STOPANSKA BANKA AD, SKOPJE

Financial Statements
Year Ended December 31, 2013 and
Independent Auditors' Report

CONTENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of Stopanska Banka AD, Skopje (the "Bank") is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS"), which give a true and fair view of the financial position and the results of the Bank for the year.

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

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

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

Signed on behalf of Stopanska Banka AD, Skopje:

Mr. Diomidis Nikoletopoulos

Chief Executive Officer,
Chairman of the Board of Directors

Mr. Toni Stojanovski,

Chief Risk Officer,
Member of the Board of Directors

Стопанска банка А.Д.
СКОПЈЕ
01/1
Скопје

Mrs. Milica Chaparovska - Jovanovska,

Chief Retail Officer,
Member of the Board of Directors

Mr. Theodoulos Skordis,

Chief Corporate Officer,
Member of the Board of Directors

Deloitte DOO
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INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERSAND MANAGEMENT
OF STOPANSKA BANKA AD, SKOPJE**

We have audited the accompanying financial statements (page 3 to 75) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Stopanska Banka AD, Skopje as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO Deloitte doo

April 30, 2014

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

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2013
(In thousands of Denars)

	Notes	2013	2012
Interest income		4,465,573	4,442,966
Interest expense		(1,827,235)	(2,066,489)
Net interest income	6	2,638,338	2,376,477
Fee and commission income		999,071	1,025,772
Fee and commission expense		(96,074)	(90,738)
Net fee and commission income	7	902,997	935,034
Trading income, net	8	70,049	51,477
Foreign exchange gains, net	9	95,421	106,507
Other operating income	10	112,863	70,786
Impairment losses, net	11	(508,158)	(562,573)
Personnel expenses	12	(737,513)	(717,073)
Depreciation and amortization	13	(147,209)	(169,551)
Other operating expenses	14	(1,192,134)	(1,079,583)
Profit before tax		1,234,654	1,011,501
Income tax expense	15	(5,772)	(4,322)
Profit for the year		1,228,882	1,007,179
Other comprehensive income			
Loss on available-for-sale financial assets, net	32	(13,467)	(1,884)
Service & interest cost related to defined benefits obligation	32	(7,503)	-
Other comprehensive income for the year, net of tax		(20,970)	(1,884)
Total comprehensive income for the year		1,207,912	1,005,295
Profit attributable to:			
Owners of the Bank		1,228,882	1,007,179
Total comprehensive income attributable to:			
Owners of the Bank		1,207,912	1,005,295
Earnings per share	33		
Basic (in Denars)		70.38	57.68
Diluted (in Denars)		70.38	57.68

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

The financial statements have been approved by the management of the Bank on January 27, 2014 and accepted by the Bank's Supervisory Board.

Signed on behalf of Stopanska Banka AD, Skopje:

Mr. Diomidis Nikoletopoulos,
Chief Executive Officer,
Chairman of the Board of Directors

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

Стопанска банка А.Д. СКОПЈЕ 01/1 СКОПЈЕ

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

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

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STATEMENT OF FINANCIAL POSITION
At December 31, 2013
(In thousands of Denars)

	Notes	2013	2012
ASSETS			
Cash and cash equivalents	16	16,617,927	23,938,661
Held-for-trading financial assets	17	233,064	181,051
Available-for-sale financial assets	18	11,309,705	2,193,268
Held-to-maturity financial assets	19	667,319	1,201,478
Placement with, and loans to banks	20	166,728	295,532
Loans to customers	21	48,952,179	46,163,847
Other assets	22	760,362	837,633
Income tax receivable		-	4,884
Investment property	23	93,750	112,232
Intangible assets	24	90,266	116,640
Property and equipment	25	846,284	887,729
Total assets		79,737,584	75,932,955
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	26	189,764	264,962
Deposits from customers	27	63,168,377	59,255,539
Loans payable	28	944,151	2,518,847
Subordinated debt	29	2,777,763	2,777,163
Other liabilities	30	948,964	672,806
Provisions	31	195,418	138,403
Total liabilities		68,224,437	65,627,720
EQUITY			
Share capital	32	3,511,242	3,511,242
Reserves	32	831,589	852,559
Retained earnings		7,170,316	5,941,434
Total equity		11,513,147	10,305,235
Total liabilities and equity		79,737,584	75,932,955
Commitments and contingencies	35	10,740,638	10,667,871

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

STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2013
(In thousands of Denars)

	Share capital	Revalua-tion reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2012	3,511,242	23,070	830,290	1,083	4,934,255	9,299,940
Total other comprehensive income for the year, net of tax	-	(1,884)	-	-	-	(1,884)
Profit for the year	-	-	-	-	1,007,179	1,007,179
Balance, December 31, 2012	3,511,242	21,186	830,290	1,083	5,941,434	10,305,235
Balance, January 1, 2013	3,511,242	21,186	830,290	1,083	5,941,434	10,305,235
Total other comprehensive income for the year, net of tax	-	(20,970)	-	-	-	(20,970)
Profit for the year	-	-	-	-	1,228,882	1,228,882
Balance, December 31, 2013	3,511,242	216	830,290	1,083	7,170,316	11,513,147

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

STATEMENT OF CASH FLOWS
Year ended December 31, 2013
(In thousands of Denars)

	2013	2012
Profit before tax	1,228,882	1,007,179
Adjustments for:		
Depreciation of property and equipment	90,158	108,433
Depreciation of investment property	3,326	3,185
Amortization of intangible assets	53,725	57,933
Gain on sale of property and equipment, net	(19,776)	(2,495)
Interest income	(4,465,573)	(4,442,966)
Interest expense	1,827,235	2,066,489
Net trading income	(70,049)	(51,477)
Impairment losses on financial assets, net	428,221	513,793
Impairment losses on non-financial assets	79,937	48,780
Provision for employee benefits, net	2,489	2,150
Provision/(Reversal) of provision for litigation, net	32,265	(1,493)
Interest receipts	4,630,509	4,635,192
Interest paid	(1,819,688)	(2,083,487)
Operating profit before changes in operating assets and liabilities:	2,001,661	1,861,216
(Increase)/decrease of operating assets:		
Held-for-trading financial assets	(52,013)	(39,223)
Due from banks	128,804	(172,039)
Loans to customers	(3,325,970)	(2,331,689)
Mandatory reserves and restricted deposits according NBRM regulations	(198,409)	175,197
Other receivables	77,271	100,629
Increase/(decrease) of operating liabilities:		
Deposits from banks	(75,198)	118,790
Deposits from customers	3,912,838	2,553,923
Other liabilities	275,270	58,811
Net cash flows generated from operating activities before income tax	2,744,254	2,325,615
Income tax paid	(5,671)	(1,670)
Net cash flows generated from operating activities	2,738,583	2,323,945

(Continues)

STATEMENT OF CASH FLOWS (Continued)
Year ended December 31, 2013
(In thousands of Denars)

	2013	2012
Cash flows from investing activities		
Acquisition of property and equipment	(59,548)	(9,566)
Acquisition of intangible assets	(25,535)	(23,001)
Payments for from investments, net	(8,589,334)	(1,554,492)
Payments for sale of property and equipment	(9,018)	(152)
Dividend received	5,016	4,520
Net cash flows used in investing activities	(8,678,419)	(1,582,691)
Cash flows from financing activities		
Net (decrease)/increase of loans (including subordinated debt)	(1,574,096)	1,683,297
Dividends paid	(5,211)	(6,555)
Net cash flows from/(used in) financing activities	(1,579,307)	1,676,742
Net (decrease)/increase of cash and cash equivalents	(7,519,143)	2,417,996
Cash and cash equivalents, beginning of the year	21,230,883	18,812,887
Cash and cash equivalents at the end of the year	13,711,740	21,230,883

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

1. GENERAL INFORMATION

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

The Bank is registered as a universal type of commercial bank in accordance with the Macedonian Laws.

The Bank may perform the following activities:

- 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, traveler'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 (bill of exchange, checks, deposit certificates),
- 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, incorporated in Greece, which has 94.64% (2012: 94.64%) shareholding in the Bank and represents its ultimate parent company.

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

Symbol	ISIN code
STB (common shares)	MKSTBS101014
STBP (preference shares)	MKSTBS120014

The Bank's financial statements for the year ended December 31, 2013 have been approved by the management of the Bank on January 27, 2014 and accepted by the Bank's Supervisory Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

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

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

(b) Basis of measurement

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

(c) Functional and reporting currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

e) *Standards and Interpretations effective in the current period*

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

- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),

- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013),

- **IFRS 12 "Disclosures of Interests in Other Entities"** (effective for annual periods beginning on or after 1 January 2013),

- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013),

- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

e) *Standards and Interpretations effective in the current period* (Continued)

- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 1 "First-time Adoption of IFRS"–** Government Loans (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures" –**Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"–** Transition Guidance (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 1 "Presentation of financial statements"** – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),

- **Amendments to IAS 19 "Employee Benefits"–** Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2013),

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards and interpretations has not led to any changes in the Bank's accounting policies nor have a material impact on the financial statements of the Bank.

f) *Standards and Interpretations in issue not yet adopted*

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

- **IFRS 9 "Financial Instruments" and subsequent amendments** (effective date was not yet determined),

- **IFRS 14 "Regulatory Deferral Accounts"**(effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements"** – Investment Entities(effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),

- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

f) *Standards and Interpretations in issue not yet adopted* (Continued)

- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),

- **IFRIC 21 "Levies"** (effective for annual periods beginning on or after 1 January 2014).

