	622	-
Non-residents, except banks				
Non-financial companies				
Loans payable	-	5.957	-	5.957
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Financial companies, except banks				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Interest payable	-	-	-	-
Government				
Households				
Loans payable	-	-	-	-
Interest payable	-	-	-	-
Current maturity	216.116	(216.116)	228.143	(228.143)
Total loans payable	233.054	711.097	1.747.459	771.388

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

36. BORROWINGS (continued)

B. Borrowings according to the creditor

	Current year2013		Current year2012	
	short-term	long-term	short-term	long-term
<i>Domestic sources:</i>				
Asset Management Agency - long-term loans amounting to Denar 149.399 thousand (2012: Denar 149.399 thousand) matures and is payable in January 2020 on one-off basis. Related fees for these loans are 1,5% per annum	6	149.399	1.132	149.399
Agency for underdeveloped regions – matures in 2012 and the interest rate is equal to 3,9% per annum (2010: 3,9% p.a.).	15.689	-	15.689	-
Macedonian Bank for Promotion and Development – with maturity deadline in 2019 and interest rate of 1,0% at annual level (2012: 1 %.)	1.180	759.262	1.717	813.618
National Bank of RM – maturities in 2013 and interest rate of 3,73% per annum	-	-	1.500.622	-
	16.875	908.661	1.519.160	963.017
<i>Foreign sources:</i>				
Council of Europe Social Development Fund - matures in 2014 and bears fixed interest rate of 6,73% per annum	7.860	54	106	15.722
ICDF Taiwan - to be repaid in 20 equal semi-annual instalments until 2014 and bears interest rate of six month LIBOR decreased by 0,5% per annum.	9	4.735	50	14.835
Other banks	-	5.957	-	5.957
	7.869	10.746	156	36.514
Curent maturities	216.116	(216.116)	228.143	(228.143)
Total loans payable	240.860	703.291	1.747.459	771.388

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

37. SUBORDINATED DEBT

	<u>Maturity</u>	<u>Interest rate</u>	<u>In thousands of Denars</u>	
			<u>current year 2013</u>	<u>previous year 2012</u>
<i>Liabilities under subordinated deposits</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
<i>Liabilities under subordinated loans</i>				
NBG Athens, Greece (principal EUR 20 million)	27.12.2016	3 month EURIBOR +0,85% p.a.	1.230.224	1.230.000
NBG Athens, Greece (principal EUR 25 million)	05.11.2018	3 month EURIBOR +3,7% p.a.	1.537.784	1.537.500
Interest payables			9.755	9.663
			<u>2.777.763</u>	<u>2.777.163</u>
<i>Liabilities under subordinated issued debt securities</i>				
Principal payables			-	-
Interest payables			-	-
			-	-
Redeemable preferred shares			-	-
Total subordinated debt			<u>2.777.763</u>	<u>2.777.163</u>

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

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

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

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38. SPECIAL RESERVE AND PROVISIONS

In thousands of Denars

	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuring	Provisions for unfavourable agreements	Other provisions	Total
Balance as at January 1, 2012	115.272	19.261	18.290	-	-	-	152.823
Additional provisions during the year	23.931	414	2.363	-	-	-	26.708
(utilized provisions during the year)	-	(2.829)	(214)	-	-	-	(3.043)
(provisions recovery during the year)	(35.195)	(1.907)	-	-	-	-	(37.102)
Balance at 31 December 2012	104.008	14.939	20.439	-	-	-	139.386
Balance as at January 1, 2013	104.008	14.939	20.439	-	-	-	139.386
additional provisions during the year	51.967	34.297	3.271	-	-	-	89.535
(utilized provisions during the year)	-	(1.115)	(273)	-	-	-	(1.388)
(provisions recovery during the year)	(44.785)	(2.032)	(510)	-	-	-	(47.327)
Balance as at 31 December 2013	111.190	46.089	22.927	-	-	-	180.206

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

The basic used actuarial assumptions are as following:

	<u>2013</u>	<u>2012</u>
Interest rate	4.60%	5.00%
Average salary increase	4.50%	5.00%
Inflation rate	2.00%	2.50%

Mortality rate:

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

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

39. OTHER LIABILITIES

	In thousands of Denars	
	Current year 2013	Previous year 2012
	<u> </u>	<u> </u>
Trade payables	9.630	11.475
Received advances	-	-
Fees and commissions liabilities	26	8
Accrued expenses	165.869	113.904
Deferred income from previous year	25.757	20.680
Short-term liabilities to employees	-	-
Short-term liabilities for employees benefits	-	-
Other:		
Preferred cumulative shares	90.978	90.978
Liabilities for dividend on preferred shares	5.587	6.232
Disputed VISA cards transactions	16.197	8.577
Unallocated inflows upon deposits and other inflows	554.211	368.444
Premature repayment of loans and other liabilities	<u>79.814</u>	<u>52.508</u>
Total other liabilities	<u>948.069</u>	<u>672.806</u>

As at December 31, 2013 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400.