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

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

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

3.2 Fee and commission income

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

3.3 Dividend income

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

3.4 Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia (“NBRM”) at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the statement of comprehensive income. Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

3.5 Financial assets

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

Held-for-trading financial assets

Held-for-trading financial assets, which comprise securities issued in local currency by the Ministry of Finance are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at transaction price, which represents the fair value and subsequently measured at fair value as determined based on their market price.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Held-for-trading financial assets (Continued)

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

Loans originated by the Bank

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

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 statement of comprehensive income. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Impairment losses on loans and advances

Allowances for losses on impairment and un-collectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A “claim” means a loan, a commitment such as a letter of credit, guarantee or commitment to extend the credit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items are presented within the provisions. Additions to provision are recognized through impairment losses on financial assets in the statement of comprehensive income. The allowances for losses on impairment and un-collectability are determined on the basis of the degree (size) of the risk of un-collectability or specific country risk on the basis of the following principles:

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

Renegotiated loans

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

Derecognition of financial assets

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

3.6 Financial liabilities

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

Deposits from banks and other financial institutions and customers

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

Held-for-trading financial liabilities

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

Loans payable

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

Other payables

Other payables are stated at their nominal amounts.

Derecognition of financial liabilities

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

3.7 Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the statement of comprehensive income 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 for 2013 and 2012 are as follows:

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

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss. The Bank annually reviewed its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

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

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

Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The leasehold improvements and other intangible assets are amortized on a straight-line basis over the relevant contract period. The Bank annually reviewed its intangible assets and assess whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

3.9 Impairment of tangible and intangible assets

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

3.10 Investment property

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

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

Investment property is annually reviewed for impairment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period.

3.11 Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and are reported in other assets as non-current assets held for sale. Initially, these asset are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified appraisers on the date of asset foreclosure. After initial recognition, foreclosed assets are reviewed for impairment at least annually and are measured at the lower of their carrying amount less estimated costs to sell and accumulated impairments.

3.12 Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

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

3.14 Provisions

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

Employment benefits

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

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

3.15 Income tax

The current income tax payable is calculated based on the local tax regulation by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax 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.

3.16 Leases

Assets leased out under operating lease are included in the statement of financial position as investment property. Rental income from investment property is recognized in the statement of comprehensive income on a straight-line basis over the term of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

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

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

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

3.18 Offsetting

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

3.19 Financial guarantee contracts

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

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

3.20 Related party transactions

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

3.21 Earnings per share

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

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

Fair value of financial instruments

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

The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. In the Republic of Macedonia sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

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

Allowance for loan losses

The Bank reviews its loan portfolios to assess impairment on monthly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, The Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

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

Useful lives of tangible and intangible assets

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

Actuarial assumptions in respect of defined benefit plan

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Risk related to the Greek crisis and the European debt crisis

As disclosed in Note 1, the Bank is part of NBG 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 Eurosystem remains a major source of liquidity for the NBG Group.

Despite risks and challenges in 2013, Stopanska Banka AD Skopje remained well-capitalized, highly liquid, and funded by domestic deposits. The Bank has no exposure to any foreign European government debt nor significant placements or significant financial commitments with its Parent company. The recent stress test, performed under strict criteria demonstrated that the Bank is adequately capitalized and sufficiently liquid, and the management believes that any eventual withdrawal of the deposits by the Parent would not affect significantly the liquidity of Stopanska Banka AD Skopje. As disclosed in Note 29 and Note 34, the Bank has received two subordinated loans from its Parent company amounting to EUR 20 and 25 million as of December 31, 2013 (representing 4.07% of the total liabilities of the Bank). The subordinated term debt is used as supplementary capital reserves and the maturity of debt is until December 2016 and November 2018 and the loans cannot be withdrawn by the Parent without the prior consent of the National Bank of Republic of Macedonia. The strong capital base with a capital adequacy ratio of 18.06%, as disclosed in Note 4.6, 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.

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

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

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

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

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk and capital strategy, ascertaining the Bank's risk definitions, profile and appetite, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.
- Tactical level encompasses risk management functions performed by the Board of Directors and the Senior Management. These include the establishment of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management Division of the Bank, as well as, other critical support functions fall into this category.

4. FINANCIAL INSTRUMENTS (Continued)

4.1 Financial risk management (Continued)

- Operational (business line) level – It involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by management.

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

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

4.2 Credit risk

4.2.1 Credit risk measurement, limits and mitigation policies

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

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

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

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

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral, also limit of the exposure to Bank internal persons, and large exposures, exposure by sector of activity are set in the Risk Strategy and further detailed in the Bank's credit risk management policies and procedures. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to at least an annual review. In addition, the exposure concentration risk by sectors and activities is regularly monitored on the basis of set limits.

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.1 Credit risk measurement, limits and mitigation policies (continued)

The impairment losses are identified losses of the Bank credit portfolio that incurred at the statement of financial position date and for which there is objective evidence of impairment. The Bank calculates the impairment provision after making the classification of credit exposure in the appropriate risk category. The classification is made according to the following criteria:

- Client's creditworthiness;
- Client's regularity in settling the liabilities, and
- Collateral quality.

4.2.2 Impairment and provisioning policies

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

The individual approach encompasses at least the individually significant exposures that are above materiality thresholds set by the Bank. The materiality threshold is 0.007% of the total exposure to credit risk of the Bank. Impairment provision of individually assessed items on individual basis are determined by evaluation of generated loss on the balance sheet date, which represents the difference between the carrying and present value of projected future cash flows. Effective interest rate is used for discounting the future cash over a year.

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

The calculated impairment losses on group basis are provisioned on portfolios of homogenous assets that are individually lower than the materiality thresholds and for which sufficient long data series for the average life of the portfolio to calculate the impairment parameters. Impairment and provisioning are calculated by using parameters that are obtained from historical data on the delinquency rate of certain portfolios.

The following parameters are used at collective calculation of impairment and provisions:

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

	In thousands of Denars	
	31 December 2013	31 December 2012
Credit risk exposure relating to on balance sheet assets		
Cash and cash equivalents	16,617,927	23,938,661
Held-for-trading financial assets	233,064	181,051
Available-for-sale financial assets	11,309,705	2,193,268
Held-to-maturity financial assets	667,319	1,201,478
Placement with, and loans to banks	166,728	295,532
Loans to customers	48,952,179	46,163,847
Other receivables (less foreclosure assets)	208,212	204,182
	78,155,134	74,178,019
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	2,896,778	2,905,426
Standby letters of credits	254,190	156,449
Commitments to extend credits	7,399,346	7,387,650
Other off-balance sheet commitments	309,235	321,372
Gross exposure	10,859,549	10,770,897
Less: Provision for off-balance sheet items	(118,911)	(103,026)
	10,740,638	10,667,871
Total credit risk exposure	88,895,772	84,845,890

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

Loans to customers are summarized below:

a) Loans to customers neither past due nor impaired

	Neither past due nor impaired	Past due but not impaired	Individ.impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2013								
Cards	2,815,803	457,797	6,797	3,280,397	(5,484)	(147,667)	(153,151)	3,127,246
Consumer	15,918,091	4,296,611	161,728	20,376,430	(108,783)	(1,194,849)	(1,303,632)	19,072,798
Mortgage	6,785,108	1,171,806	302,973	8,259,887	(43,351)	(37,893)	(81,244)	8,178,643
Small business loans	6,562,177	1,460,152	2,598,288	10,620,617	(1,307,866)	(76,636)	(1,384,502)	9,236,115
Corporate loans	7,423,700	787,944	3,130,523	11,342,167	(1,983,223)	(21,567)	(2,004,790)	9,337,377
Total	39,504,879	8,174,310	6,200,309	53,879,498	(3,448,707)	(1,478,612)	(4,927,319)	48,952,179

	Neither past due nor impaired	Past due but not impaired	Individ. impaired	Total gross	Allowance for individ.impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2012								
Cards	2,624,629	445,147	6,078	3,075,854	(5,291)	(132,514)	(137,805)	2,938,049
Consumer	14,459,140	4,405,640	71,759	18,936,539	(44,798)	(1,161,529)	(1,206,327)	17,730,212
Mortgage	6,283,008	1,107,849	330,848	7,721,705	(71,388)	(26,636)	(98,024)	7,623,681
Small business loans	6,557,331	1,046,039	2,390,178	9,993,548	(1,159,224)	(57,147)	(1,216,371)	8,777,177
Corporate loans	7,464,171	234,170	3,216,932	10,915,273	(1,799,849)	(20,696)	(1,820,545)	9,094,728
Total	37,388,279	7,238,845	6,015,795	50,642,919	(3,080,550)	(1,398,522)	(4,479,072)	46,163,847

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

b) Loans to customers past due but not individually impaired

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2013								
Cards	279,540	23,558	6,855	6,030	18,483	123,331	-	457,797
Consumer	2,314,975	434,609	115,287	82,298	147,278	1,202,164	-	4,296,611
Mortgage	832,904	181,726	47,102	48,217	11,638	50,219	-	1,171,806
Small-business loans	1,460,152	-	-	-	-	-	-	1,460,152
Corporate loans	787,944	-	-	-	-	-	-	787,944
Total	5,675,515	639,893	169,244	136,545	177,399	1,375,714	-	8,174,310

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2012								
Cards	281,075	25,332	4,823	6,457	23,733	103,727	-	445,147
Consumer	2,363,820	476,417	150,926	103,500	248,300	1,062,677	-	4,405,640
Mortgage	795,534	178,576	72,082	21,163	14,740	25,754	-	1,107,849
Small-business loans	1,046,039	-	-	-	-	-	-	1,046,039
Corporate loans	234,170	-	-	-	-	-	-	234,170
Total	4,720,638	680,325	227,831	131,120	286,773	1,192,158	-	7,238,845

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

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

	2013	2012
Cash and balances with the Central bank	493,104	571,088
Movable property	1,055,492	2,956,609
Residential property	26,496,187	25,893,450
Other real estate	3,133,397	3,925,289
Total	31,178,180	33,346,436

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

	2013	2012
Cash and balances with the Central bank	1,168,741	745,175
Financial and corporate guarantees	6,441,143	3,930,392
Movable property	10,296,438	10,593,351
Real estate	30,273,849	28,945,255
Total	48,180,171	44,214,173

c) Renegotiated loans to customers

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

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

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

During 2013 the Bank has renegotiated loans at a total value of Denar 1,102,702 thousand (2012: 2,479,690).

4.2.5 Foreclosed assets

During 2013, the Bank conducted appraisals on the total foreclosed assets portfolio in order to determine the fair value of the assets.

In this period, the Bank sold 17 assets (2012: 14 assets) at a total value of Denar 60,510 thousand (2012: Denar 23,682 thousand), whereas it foreclosed 2 facilities (2012: 2 facilities) at a total value of Denar 38,146 (2012: Denar 5,766 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2013 and 2012. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and cash equivalents		Held-for-trading financial assets		Available-for-sale financial assets		Held-to-maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Geographical region																
Republic of Macedonia	14,254,796	20,912,356	15,793	23,161	11,309,703	2,193,237	667,319	1,201,478	-	-	48,952,179	46,163,847	208,212	204,182	75,408,002	70,698,261
EU member countries	2,363,131	2,820,404	-	-	2	31	-	-	166,728	237,236	-	-	-	-	2,529,861	3,057,671
Europe (other)	-	88,971	-	-	-	-	-	-	-	-	-	-	-	-	-	88,971
OECD member countries (less European OECD member countries)	-	116,930	212,858	151,461	-	-	-	-	-	-	-	-	-	-	212,858	268,391
Other	-	-	4,413	6,429	-	-	-	-	-	58,296	-	-	-	-	4413	64,725
Total	16,617,927	23,938,661	233,064	181,051	11,309,705	2,193,268	667,319	1,201,478	166,728	295,532	48,952,179	46,163,847	208,212	204,182	78,155,134	74,178,019

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector

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

	Cash and cash equivalents		Held-for-trading financial assets		Available- for-sale financial assets		Held- to- maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Industry																
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-	605,761	735,042	2,008	47	607,769	735,089
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	116,695	142,211	389	11	117,084	142,222
Manufacturing	-	-	-	-	-	-	-	-	-	-	6,927,058	6,540,029	25,532	22,294	6,952,590	6,562,323
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	-	-	2,157,098	1,975,314	7,005	-	2,164,103	1,975,314
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	-	-	19,285	9,906	63	-	19,348	9,906
Construction	-	-	-	-	-	-	-	-	-	-	1,562,654	1,553,898	5,415	-	1,568,069	1,553,898
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	906	1,137	-	-	-	-	4,992,118	4,864,997	145,403	172,374	5,138,427	5,038,508
Transportation and storage	-	-	-	-	-	-	-	-	-	-	675,458	655,566	2,288	125	677,746	655,691
Accommodation and food service activities	-	-	-	-	-	-	-	-	-	-	360,380	353,679	1,024	4	361,404	353,683
Information and communication	-	-	-	-	-	-	-	-	-	-	80,111	35,861	278	-	80,389	35,861
Financial and insurance activities	10,155,081	17,565,064	217,271	157,890	67,104	2,192,131	-	-	166,728	295,532	153,219	81,733	-	-	10,759,403	20,292,350
Real estate activities		-	-	-	-	-	-	-	-	-	317,690	241,996	1,031	-	318,721	241,996
Professional, scientific and technical activities		-	-	-	-	-	-	-	-	-	300,314	310,166	1,394	-	301,708	310,166
Administrative and support service activities		-	-	-	-	-	-	-	-	-	73,317	111,075	237	875	73,554	111,950
Public administration and defence; compulsory social security	6,462,846	6,373,597	15,793	23,161	11,241,695	-	667,319	1,201,478	-	-	1057	-	-	-	18,388,710	7598236
Education	-	-	-	-	-	-	-	-	-	-	83,085	134,846	270	-	83,355	134,846
Human health and social work activities	-	-	-	-	-	-	-	-	-	-	27,224	26,562	88	-	27,312	26,562
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-	95,221	74,216	588	-	95,809	74,216
Other service activities	-	-	-	-	-	-	-	-	-	-	25,746	24,808	2,606	2	28,352	24,810
Individuals	-	-	-	-	-	-	-	-	-	-	30,378,688	28,291,942	12,593	2,636	30,391,281	28,294,578
Individual merchants and individuals not considered to be merchants	-	-	-	-	-	-	-	-	-	-	-	-	-	5,814	-	5,814
Total	16,617,927	23,938,661	233,064	181,051	11,309,705	2,193,268	667,319	1,201,478	166,728	295,532	48,952,179	46,163,847	208,212	204,182	78,155,134	74,178,019

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector (Continued)

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

	In thousands of Denars	
	2013	**2012**
Industry		
Non-residents	100	-
Agriculture, forestry and fishing	13,786	11,205
Mining and quarrying	22,579	21,961
Manufacturing	1,230,081	1,304,252
Electricity, gas, steam and air conditioning supply	24,291	75,347
Water supply; sewerage, waste management and remediation Activities	5,894	264
Construction	1,367,264	1,539,230
Wholesale and retail trade; repair of motor vehicles and motorcycles	429,938	318,132
Transportation and storage	200,546	168,717
Accommodation and food service activities	5,305	1,474
Information and communication	7,275	289
Financial and insurance activities	62,585	32,721
Real estate activities	462,370	511,337
Professional, scientific and technical activities	48,985	65,993
Administrative and support service activities	23,531	14,882
Education	11,454	-
Human health and social work activities	1,385	-
Arts, entertainment and recreation	35,554	12,307
Other service activities	2,127	599
Individuals	6,785,588	6,589,161
Total	10,740,638	10,667,871

4.3 Market risk

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk

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

In thousands of Denars
December 31, 2013

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	4,251,991	265,045	1,218,520	5,735,556	10,882,371	16,617,927
Held-for-trading financial assets	15,793	212,858	4,413	233,064	-	233,064
Available-for-sale financial assets	1,581,670	-	2,046	1,583,716	9,725,989	11,309,705
Held-to-maturity financial assets	667,319	-	-	667,319	-	667,319
Placement with, and loans to banks	23,812	119,824	23,092	166,728	-	166,728
Loans to customers	24,517,643	1,339,862	515	25,858,020	23,094,159	48,952,179
Other receivables	13,450	3,365	151	16,966	191,246	208,212
Total assets	31,071,678	1,940,954	1,248,737	34,261,369	43,893,765	78,155,134
LIABILITIES						
Deposits from banks	36,461	94,179	59,124	189,764	-	189,764
Deposits from customers	24,566,819	1,775,540	1,153,906	27,496,265	35,672,112	63,168,377
Loans payable	768,361	4,740	-	773,101	171,050	944,151
Subordinated debt	2,777,763	-	-	2,777,763	-	2,777,763
Other liabilities	108,447	14,210	865	123,522	824,554	948,076
Total liabilities	28,257,851	1,888,669	1,213,895	31,360,415	36,667,716	68,028,131
Net currency gap:	2,813,827	52,285	34,842	2,900,954	7,226,049	10,127,003

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2012

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	4,571,835	285,688	1,345,909	6,203,432	17,735,229	23,938,661
Held-for-trading financial assets	29,590	151,461	-	181,051	-	181,051
Available-for-sale financial assets	31	-	-	31	2,193,237	2,193,268
Held-to-maturity financial assets	1,201,478	-	-	1,201,478	-	1,201,478
Placement with, and loans to banks	24,510	243,424	27,598	295,532	-	295,532
Loans to customers	24,454,681	1,364,437	24,827	25,843,945	20,319,902	46,163,847
Other receivables	8,215	3,410	130	11,755	192,427	204,182
Total assets	30,290,340	2,048,420	1,398,464	33,737,224	40,440,795	74,178,019
LIABILITIES						
Deposits from banks	38,310	145,050	81,602	264,962	-	264,962
Deposits from customers	23,829,237	1,895,111	1,230,888	26,955,236	32,300,303	59,255,539
Loans payable	831,163	14,885	-	846,048	1,672,799	2,518,847
Subordinated debt	2,777,163	-	-	2,777,163	-	2,777,163
Other liabilities	209,766	2,752	1,024	213,542	459,264	672,806
Total liabilities	27,685,639	2,057,798	1,313,514	31,056,951	34,432,366	65,489,317
Net currency gap	2,604,701	(9,378)	84,950	2,680,273	6,008,429	8,688,702

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

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

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

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2013 and 2012.

In thousands of Denars
December 31, 2013

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	15,442,132	1,175,795	16,617,927
Held-for-trading financial assets	15,608	217,456	233,064
Available-for-sale financial assets	11,219,463	90,242	11,309,705
Held-to-maturity financial assets	664,911	2,408	667,319
Placement with, and loans to banks	112,841	53,887	166,728
Loans to customers	47,732,110	1,220,069	48,952,179
Other receivables	-	208,212	208,212
Total assets	75,187,065	2,968,069	78,155,134
LIABILITIES			
Deposits from banks	189,761	3	189,764
Deposits from customers	62,850,446	317,931	63,168,377
Loans payable	942,902	1,249	944,151
Subordinated debt	2,768,008	9,755	2,777,763
Other liabilities	-	948,076	948,076
Total liabilities	66,751,117	1,277,014	68,028,131
Net interest gap:	8,435,948	1,691,055	10,127,003

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

			In thousands of Denars December 31, 2012
	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	22,105,343	1,833,318	23,938,661
Held-for-trading financial assets	22,877	158,174	181,051
Available-for-sale financial assets	2,099,620	93,648	2,193,268
Held-to-maturity financial assets	1,197,165	4,313	1,201,478
Placement with, and loans to banks	236,933	58,599	295,532
Loans to customers	45,085,211	1,078,636	46,163,847
Other receivables	-	204,182	204,182
Total assets	70,747,149	3,430,870	74,178,019
LIABILITIES			
Deposits from banks	196,450	68,512	264,962
Deposits from customers	59,059,089	196,450	59,255,539
Loans payable	2,365,821	153,026	2,518,847
Subordinated debt	2,767,500	9,663	2,777,163
Other liabilities	-	672,806	672,806
Total liabilities	64,388,860	1,100,457	65,489,317
Net interest gap:	6,358,289	2,330,413	8,688,702