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

On 31 December 2013, the Bank allocated an amount of Denar 4.549 thousand as dividends to the holders of the non-redeemable cumulative preferred shares in 2013 (2012: Denar 5.231 thousand).

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

40. SUBSCRIBED CAPITAL

A. Subscribed capital

	In Denars		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Common shares	Non-redeemable preferred shares	Current year 2013	Previous year 2012	Current year 2013	Previous year 2012	Current year 2013	Previous year 2012
Balance as at 1 January – paid in full	201.1	400	17.460.180	17.460.180	227.444	227.444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
Balance as at 31 December – paid in full			17.460.180	17.460.180	227.444	227.444	3.602.220	3.602.220

B. Dividends

B.1 Announced dividends and paid dividends by the Bank

	In thousands of Denars	
	Current year 2013	Previous year 2012
Announced dividends and paid dividends for the year	5.211	6.555

Announced dividends and paid dividends for the year in the amount of Denar 5,211 thousand are allocated for the holders of the preferred shares of the net profit in 2012 (2012: Denar 6.555 thousand of net profit for 2011).

	In MKD	
	Current year 2013	Previous year 2012
Dividend per ordinary share	-	-
Dividend per preferred share	23,00	29,00

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

	In thousands of Denars	
	Current year 2013	Previous year 2012
Announced dividends after 31 December	-	-

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December 31, 2013

40. SUBSCRIBED CAPITAL(continued)

B. Dividend (continued)

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

	Current year 2013	In Denars Previous year 2012
Dividend per ordinary share	-	-
Dividend per preferred share	-	-

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

The structure of shareholders whose stake exceeds 5% of the issued voting shares on December 31, 2013 and 2012 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

	In thousands of Denars		In %	
	current year 2013	previous year 2012	current year 2013	previous year 2012
	Subscribed capital (nominal value)	Subscribed capital (nominal value)	Voting right	Voting right
Shareholder				
National Bank of Greece	3.323.094	3.323.094	94,64%	94,64%
Other	188.148	188.148	5,36%	5,36%
Total	3.511.242	3.511.242	100,00%	100,00%

The share capital of the Bank as at December 31, 2013 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 dividends when it will be released and have the right to one vote in the Shareholders Assembly of the Bank for the equivalent of one ordinary share, as well as the right to participate equally in the distribution of the rest of the bankruptcy or liquidation equity of the Bank.

NOTES TO THE FINANCIAL REPORTS
December 31, 2013**40. SUBSCRIBED CAPITAL(continued)****Revaluation reserve for available-for-sale assets**

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

Statutory reserves

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

Other reserves

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

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

41. EARNINGS PER SHARE

A. Basic earnings per share

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Net profit attributable to ordinary shareholders</i>		
Net profit for the year	989.945	795.479
Dividend on non-redeemable preferred shares	-	-
Adjustments to the net profit attributable to ordinary shareholders	989.945	795.479
	<u>989.945</u>	<u>795.479</u>
Net profit attributable to ordinary shareholders	<u>989.945</u>	<u>795.479</u>
	Number of shares	
	current year 2013	previous year 2012
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares at 1 January	17.460.180	17.460.180
Effects of changes in the number of ordinary shares during the year	-	-
Weighted average number of ordinary shares at 31 December	<u>17.460.180</u>	<u>17.460.180</u>
Basic earnings per share (in MKD)	<u>56,70</u>	<u>45,56</u>

B. Diluted earnings per share

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	989.945	795.479
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
Net gains to which the holders of common shares are entitled (diluted)	<u>989.945</u>	<u>795.479</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

41. EARNINGS PER SHARE (continued)

B. Diluted earnings per share (continued)

	In thousands of Denars	
	current year 2013	previous year 2012
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17.460.180	17.460.180
Effects from issuance of potential common shares	-	-
Weighted average number of common shares (diluted) on 31 December	17.460.180	17.460.180
Diluted earnings per share (in MKD)	56,70	45,56