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

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

4.4.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2013

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	16,617,927	-	-	-	-	-	16,617,927
Held-for-trading financial assets	217,272	-	8,476	7,316	-	-	233,064
Available-for-sale financial assets	608	993,983	8,617,774	-	1,629,300	68,040	11,309,705
Held-to-maturity financial assets	134,020	131,979	401,320	-	-	-	667,319
Placement with, and loans to banks	697	-	-	-	-	166,031	166,728
Loans to customers	4,132,073	4,740,181	15,622,390	4,820,034	9,474,636	10,162,865	48,952,179
Other receivables	208,212	-	-	-	-	-	208,212
Total assets	21,310,809	5,866,143	24,649,960	4,827,350	11,103,936	10,396,936	78,155,134
LIABILITIES AND EQUITY							
Deposits from banks	189,764	-	-	-	-	-	189,764
Deposits from customers	24,001,415	7,403,637	23,632,598	5,484,245	2,418,121	228,361	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
Other liabilities	857,098	-	-	-	-	90,978	948,076
Total liabilities and equity	25,258,110	7,428,575	23,774,346	5,664,398	5,583,363	319,339	68,028,131
Net liquidity gap	(3,947,301)	(1,562,432)	875,614	(837,048)	5,520,573	10,077,597	10,127,003

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2012

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	20,563,394	3,375,267	-	-	-	-	23,938,661
Held-for-trading financial assets	165,177	-	5,703	5,420	4,751	-	181,051
Available-for-sale financial assets	1,307	-	2,049,620	-	50,000	92,341	2,193,268
Held-to-maturity financial assets	135,569	131,955	401,117	532,837	-	-	1,201,478
Placement with, and loans to banks	59,314	-	140,003	-	-	96,215	295,532
Loans to customers	3,935,354	3,836,641	15,140,377	4,795,282	9,047,892	9,408,301	46,163,847
Other receivables	204,182						204,182
Total assets	25,064,297	7,343,863	17,736,820	5,333,539	9,102,643	9,596,857	74,178,019
LIABILITIES AND EQUITY							
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
Other liabilities	672,806	-	-	-	-	-	672,806
Total liabilities and equity	23,786,209	7,610,033	24,498,382	4,439,926	4,809,005	345,762	65,489,317
Net liquidity gap	1,278,088	(266,170)	(6,761,562)	893,613	4,293,638	9,251,095	8,688,702

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2013 and 2012, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 48,728,105 thousand (2012: Denar 45,940,684 thousand) which helps the maturity non-reconciliation to be overcome.

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2013

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2- 3 years	From 3- 4 years	From 4- 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	100,504	105,376	-	-	-	-	-	-	-	205,880
Deposits from customers	18,298,050	5,832,487	7,606,605	24,300,492	5,754,590	1,692,757	515,896	404,164	271,337	64,676,378
Loans payable (including subordinated debt)	6,142	61,876	43,884	203,448	260,645	1,436,540	167,727	1,679,880	329,175	4,189,317
Other liabilities	896,608	-	-	-	-	-	-	-	-	896,608
Total	19,301,304	5,999,739	7,650,489	24,503,940	6,015,235	3,129,297	683,623	2,084,044	600,512	69,968,183

In thousands of Denars
December 31, 2012

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1to 2 years	From 2- 3 years	From 3- 4 years	From 4- 5 years	Over 5 years	Total
LIABILITIES										
Deposits from banks	125,584	1,500,466	-	140,591	-	-	-	-	-	1,766,641
Deposits from customers	16,001,078	5,555,327	7,842,126	24,923,784	4,416,053	899,988	499,983	483,745	157,908	60,779,992
Loans payable (including subordinated debt)	7,358	82,960	23,324	230,499	295,909	249,630	1,410,295	115,331	1,909,132	4,324,438
Other liabilities	574,057	-	-	-	-	-	-	-	-	574,057
Total	16,708,077	7,138,753	7,865,450	25,294,874	4,711,962	1,149,618	1,910,278	599,076	2,067,040	67,445,128

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2013

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	-	-	-	1,409,712	588,851	-	-	-	5,400,783	7,399,346
Financial guarantees and LCs	-	267,365	398,200	1,531,022	463,755	365,389	519	2,000	122,718	3,150,968
Total	-	267,365	398,200	2,940,734	1,052,606	365,389	519	2,000	5,523,501	10,550,314

In thousands of Denars
December 31, 2012

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
Commitments to extend credits	7,387,650	-	-	-	-	-	-	-	-	7,387,650
Financial guarantees and LCs	-	179,120	403,713	1,654,832	338,152	290,648	61,500	356	133,554	3,061,875
Total	7,387,650	179,120	403,713	1,654,832	338,152	290,648	61,500	356	133,554	10,449,525

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		Fair value	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Financial assets				
Cash and cash equivalents	16,617,927	23,938,661	16,617,927	23,938,661
Held-for-trading financial assets	233,064	181,051	233,064	181,051
Available-for-sale financial assets	11,309,705	2,193,268	11,309,705	2,193,268
Held-to-maturity financial assets	667,319	1,201,478	667,319	1,201,478
Placement with, and loans to banks	166,728	295,532	166,728	295,532
Loans to customers	48,952,179	46,163,847	48,952,179	46,163,847
Other receivables (less foreclosure assets)	208,212	204,182	208,212	204,182
	78,155,134	74,178,019	78,155,134	74,178,019
Financial liabilities				
Deposits from banks	189,764	264,962	189,764	264,962
Deposits from customers	63,168,377	59,255,539	63,168,377	59,255,539
Loans payable	944,151	2,518,847	944,151	2,518,847
Subordinated debt	2,777,763	2,777,163	2,777,763	2,777,163
Other liabilities	948,076	672,806	948,076	672,806
	68,028,131	65,489,317	68,028,131	65,489,317

Cash and cash equivalents

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRM, which mature shortly. Fair value of treasury and other eligible bills is based on discounted cash flows.

Held-for-trading financial assets

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

Available-for-sale financial assets

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

Held-to-maturity financial assets

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

Placement with, and loans to banks

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

Loans to customers

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

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

Deposits from banks

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

Held-for-trading financial liabilities

Fair value as determined by inputs derived from market prices.

Deposits from customers

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

Loans payable (including subordinated debt)

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

Other liabilities

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

Fair value hierarchy

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

a) Level 1 – Fair value is determined directly with reference to quoted market prices of the financial instruments in active markets;

b) Level 2 - Fair value is determined using valuation techniques that include active markets inputs, which can be direct, i.e. prices, or indirect, i.e. derived from prices;

c) Level 3 - Fair value is determined using valuation techniques that include inputs that cannot be directly or indirectly followed on the active markets, or are not visible.

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy (Continued)

In thousands of Denars
December 31, 2013

	Fair value	Level 1	Level 2	Level 3
Financial assets				
Held-for-trading financial assets	233,064	233,064	-	-
Available-for-sale financial assets	68,040	43,633	-	24,407
Total	301,104	276,697	-	24,407

In thousands of Denars
December 31, 2012

	Fair value	Level 1	Level 2	Level 3
Financial assets				
Held-for-trading financial assets	181,051	181,051	-	-
Available-for-sale financial assets	92,341	67,934	-	24,407
Total	273,392	248,985	-	24,407

Level 3 financial instruments at December 31, 2013 include available-for sale non-marketable private equity investments where prices are determined by the price of the most recent investments, based on which it is not practical to quote a range of key unobservable inputs.

Reconciliation of the fair value measurement in level 3 not presented since there was no movement during 2013.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

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

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the regulatory capital are regularly monitored by the Bank's management, employing techniques prescribed by national regulatory authority, i.e. the National Bank of Republic of Macedonia. The required information is submitted to regulatory authority on a quarterly basis.

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

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The bank's uncovered loss from previous years, the current loss, own shares, intangible assets, net negative revaluation reserves, difference between the amount of required and made impairment/special reserves, amount of unallocated impairment and special reserves as a result of accounting time lag are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital, cumulative preferred shares and premium from cumulative preferred shares sold, revaluation reserves, hybrid capital instruments.

Investments in financial institutions are deducted from Tier 1 and Tier 2 capital in determining the regulatory capital.

In 2012, the National Bank of the Republic of Macedonia has introduced the new Decision of methodology for determination of the capital adequacy, which prescribes the calculation for capital requirement of banks for covering credit risk, operational risk, market risks and currency risk.