42. COMMITMENTS AND CONTINGENCIES

42.1 COMMITMENTS

	In thousands of Denars	
	current year 2013	previous year 2012
Uncovered payment guarantees		
in MKD	1.243.560	1.249.420
in foreign currency	633.792	486.492
in MKD with FC Clause	149.008	100.271
Uncovered performance guarantees		
in MKD	635.454	804.369
in foreign currency	218.211	215.160
in MKD with FC Clause	53.752	69.273
Uncovered letters of credit		
in MKD	-	-
in foreign currency	253.406	138.861
in MKD with FC Clause	-	-
Unutilized overdrafts under current accounts	1.409.712	1.278.211
Unutilized limits under credit cards	5.400.783	5.332.149
Taken liabilities for financing and unutilized credit limits	588.851	777.290
Other uncovered contingent liabilities	2.537	773
Issued covered letters of guarantee	269.699	301.040
Covered letters of credit	784	17.588
Other covered contingent liabilities	-	-
Total contingent liabilities before special reserve	10.859.549	10.770.897
(Provisions)	(111.190)	(104.008)
Total contingent liabilities reduced by special reserve	10.748.359	10.666.889

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

42. COMMITMENTS AND CONTINGENCIES (continued)

42.1 COMMITMENTS (continued)

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

From the total potential liabilities on the basis of covered and uncovered guarantees issued with maturity up to one year in the amount of Denar 1.924.397 thousand (2012: Denar 2.081.216 thousand). The covered and non-covered letters of credit are with maturity of up to 1 year (2012: 1 year). The unused overdrafts on current accounts are short-term overdrafts.

Contingent liabilities in respect of unused overdrafts on current accounts and unused limits on credit cards are unsecured and are revocable in the event of deterioration of the creditworthiness of the debtor. The interest rates on current accounts in 2013 ranged from 10,35% to 10,58%, and on credit cards by 10,35% to 11,75%.

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

Litigation

The Bank is involved in litigation from its regular operations. The amount of litigation cases against the Bank as of 31 December 2013, for which additional analyzes were made on the basis of which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank for that material losses could result in respect of these disputes amounted to Denar 46.088 thousand (2012: Denar 14.939 thousand). This amount includes the penalty interests, as well. Accordingly, in 2013, the Bank made provisions for impairment losses on the basis of litigations in the amount of Denar 31.149 thousand (2012: Denar 414 thousand).

42.2 CONTINGENCIES

	In thousands of Denars	
	current year	previous year
	2013	2012
	-	-
Total contingent assets	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES

	Current year2013			In thousands of Denars Previous year2012		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
	<i>Administration of assets on behalf and for account of third parties</i>					
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	226.114	226.114	-	266.078	266.078	-
FC loans	225.291	225.291	-	223.436	223.436	-
Other MKD receivables	970.262	970.262	-	897.854	897.854	-
Other FC receivables	315.257	315.257	-	185.584	185.584	-
<i>Asset management on behalf and for account of third parties</i>						
MKD deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
MKD loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other MKD claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
<i>Custody accounts</i>	69.288	69.291	(3)	17.646	17.648	(2)
<i>Other</i>	-	-	-	-	-	-
Total	1.806.212	1.806.215	(3)	1.590.598	1.590.600	(2)

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

44. RELATED PARTY TRANSACTIONS

A. Balance Sheet

	In thousands of Denars					
	Parent company	Subsidiaries	Associates	Management personnel of the Bank	Other related parties	Total
31 December 2013						
Assets						
Current accounts	2.624	-	-	13.406	1.987	18.017
Trading assets	-	-	-	-	-	-
Loans and receivables						
mortgage loans	-	-	-	-	-	-
consumer loans	-	-	-	-	-	-
receivables under financial leasing	-	-	-	-	-	-
receivables under factoring and forfeiting	-	-	-	-	-	-
other loans and receivables	-	-	-	-	871.411	871.411
Investments in securities (Allowance for impairment)	-	-	-	-	-	-
Other assets	10.647	-	-	-	-	10.647
Total	13.271	-	-	13.406	873.398	900.075
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	-	24.988	94.921	119.909
Issued securities	-	-	-	-	-	-
Borrowings liabilities	-	-	-	-	-	-
Subordinated debt	2.777.763	-	-	-	-	2.777.763
Other liabilities	636	-	-	-	2	638
Total	2.778.399	-	-	24.988	94.923	2.898.310
Contingent liabilities						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
Total	-	-	-	-	-	-
Contingent assets						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

44. RELATED PARTY TRANSACTIONS (continued)

A. Balance Sheet (continued)

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

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

44. RELATED PARTY TRANSACTIONS (continued)

B. Income and expenses arising from the related party transactions

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
2013current year						
Income						
Interest income	1	-	-	756	1.164	1.921
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	1	-	-	756	1.164	1.921
Expenses						
Interest expenses	74.430	-	-	-	613	75.043
Expenses for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	33.345	-	-	24.218	20	57.583
Transfers between entities	-	-	-	-	-	-
Total	107.775	-	-	24.218	633	132.626

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

44. RELATED PARTY TRANSACTIONS (continued)

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

	In thousands of Denars					
	Parent company	Subsidiari es	Associates	Managem ent personnel of the Bank	Other related parties	Total
2012previous year						
Income						
Interest income	2.363	-	-	224	213	12.800
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	12.363	-	-	224	213	12.800
Expenses						
Interest expenses	89.653	-	-	-	64	89.717
Expenses for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses for procurement of non-current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, on net basis	-	-	-	-	-	-
Other expenses	-	-	-	27.118	18	27.136
Transfers between entities	-	-	-	-	-	-
Total	89.653	-	-	27.118	82	116.853

C. Remuneration for the management personnel of the Bank

	In thousands of Denars	
	current year 2013	previous year 2012
Short-term benefits for employees	22.064	25.273
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	2.154	1.845
Total	24.218	27.118

NOTES TO THE FINANCIAL REPORTS
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44. RELATED PARTIES TRANSACTIONS (continued)

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

45. LEASES

A. Lessor

A.1 Financial leases receivables

	Total financial leases receivables	In thousands of Denars Maturity period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2013 (current year)				
Current value of minimum payment for the leasehold	-	-	-	-
31 December 2012 (previous year)				
Current value of minimum payment for the leasehold	-	-	-	-

A.2 Irrevocable operating lease receivables

	Total financial leases receivables	In thousands of Denars Maturity period of period for financial leases receivables		
		up to 1 year	from 1 to 5 years	over 5 years
31 December 2013 (current year)				
Net present value of minimum lease payments	3.116	3.116	-	-
31 December 2012 (previous year)				
Net present value of minimum lease payments	3.127	3.127	-	-

NOTES TO THE FINANCIAL REPORTS
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45. LEASES (continued)

A. Lessor (continued)

A.2 Irrevocable operating lease receivables(continued)

	In thousands of Denars						Total
	Land	Buildings	Means of transportation	Furniture and office equipment	Other equipment	Other items of property and equipment	
Value of the property given under operating lease:							
31 December 2013	-	91.150	-	-	-	-	111.949
31 December 2012	-	111.949	-	-	-	-	111.949
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

B. LEASEE

B.1 Financial lease liabilities

	In thousands of Denars			
	Total financial lease liabilities	Maturity period for financial lease liabilities		
	up to 1 year	from 1 to 5 years	over 5 years	
Balance as at 31 December 2013 (current year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2012 (previous year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

45. LEASES (continued)

B. Lessee (continued))

B.1 Financial lease liabilities(continued)

	In thousands of Denars						
	Land	Buildings	Means of transporta tion	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of the property taken under financial lease:							
Cost							
Balance as at 1 January 2012	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	-	-	-	-	-	-
Balance as at 1 January 2013	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2013	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
Balance as at 1 January 2012	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	-	-	-	-	-	-
Balance as at 1 January 2013	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance as at 31 December 2013	-	-	-	-	-	-	-
Current carrying amount							
na 1 January 2012	-	-	-	-	-	-	-
On 31 December 2012	-	-	-	-	-	-	-
On 31 December 2013	-	-	-	-	-	-	-

NOTES TO THE FINANCIAL REPORTS
December 31, 2013

45. LEASES (continued)

B. Lessee (continued)

B.2 Irrevocable operating lease liabilities (continued)

	Total operational lease liabilities	In thousands of Denars Maturity period for operational lease liabilities		
		up to 1 year	from 1 to 5 years	over 5 years
Balance as at 31 December 2013 (current year)	-	-	-	-
Balance as at 31 December 2012 (previous year)	-	-	-	-

46. SHARE BASED PAYMENTS

	In thousands of Denars	
	current year 2013	previous year 2012
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-

	current year 2013		previous year 2012	
	number of options for shares	weighted average price of options for shares	number of options for shares	weighted average price of options for shares
Balance as at 1 January	-	-	-	-
Changes during the year:				
options given to the members of Supervisory Board	-	-	-	-
options given to the members of Board of Directors	-	-	-	-
other given options	-	-	-	-
forfeited options	-	-	-	-
options with expired deadline	-	-	-	-
Balance as at 31 December	-	-	-	-

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47. TAXATION RISK

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

48. EVENTS AFTER THE DATE OF THE BALANCE SHEET

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

49. EXCHANGE RATES

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

	<u>2013</u>	In MKD <u>2012</u>
1 USD	44,6284	46,6510
1 EUR	61,5113	61,5000