The calculation of required capital for covering the credit risk is based on the so-called standardized approach under Basel II based on which, the required capital for covering credit risk arising from the balance sheet and off-balance sheet receivables of banks is determined on the basis of the credit rating of the debtor or of the receivable. In 2012, the Bank for the first time is obliged to allocate capital to cover operational risk. The capital requirements for currency risk have been amended and it is calculated based on aggregate open currency position, net amount taking into consideration impairment. Same as previously, the Bank is not obliged to determine and maintain capital to cover market risks until the trading portfolio exceed the prescribed threshold.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended December 31, 2013 and 2012 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

	In thousands of Denars December 31, 2013
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	4,596,589
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	8,083,848
Tier 2 capital	
Cumulative non-voting shares	90,978
Revaluation reserves	569
Subordinated debt	1,722,317
Total qualifying Tier 2 capital	1,813,864
Total regulatory capital	9,897,712
Credit risk-weighted assets	
On-balance sheet	41,138,185
Off-balance sheet	5,169,476
Total credit risk-weighted assets	46,307,661
FX risk-weighted assets	2,254,609
Operational risk-weighted assets	6,248,164
Risk-weighted assets	54,810,434
Capital adequacy ratio	18.06%

	In thousands of Denars December 31, 2012
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	4,596,589
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	8,083,848
Tier 2 capital	
Cumulative non-voting shares and share premium	90,978
Revaluation reserves	17,138
Subordinated debt	2,275,500
Total qualifying Tier 2 capital	2,383,616
Total regulatory capital	10,467,464
Credit risk-weighted assets	
On-balance sheet	40,081,690
Off-balance sheet	5,004,159
Total credit risk-weighted assets	45,085,849
FX risk-weighted assets	2,476,462
Operational risk-weighted assets	6,296,869
Risk-weighted assets	53,859,180
Capital adequacy ratio	19.43%

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

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

December 31, 2013		In thousands of Denars Change in exchange rate	
	Total	**10%**	**-10%**
ASSETS			
Cash and cash equivalents	16,617,927	573,556	(573,556)
Held-for-trading financial assets	233,064	23,306	(23,306)
Available-for-sale financial assets	11,309,705	158,372	(158,372)
Held-to-maturity financial assets	667,319	66,732	(66,732)
Placement with, and loans to banks	166,728	16,673	(16,673)
Loans to customers	48,952,179	2,585,802	(2,585,802)
Other receivables	208,212	1,697	(1,697)
Total assets	78,155,134	3,426,138	(3,426,138)
LIABILITIES			
Deposits from banks	189,764	18,976	(18,976)
Deposits from customers	63,168,377	2,749,627	(2,749,627)
Loans payable (including subordinated debt)	3,721,914	355,086	(355,086)
Other liabilities	948,076	12,352	(12,352)
Total liabilities	68,028,131	3,136,041	(3,136,041)
Net currency gap:	10,127,003	290,097	(290,097)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

		In thousands of Denars	
December 31, 2012		**Change in exchange rate**	
	Total	**+10%**	**-10%**
ASSETS			
Cash and cash equivalents	23,938,661	620,343	(620,343)
Held-for-trading financial assets	181,051	18,105	(18,105)
Available-for-sale financial assets	2,193,268	3	(3)
Held-to-maturity financial assets	1,201,478	120,148	(120,148)
Placement with, and loans to banks	295,532	29,553	(29,553)
Loans to customers	46,163,847	2,584,395	(2,584,395)
Other receivables	204,182	1,175	(1,175)
Total assets	74,178,019	3,373,722	(3,373,722)
LIABILITIES			
Deposits from banks	264,962	26,496	(26,496)
Deposits from customers	59,255,539	2,695,524	(2,695,524)
Loans payable (including subordinated debt)	5,296,010	362,321	(362,321)
Other liabilities	672,806	21,354	(21,354)
Total liabilities	65,489,317	3,105,695	(3,105,695)
Net currency gap:	8,688,702	268,027	(268,027)

At December 31, 2013, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 290,097 thousand higher (2012: Denar 268,027 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 290,097 thousand lower (2012: Denar 268,027 thousand).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

		In thousands of Denars December 31, 2013	
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	16,617,927	308,843	(308,843)
Held-for-trading financial assets	233,064	312	(312)
Available-for-sale financial assets	11,309,705	224,389	(224,389)
Held-to-maturity financial assets	667,319	13,298	(13,298)
Placement with, and loans to banks	166,728	2,257	(2,257)
Loans to customers	48,952,179	954,642	(954,642)
Other receivables	208,212	-	-
Total assets	78,155,134	1,503,741	(1,503,741)
LIABILITIES			
Deposits from banks	189,764	3,795	(3,795)
Deposits from customers	63,168,377	1,257,009	(1,257,009)
Loans payable (including subordinated debt)	3,721,914	74,218	(74,218)
Other liabilities	948,076	-	-
Total liabilities	68,028,131	1,335,022	(1,335,022)
Net interest gap:	10,127,003	168,719	(168,719)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

In thousands of Denars
December 31, 2012

	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	23,938,661	442,107	(442,107)
Held-for-trading financial assets	181,051	458	(458)
Available-for-sale financial assets	2,193,268	41,992	(41,992)
Held-to-maturity financial assets	1,201,478	23,943	(23,943)
Placement with, and loans to banks	295,532	4,739	(4,739)
Loans to customers	46,163,847	901,704	(901,704)
Other receivables	204,182	-	-
Total assets	74,178,019	1,414,943	(1,414,943)
LIABILITIES			
Deposits from banks	264,962	3,929	(3,929)
Deposits from customers	59,255,539	1,181,182	(1,181,182)
Loans payable (including subordinated debt)	5,296,010	102,666	(102,666)
Other liabilities	672,806	-	-
Total liabilities	65,489,317	1,287,777	(1,287,777)
Net interest gap:	8,688,702	127,166	(127,166)

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

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2013, profit for the year would have been Denar 168,719 thousand (2012: Denar 127,166 thousand lower) higher. Conversely, if the interest rates had been 200 bp lower with all other variables held constant, profit for the year would have been Denar 168,719 thousand (2012: Denar 127,166 thousand higher) lower. Such an effect arises due to lower sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

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

Corporate banking

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

Investment banking

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

Other

This segment includes all other insignificant operating activities.

Unallocated

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

5.1 Operating segments

In thousands of Denars
December 31, 2013

	Retail banking	Corporate banking	Investmen t banking	Other	Unallocate d	Total
Net interest income	1,187,485	1,121,356	329,497	-	-	2,638,338
Net fee and commission income	486,986	434,639	(23,100)	4,472	-	902,997
Net trading income	-	-	70,049	-	-	70,049
Other operating income	116,410	79,574	8,066	-	4,234	208,284
Total income	1,790,881	1,635,569	384,512	4,472	4,234	3,819,668
Profit/(loss) before tax	1,194,639	(338,815)	375,845	(8,768)	11,753	1,234,654
Income tax expense	-	-	-	-	(5,772)	(5,772)
Net profit for the year						1,228,882
Total assets	18,315,939	49,113,587	12,207,453	379	100,226	79,737,584
Total liabilities	44,919,948	23,300,212	-	-	4,277	68,224,437
Impairment of financial assets, net	337,708	(757,261)	(8,667)	-	-	(428,220)
Impairment of non-financial assets	(62,084)	(58,697)	-	-	40,843	(79,938)
Depreciation and amortization	(57,425)	(54,292)	-	(13,240)	(22,252)	(147,209)
Property and equipment purchases	(24,415)	(22,628)	-	-	(12,505)	(59,548)
Other expenses	(814,441)	(1,104,134)	-	-	(11,072)	(1,929,647)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
December 31, 2012

	Retail banking	Corporate banking	Invest-ment banking	Other	Unallo-cated	Total
Net interest income	960,391	880,000	536,086	-	-	2,376,477
Net fee and commission income	397,471	528,785	2,347	6,431	-	935,034
Net trading income	-	-	51,477	-	-	51,477
Other operating income	93,767	70,071	9,520	-	3,935	177,293
Total income	1,451,629	1,478,856	599,430	6,431	3,935	3,540,281
Profit before tax	398,184	36,546	598,812	(9,360)	(12,681)	1,011,501
Income tax expense	-	-	-	-	(4,322)	(4,322)
Net profit for the year						1,007,179
Total assets	28,634,418	45,929,136	1,340,842	379	28,180	75,932,955
Total liabilities	47,127,251	18,496,351	-	-	4,118	65,627,720
Impairment of financial assets, net	(177,080)	(336,095)	(618)	-	-	(513,793)
Impairment of non-financial assets	(30,117)	(28,474)	-	-	9,811	(48,780)
Depreciation and amortization	(68,489)	(64,753)	-	(15,791)	(20,518)	(169,551)
Property and equipmentpurchases	(3,189)	(6,377)	-	-	-	(9,566)
Other expenses	(777,759)	(1,012,988)	-	-	(5,909)	(1,796,656)

5.2 Geographical areas

In thousands of Denars
December 31,2013

	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unalo-cated	Total
Total income	3,617,316	165,391	9,825	22,902	4,234	3,819,668
Total assets	76,232,920	3,189,189	184,152	131,323	-	79,737,584

In thousands of Denars
December 31, 2012

	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallo-cated	Total
Total income	3,272,138	244,010	15,686	8,447	-	3,540,281
Total assets	72,586,114	3,045,573	175,859	125,409	-	75,932,955

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

6. INTEREST INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31, 2013	2012
Interest income:		
Cash and cash equivalents	339,437	413,881
Placement with, and loans to banks	19,724	27,431
Loans to customers	3,786,174	3,827,131
Investment securities	308,692	171,192
Other receivables	11,546	3,331
	4,465,573	4,442,966
Interest expense:		
Deposits from banks and financial institutions	0	-
Deposits from customers	1,735,152	1,954,651
Loans payable	10,416	11,345
Subordinated debt	74,431	89,653
Other liabilities	7,236	10,840
	1,827,235	2,066,489
Net interest income	2,638,338	2,376,477

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

	Year ended December 31, 2013		In thousands of Denars Year ended December 31, 2012	
	Income	**Expense**	**Income**	**Expense**
Enterprises	1,081,326	241,985	1,115,064	237,707
State	334,261	5,948	172,772	8,406
Not-for-profit institutions	879	11,976	1,288	11,240
Banks	19,779	9,815	27,446	13,030
Other non-banking financial entities	321,787	41,702	414,549	44,308
Households	2,707,541	1,423,290	2,711,847	1,643,513
Non-residents	-	92,519	-	108,285
	4,465,573	1,827,235	4,442,966	2,066,489
Net interest income	2,638,338		2,376,477	

7. FEE AND COMMISSION INCOME AND EXPENSE

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

	Year ended December 31, 2013		Year ended December 31, 2012 (In thousands of Denars)	
	Income	Expense	Income	Expense
Loans provided	106,634	-	116,632	-
Domestic payment operations	314,662	67,494	281,751	68,726
Foreign payment operations	97,519	13,960	107,570	10,990
Letters of credit and guaranties	69,216	-	69,599	-
Brokerage	1,740	-	2,337	-
Assets administering	425	-	488	-
Trustee activities	142		-	-
Credit cards	273,600	6,312	370,131	5,817
Consumer credit	-	39	-	88
Mortgage credit	-	236	-	445
Deposits	1,578	-	6,144	-
Safe box	6,437	-	6,391	-
Third party collection	9,485	-	6,979	-
Other	117,633	8,033	57,750	4,672
	999,071	96,074	1,025,772	90,738
Net fee and commission income	902,997		935,034	

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

	Year ended December 31, 2013		Year ended December 31, 2012 (In thousands of Denars)	
	Income	Expense	Income	Expense
Enterprises	566,755	7,117	568,171	4,120
State	4,373	7	5,316	-
Not-for-profit institutions	148	-	102	-
Banks	16,779	57,500	18,354	55,954
Other non-banking financial entities	-	24,863	-	24,314
Households	382,072	6,587	406,707	6,350
Non-residents	28,944	-	27,122	-
	999,071	96,074	1,025,772	90,738
Net fee and commission income	902,997		935,034	

8. TRADING INCOME, NET

	In thousands of Denars Year ended December 31, 2013	2012
Held-for-trading financial assets:		
Net loss on fair valuation of debt securities	(1,828)	(2,736)
Net gain on fair valuation of equity securities	67,545	49,460
Income from trading securities - equity shares (dividend)	926	1,185
Trading securities - sovereign bonds	3,406	3,568
	70,049	51,477

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2013	2012
Realized exchange gains, net	107,038	114,631
Unrealized exchange losses, net	(11,617)	(8,124)
	95,421	106,507

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2013	2012
Dividend from available-for-sale investments	4,090	4,520
Gain on sale of property and equipment	19,776	2,495
Rental income	3,116	3,126
Court claims collections	10,689	10,238
Early withdrawal of deposits and operations with non-residents	39,660	32,880
Income from meditation at mortgage insurance	7,982	4,773
Income from collected damage from insurance companies	890	820
Write-off of unwind interest	13,951	-
Other	12,709	11,934
	112,863	70,786

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

11. IMPAIRMENT LOSSES, NET

	In thousands of Denars Year ended December 31, 2013	2012
Impairment losses on financial assets, net	428,221	513,793
Impairment losses on non-financial assets	79,937	48,780
	508,158	562,573

Impairment losses on financial assets, net

In thousands of Denars

	December 31,2013			December 31, 2012		
	Charge	**Release**	**Net**	**Charge**	**Release**	**Net**
Placement with, and loans to banks (Note 20)	3,597	(395)	(3,202)	-	(204)	(204)
Loans to customers (Note 21)	1,659,031	(1,247,989)	411,042	1,546,452	(1,012,954)	533,498
Other assets(Note 22)	31,129	(41,704)	(10,575)	18,970	(5,768)	13,202
Available-for-sale financial assets (Note 18)	8,667	-	8,667	618	-	618
Off-balance sheet items (Note 31)	19,293	(3,408)	(15,885)	2,494	(35,815)	(33,321)
	1,721,717	(1,293,496)	428,221	1,568,534	(1,054,741)	513,793

Accrued Interest income on impaired financial assets as at December 31, 2013 amount to nil (2012: Denar nil).

Impairment losses on non-financial asset

	In thousands of Denars Year ended December 31, 2013	2012
Investment property (Note 23)	9,902	2,386
Assets acquired through foreclosure procedures (Note 22)	70,035	46,394
	79,937	48,780

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2013	2012
Wages and salaries	462,062	457,196
Social security cost	213,515	210,797
Other staff costs	59,447	46,931
Pension costs based on defined benefit plans, net	2,489	2,149
	737,513	717,073
Average number of employees during the period	1,028	1,021
Number of permanent employees at the end of the year	1,045	1,024

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2013	2012
Depreciation of property and equipment	90,158	108,433
Depreciation of investment property	3,326	3,185
Amortization of intangible assets	53,725	57,933
	147,209	169,551

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2013	2012
Insurance premiums for deposits	336,190	324,922
Insurance premiums for property and employees	15,015	16,680
Material and services	594,810	539,529
Administrative and marketing costs	112,935	103,472
Other taxes and contributions	3,691	3,196
Rent	63,405	61,913
Court claims	11,657	10,224
Travel expenses	6,178	7,378
Other expenses	48,253	12,269
	1,192,134	1,079,583

15. INCOME TAX EXPENSE

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

	In thousands of Denars Year ended December 31, 2013	2012
Current income tax expense	5,772	4,322
	5,772	4,322

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

	In thousands of Denars Year ended December 31, 2013	2012
Profit before tax	1,234,654	1,011,501
Income tax at the statutory income tax rate of 10%	123,465	101,150
Tax on expenses not allowed for tax purposes	6,878	5,211
Tax exemption on non-distribution of the net profit	(124,571)	(102,039)
At effective rate of 0.47% (2012: 0.43%)	5,772	4,322

Effective from January 1, 2009, amendments of the local Income Tax Law have been introduced, with the major change on the taxation from 2009 to 2013 net profit. Such change provide entirely exemption of income tax, after taxation of certain expenses not deductable for tax purposes, if net profit for the year is not intended for distribution of dividends, and will be taxed at the time dividends are paid. The above change has no effect on the distribution of accumulated profits from 2008 and before. For the fiscal years from 2009 to 2013, the Bank has taken advantage of the income tax exemption for the above.

16. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Cash on hand	1,229,271	1,108,956
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	3,653,423	4,691,236
Accounts and deposits with foreign banks	1,168,427	1,635,732
Accounts and deposits with domestic banks	1,587	1,047
Treasury bills which can be traded on the secondary market	6,462,846	8,106,267
Other eligible bills which can be traded on the secondary market	-	4,323,977
Time deposits up to three months	1,193,521	1,361,048
Other short-term highly liquid assets	246	266
Interest receivable	2,419	2,354
Included in Statement of Cash Flows	13,711,740	21,230,883
Mandatory reserves in foreign currency	2,875,194	2,676,801
Restricted deposits	30,993	30,977
	16,617,927	23,938,661

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 3,653,423 thousand (2012: Denar 4,691,236 thousand) represent mandatory reserves in Denars. These reserves bear an interest at a rate of 1% p.a. (2012: 1% p.a.).

Treasury bills which can be traded on the secondary market in the amount of Denar 6,462,846 thousand (2012: 8,106,267 thousand) represent bills issued by the Central Bank with a maturity of 35 days. Interest rates are 3.25% (2012: 3.75% p.a.).

Other eligible bills which can be traded on the secondary market in 2012 in the amount of Denar 4,323,977 thousand represent bills issued by the Ministry of Finance of the Republic of Macedonia with maturity up to three months. Depending on maturity, interest rates range from 3.60% to 4.25 % p.a.

17. HELD-FOR-TRADING FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2013	**December 31, 2012**
Debt securities issued by the Government	15,793	23,161
Equity securities issued by banks	217,271	157,890
	233,064	181,051

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

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2013	**December 31, 2012**
Debt securities issued by the Government	11,241,665	2,100,927
Equity securities issued by the banks	3,476	3,476
Equity securities issued by other entities	367,285	395,972
	11,612,426	2,500,375
Less: Allowance for impairment	(302,721)	(307,107)
	11,309,705	2,193,268

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2013	**December 31, 2012**
Balance at the beginning of the year	307,107	317,393
Addition for the year (Note 11)	8,667	618
Foreign exchange effects	(13,053)	(10,904)
	302,721	307,107

Debt securities issued by the Government in the amount of Denar 11,241,665 thousand include the amount of Denar 9,590,162 thousand (2012: 2,049,620) which relate to eligible bills issued by the Ministry of Finance of the Republic of Macedonia which can be traded on the secondary market with a maturity from six months up to one year and fixed interest rate from 3.10% p.a. to 4.25% p.a. (2012: 4.75% p.a.) as well as amount of Denar 1,651,503 thousand (2012: 51,307) which relate to continued coupon government bonds issued by the state of Republic of Macedonia with maturity from July 2012 till December 2015 and fixed interest rate from 3.8% p.a. to 5.30% p.a.(2012: 5.30% p.a.) being repayable in annual coupons.

19. HELD-TO-MATURITY FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Government debt securities	667,319	1,201,478
	667,319	1,201,478

Part of the Government debt securities amounting to Denar 661,934 thousand (2012: Denar 1,191,204 thousand) represent government debt securities issued by the Republic of Macedonia in exchange for the Bank's non-performing receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables by the Republic of Macedonia from the Bank. These debt securities bear an interest rate of three month EURIBOR plus a margin of 1% and are repayable in 56 quarterly installments commencing from 2001 to 2014.

The remaining part of the Government debt securities amounting to Denar 5,385 thousand (2012: Denar 10,274 thousands) represent government securities issued by the Republic of Macedonia in February 2004 and March 2005 for denationalization. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in annual installments commencing from June 2006 to June 2014, and to June, 2015 respectively.

20. PLACEMENTS WITH, AND LOANS TO BANKS

	In thousands of Denars			
	Year ended December 31, 2013		Year ended December 31, 2012	
	Short-term	Long-term	Short-term	Long-term
Loans to domestic banks	205	-	205	-
Loans to foreign banks	80,249	-	82,376	-
Other amounts due from other banks	-	112,841	139,953	96,215
Interest receivable	154	-	302	-
	80,608	112,841	222,836	96,215
Less: Allowance for impairment	(26,721)	-	(23,519)	-
	53,887	112,841	199,317	96,215
	166,728		295,532	

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Balance at the beginning of the year	23,519	23,723
Charge for the year (Note 11)	3,597	-
Release (Note 11)	(395)	(204)
Balance at the end of the year	26,721	23,519

Part of the loans to foreign banks amounting to Denar 65,609 thousand (2012: Denar 73,548 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26).

Other placement to foreign banks include restricted accounts amounting to Denar 112,841 thousand (2012: Denar 96,215 thousand) and represent deposits held with Barclays' Bank and HSBC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Bank's daily operations.

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

In thousands of Denars

	Year ended December 31, 2013 Short-term	Year ended December 31, 2013 Long-term	Year ended December 31, 2012 Short-term	Year ended December 31, 2012 Long-term
Non-financial entities				
principal amount	11,919,689	9,925,892	10,389,692	10,364,640
interest receivable	68,785	-	86,689	-
State				
principal amount	1,147	1,097	4,784	501
interest receivable	5	-	92	-
Not-for-profit organizations				
principal amount	806	3,337	1,759	11,693
interest receivable	25	-	66	-
Households				
principal amount				
housing loans	215,482	8,014,495	215,345	7,470,474
consumer loans	888,166	11,938,727	819,857	9,694,814
auto loans	70,136	466,371	73,103	801,257
credit cards	805,949	7,781,817	850,650	8,137,334
other loans	143,796	1,525,232	135,279	1,463,762
interest receivable	108,544	-	121,128	-
Current maturity	5,949,904	(5,949,904)	5,329,411	(5,329,411)
	20,172,434	33,707,064	18,027,855	32,615,064
Total gross loans	53,879,498		50,642,919	
Provision for impairment	(4,927,319)		(4,479,072)	
	48,952,179		46,163,847	

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

Movement in allowance for impairment is as follows:

In thousands of Denars

	December 31, 2013	December 31, 2012
Balance at the beginning of the year	4,479,072	3,966,181
Charge for the year (Note 11)	1,659,031	1,546,452
Release (Note 11)	(1,247,989)	(1,012,954)
Recoveries	303,073	318,231
Write off	(265,868)	(338,838)
Balance at the end of the year	4,927,319	4,479,072

21. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Agriculture and forestry	605,761	735,042
Mining and quarrying	116,695	142,211
Manufacturing	6,927,058	6,540,029
Electricity, gas, steam and air conditioning supply	2,157,098	1,975,314
Water supply; sewerage, waste management and remediation activities	19,285	9,906
Construction	1,562,654	1,553,898
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,992,118	4,864,997
Transportation and storage	675,458	655,566
Accommodation and food service activities	360,380	353,679
Information and communication	80,111	35,861
Financial and insurance activities	153,219	81,733
Real estate activities	317,690	241,996
Professional, scientific and technical activities	300,314	310,166
Administrative and support service activities	73,317	111,075
Public administration and defence; compulsory social security	1,057	-
Education	83,085	134,846
Human health and social work activities	27,224	26,562
Arts, entertainment and recreation	95,221	74,216
Other service activities	25,747	24,808
Individuals	30,378,687	28,291,942
	48,952,179	46,163,847

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Cash and cash equivalents or restricted accounts held in Bank	1,166,067	997,396
Government bonds	2,317	3,449
Government guarantees	1,761,460	1,784,650
Bank guarantees	159,081	162,723
Corporate guarantees	861,681	281,299
Property	23,025,693	19,269,443
Equipment and other movable assets	2,143,416	2,367,198
Other securities	1,416,292	1,086,837
Non-secured	18,416,172	20,210,852
	48,952,179	46,163,847

d) Risks and uncertainties

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

21. LOANS TO CUSTOMERS (Continued)

d) Risks and uncertainties (Continued)

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

The Bank’s operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During 2013 and 2012, when the global financial crisis have enforceable to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital base through retaining the earnings.

The potential impact of the financial crises could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All of the above is focusing to protect and develop current and future customer/depositor base and achievements of the Bank’s goals and objectives for 2013 and beyond.

Currently, the impact of the financial crisis has limited impact on the Bank’s operations; however, future unfavorable developments in certain industry sectors may have impact on the customer’s ability for loan’s repayment, which may consequently have impact on the level of provision for loan losses. Any additional provision based on the above, if any, cannot be determined at this stage with any reasonably accuracy.

22. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Foreclosed collateral		
Land	4,124	4,124
Buildings	785,505	796,770
Other	4,959	4,960
	794,588	805,854
Less: Allowance for impairment	(242,438)	(172,403)
	552,150	633,451

b) Other receivables and prepaid expenses

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Trade receivables	101,361	91,035
Prepaid expenses	7,493	30,732
Receivables for commission and fees	12,115	12,008
Advances to suppliers	1,092	2,865
Advances for property and equipment	7,204	408
Other receivables	120,722	120,177
	249,987	257,225
Less: Allowance for impairment (Note 11)	(41,775)	(53,043)
	208,212	204,182

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

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Balance at the beginning of the year	53,043	55,932
Charge for the year	31,129	18,970
Release	(41,704)	(5,768)
Write off	(693)	(16,091)
Balance at the end of the year	41,775	53,043

23. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2012	161,686
Transfer from assets acquired through foreclosure procedure	65,202
Disposals	(6,092)
Balance at December 31, 2012	220,796
Balance at January 1, 2013	220,796
Transfer from assets acquired through foreclosure procedure	-
Disposals	(6,751)
Balance at December 31, 2013	214,045
Accumulated depreciation	
Balance at January 1, 2012	25,176
Charge for the year	3,185
Disposals	(407)
Balance at December 31, 2012	27,954
Balance at January 1, 2013	27,954
Charge for the year	3,326
Disposals	(1,497)
Balance at December 31, 2013	29,783
Impairment	
Balance at January 1, 2012	78,224
Charge for the year (Note 11)	2,386
Balance at December 31, 2012	80,610
Balance at January 1, 2013	80,610
Charge for the year (Note 11)	9,902
Balance at December 31, 2013	90,512
Carrying amount	
Balance at December 31, 2012	112,232
Balance at December 31, 2013	93,750

As of December 31, 2013, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

24. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold improvements	Other intangibles	Total
Cost				
Balance at January 1, 2012	541,457	131,621	8,094	681,172
Additions	17,782	3,466	1,753	23,001
Disposals	(15)	-	-	(15)
Transfer	3,494	-	(4,191)	(697)
Balance at December 31, 2012	562,718	135,087	5,656	703,461
Balance at January 1, 2013	562,718	135,087	5,656	703,461
Additions	24,567	593	375	25,535
Disposals	(229)	-	-	(229)
Transfer	5,654	-	(3,837)	1,817
Balance at December 31, 2013	592,710	135,680	2,194	730,584
Accumulated amortization				
Balance at January 1, 2012	443,373	85,530	-	528,903
Charge for the year	40,899	17,034	-	57,933
Disposals	(15)	-	-	(15)
Balance at December 31, 2012	484,257	102,564	-	586,821
Balance at January 1, 2013	484,257	102,564	-	586,821
Charge for the year	38,562	15,163	-	53,725
Disposals	(228)	-	-	(228)
Balance at December 31, 2013	522,591	117,727	-	640,318
Carrying amount				
Balance at December 31, 2012	78,461	32,523	5,656	116,640
Balance at December 31, 2013	70,119	17,953	2,194	90,266

25. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	Total
Cost				
Balance at January 1, 2012	1,146,134	1,295,718	14,234	2,456,086
Additions	2,079	7,487	-	9,566
Transfer	27,380	29,583	(8,290)	48,673
Disposals	-	(90,346)	-	(90,346)
Balance at December 31, 2012	1,175,593	1,242,442	5,944	2,423,979
Balance at January 1, 2013	1,175,593	1,242,442	5,944	2,423,979
Additions	9,121	43,979	6,448	59,548
Transfer	-	3,441	(5,258)	(1,817)
Disposals	(11,901)	(98,735)	-	(110,636)
Balance at December 31, 2013	1,172,813	1,191,127	7,134	2,371,074
Accumulated depreciation				
Balance at January 1, 2012	405,777	1,112,234	-	1,518,011
Charge for the year	28,049	80,384	-	108,433
Disposals	-	(90,194)	-	(90,194)
Balance at December 31, 2012	433,826	1,102,424	-	1,536,250
Balance at January 1, 2013	433,826	1,102,424	-	1,536,250
Charge for the year	28,697	61,461	-	90,158
Disposals	(3,341)	(98,277)	-	(101,618)
Balance at December 31, 2013	459,182	1,065,608	-	1,524,790
Carrying amount				
Balance at December 31, 2012	741,767	140,018	5,944	887,729
Balance at December 31, 2013	713,631	125,519	7,134	846,284

The Bank's buildings as of December 31, 2013 include property with a net carrying amount of Denar 126,226 thousand (2012: Denar 128,061 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2013 and 2012 the Bank's property and equipment are free of any pledges and mortgages.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

26. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2013		December 31, 2012	
	Up to one year	Over one year	Up to one year	Over one year
Current accounts				
domestic banks	6,123	-	7,437	-
foreign banks	28,773	-	43,977	-
	34,896	-	51,414	-
Time deposits				
domestic banks				
foreign banks	89,256	-	139,953	-
	89,256	-	139,953	-
Restricted deposits				
domestic banks				
foreign banks	65,609	-	73,548	-
	65,609	-	73,548	-
Interest payable on deposits				
domestic banks				
foreign banks	3	-	47	-
	3	-	47	-
	189,764	-	264,962	-
Total deposits from banks	189,764		264,962	

The restricted deposits held with foreign banks amounting to Denar 65,609 thousand (2012: Denar 73,548 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 20).

27. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2013		December 31, 2012	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	6,709,521	-	5,165,196	-
Sight 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	-
	10,910,977	1,551,705	8,785,204	1,212,540
State				
Current accounts	115,020	-	128,737	-
Sight deposits		-	-	-
Time deposits	48,450	-	64,100	-
Restricted deposits	41	783	652	-
Other deposits				
Interest payable on deposits	348	-	979	-
	163,859	783	194,468	-
Not-for-profit organizations				
Current accounts	414,493	-	371,097	-
Sight 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	-	3870	-
	644,565	95,482	768,448	23,283
Financial institutions, except banks				
Current accounts	43,374	-	49,210	-
Sight 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	-
	508,408	292,587	675,006	316,787
Households				
Current accounts	10,223,309	-	9,534,071	-
Sight 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	-
	34,905,867	13,311,511	35,272,463	11,199,927
Non-residents, except banks				
Current accounts	273,247	-	232,802	-
Sight 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	-
	576,345	206,288	642,421	164,992
Current maturity	7,319,911	(7,319,911)	6,494,371	(6,494,371)
	55,029,932	8,138,445	52,832,381	6,423,158
Total deposits from customers	63,168,377		59,255,539	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

28. LOANS PAYABLE

In thousands of Denars

	December 31, 2013		December 31, 2012	
	Up to one year	Over one year	Up to one year	Over one year
Domestic sources:				
Agency for assets management				
- long-term loan in amount of Denar 149,399 thousand (2012: Denar 149,399 thousand) is payable in 2020 on a once off basis. Related fees for these loans are 1.5% p.a.	6	149,399	1,132	149,399
Agency for undeveloped regions				
- Matured in 2012, interest rate of 3.9% p.a. (2012: 3,9 % p.a.)	15,689	-	15,689	-
MBPR				
- Matures in 2019 and interest rate is equal to 1.0% p.a. (2012: 1,0% p.a.)	1,180	759,262	1,717	813,618
NBRM				
- Matures in 2013 and interest rate is 3.73% p.a.	-	-	1,500,622	-
	16,875	908,661	1,519,160	963,017
Foreign sources:				
Council of Europe Social Development Fund				
- matures in 2014 and bears fixed interest rate of 6.73% p.a.	7,860	54	106	15,722
ICDF Taiwan				
- to be repaid in 20 equal semi-annual installments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% p.a.	9	4,735	50	14,835
Other banks		5,957	-	5,957
	7,869	10,746	156	36,514
Current maturity of long-term loans	216,116	(216,116)	228,143	(228,143)
	240,860	703,291	1,747,459	771,388
Total loans payable	944,151		2,518,847	

29. SUBORDINATED DEBT

	Maturity	Interest rate	In thousands of Denars December 31, 2013	December 31, 2012
National Bank of Greece:				
Principal EUR 20,000,000	27.12.2016	3-month EURIBOR +0.85% p.a.	1,230,225	1,230,000
Principal EUR 25,000,000	05.11.2018	3-month EURIBOR +3.7%p.a.	1,537,783	1,537,500
Accrued interest			9,755	9,663
			2,777,763	2,777,163

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

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

- be unconditionally non-redeemable;
- be fully and readily available for covering the Bank's risk and losses during the Bank's operations;
- not be covered by other type of collateral by the Bank or a person connected to the Bank;
- in the case of bankruptcy or liquidation of the Bank, the subordinated debt will be paid before settling the liabilities to the Bank's shareholders;
- not be used for claims and contingent liabilities of the Bank;
- not be treated as deposit.

30. OTHER LIABILITIES

	In thousands of Denars December 31, 2013	December 31, 2012
Trade payables	9,630	11,475
Income tax payable	888	-
Fee and commission liabilities	26	8
Accrued expenses	165,869	113,904
Deferred revenue	25,757	20,680
Cumulative preference shares	90,978	90,978
Dividends payable for preferred shares	5,587	6,232
Claimed transactions with VISA cards	16,197	8,577
Unallocated cash receipts due to depositors and others	634,035	420,954
Custodian accounts (Note 35b)	(3)	(2)
	948,964	672,806

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

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

As of December 31, 2013 the Bank allocated an amount of Denar 4,549 thousand as a dividend to the holders of these shares for the year 2013 (2012: Denar 5,231 thousand).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013

31. PROVISIONS

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2012	136,347	19,261	18,289	173,897
Additions	2,494	414	2,364	5,272
Used	-	(2,830)	(214)	(3,044)
Release	(35,815)	(1,907)	-	(37,722)
Balance at December 31, 2012	103,026	14,938	20,439	138,403

In thousands of Denars

	Off-balance sheet items	Litigation	Employees benefits	Total
Balance at January 1, 2013	103,026	14,938	20,439	138,403
Additions	19,293	34,298	10,762	64,353
Used	-	(1,115)	(273)	(1,388)
Release	(3,408)	(2,032)	(510)	(5,950)
Balance at December 31, 2013	118,911	46,089	30,418	195,418

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

The principal actuarial assumptions used were as follows:

	2013	2012
Interest rate	4.60%	5.00%
Average salary increase	4.50%	5.00%
Inflation rate	2.00%	2.50%

Mortality rate:

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

32. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2013 and 2012 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

32. EQUITY (Continued)

a) Share capital (Continued)

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2013 and 2012 officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2013		December 31, 2012	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

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

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2013	December 31, 2012
Available-for-sale financial assets:		
Loss arising during the year, net	(13,467)	(1,884)
Defined benefit obligations:	(7,503)	-
Other comprehensive income	(20,970)	(1,884)
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	(20,970)	(1,884)

c) Statutory reserve

In accordance with the local regulations, the Bank is required to set aside 5 percent (2012:15 percent) of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/10 (2012: 1/5) of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute.

d) Special fund

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

33. EARNINGS PER SHARE

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

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

	December 31, 2013	December 31, 2012
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	1,228,882	1,007,179
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	70.38	57.68
Diluted earnings per share (in Denars)	70.38	57.68

34. RELATED PARTY TRANSACTIONS

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

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

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2013				
Assets				
Current accounts	2,624	13,406	1,987	18,017
Due from banks	-	-	871,411	871,411
Software	10,647	-	-	10,647
	13,271	13,406	873,398	900,075
Liabilities				
Deposits	-	24,988	94,921	119,909
Subordinated debt	2,777,763	-	-	2,777,763
Other liabilities	636	-	2	638
	2,778,399	24,988	94,923	2,898,310
December 31, 2012				
Assets				
Current accounts	2,457	-	3,918	6,375
Loans	-	12,098	-	12,098
Due from banks	-	-	942,036	942,036
	2,457	12,098	945,954	960,509
Liabilities				
Deposits	-	29,826	144,294	174,120
Subordinated debt	2,777,163	-	-	2,777,163
Other liabilities	621	-	-	621
	2,777,784	29,826	144,294	2,951,904
Off-balance sheet items				
Issued guarantees	1,028	-	-	1,028

34. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2013				
Income				
Interest income	1	756	1,164	1,921
	1	756	1,164	1,921
Expenses				
Interest expense	74,430	-	613	75,043
Fee and commission expense	-	-	20	20
Other expenses	33,345	24,218	-	57,563
	107,775	24,218	633	132,626
December 31, 2012				
Income				
Interest income	12,363	224	213	12,800
	12,363	224	213	12,800
Expenses				
Interest expense	89,653	-	64	89,717
Fee and commission expense	-	-	18	18
Other expenses	-	27,118	-	27118
	89,653	27,118	82	116,853

National Bank of Greece, Athens represents the parent and the ultimate parent company of the Bank and provides the Bank with subordinated loans. Other related party transactions relate to United Bulgarian Bank, Banca Romaneasca S.A., NBG Cairo branch, NBG Bank Malta, Vojvodjanska Banka a.d. Novi Sad and NBG Tirana branch which are fellow subsidiaries of the NBG Group.

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

In thousands of Denars

	December 31, 2013	December 31, 2012
Short-term compensation and benefits	22,064	25,273
Other	2,154	1,845
	24,218	27,118

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

35. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

In thousands of Denars

	December 31, 2013	December 31, 2012
Payment guarantees:		
in Denars	1,243,560	1,249,420
in foreign currency	430,784	274,283
in Denars with foreign currency clause	136,706	100,271
Performance guarantees:		
in Denars	635,454	804,369
in foreign currency	115,296	107,571
in Denars with foreign currency clause	66,054	69,273
Letters of credit in foreign currency	253,406	138,861
Cash covered letter of credit	784	17,588
Cash covered letter of guarantees	268,923	300,239
Unused current account overdrafts	1,998,563	2,055,501
Credit cards commitments	5,400,783	5,332,149
Other	309,236	321,372
	10,859,549	10,770,897
Less: provision for off-balance sheet items (Note 31)	(118,911)	(103,026)
	10,740,638	10,667,871

b) Managed funds

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

In thousands of Denars

	December 31, 2013			December 31, 2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Loans in Denars	226,114	226,114	-	266,078	266,078	-
Loans in foreign currency	225,291	225,291	-	223,436	223,436	-
Other receivables in Denars	970,262	970,262	-	897,854	897,854	-
Other receivables in foreign currency	315,257	315,257	-	185,584	185,584	-
Custodian accounts (Note 30)	69,288	69,291	(3)	17,646	17,648	(2)
	1,806,212	1,806,215	(3)	1,590,598	1,590,600	(2)

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

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2013 the legal proceedings filed against the Bank amounted to Denar 46,089 thousand (2012: Denar 14,939 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations, The Bank have allocated provisions for impairment losses upon litigation in the amount of Denar 31,149 thousand (2012: Denar 414 thousand).

35. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 3,116 thousand (2012: Denar 3,126 thousand).

The Bank as lessee

The payment for operating lease was recognized within other operating expenses and relate to business premises. Lease contracts are up to one year and have a clause stipulating a 30-days' notice period. Rental expense paid by the Bank amounting to Denar 63,405 thousand (2012: Denar 61,913 thousand).

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

36. TAXATION RISK

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

37. EVENTS AFTER THE REPORTING DATE

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

38. EXCHANGE RATES

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

		In Denars
	2013	**2012**
1 USD	44.6284	46.6510
1 EUR	61.5113	61.5000