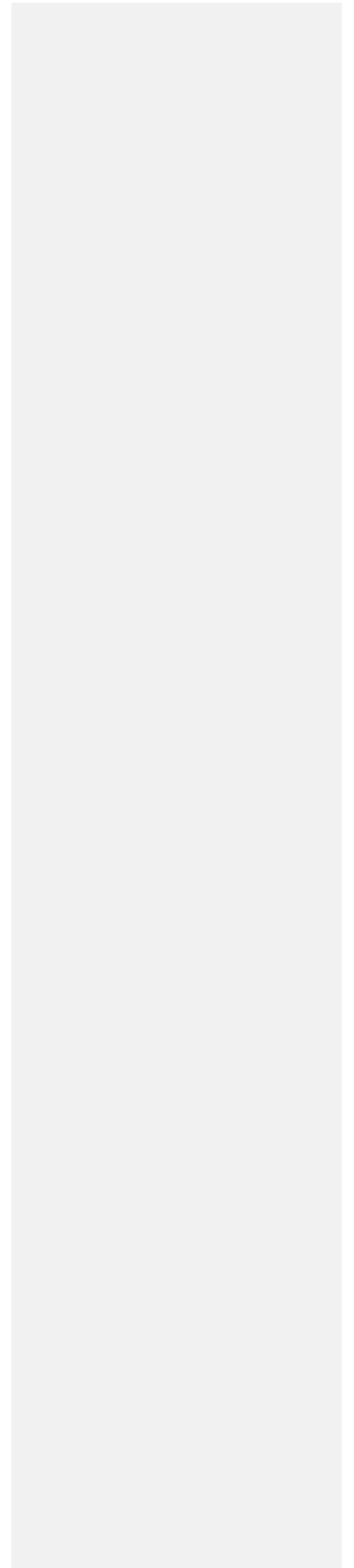


**STOPANSKA BANKA AD, SKOPJE**

**Financial Statements and  
Independent Auditors' Report  
for the year ended December 31, 2010**



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## **RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

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

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

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

Signed on behalf of Stopanska Banka AD, Skopje:

Gligor Bishev  
Chief Executive Officer

Diomidis Nikolettopoulos  
Chief Finance and Operations Officer

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF STOPANSKA BANKA AD, SKOPJE

We have audited the accompanying financial statements (page 3 to 80) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at 31 December 2010 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 of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 28, 2011

Deloitte DOO  
Skopje, Macedonia

**STOPANSKA BANKA AD, SKOPJE**

**STATEMENT OF COMPREHENSIVE INCOME**  
**Year Ended December 31, 2010**  
(In thousands of Denars)

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest income		4,756,471	4,908,388
Interest expense		<u>(2,387,026)</u>	<u>(2,285,040)</u>
<b>Net interest income</b>	6	2,369,445	2,623,348
Fee and commission income		987,563	921,509
Fee and commission expense		<u>(80,851)</u>	<u>(69,225)</u>
<b>Net fee and commission income</b>	7	906,712	852,284
Trading (expense)/income, net	8	(19,148)	28,322
Foreign exchange gains, net	9	157,772	161,875
Other operating income	10	116,812	98,017
Impairment losses	11	(649,356)	(1,039,224)
Personnel expenses	12	(749,784)	(739,670)
Depreciation and amortization	13	(191,092)	(187,540)
Other operating expenses	14	<u>(1,061,366)</u>	<u>(1,062,947)</u>
<b>Profit before tax</b>		879,995	734,465
Income tax expense	15	<u>(3,747)</u>	<u>(7,106)</u>
<b>Profit for the year</b>		876,248	727,359
<b>Other comprehensive income</b>			
Net value gain on available-for-sale financial assets	32	<u>(10,227)</u>	<u>(21,192)</u>
Other comprehensive income for the year, net of tax		<u>(10,227)</u>	<u>(21,192)</u>
<b>Total comprehensive income for the year</b>		<u>866,021</u>	<u>706,167</u>
Profit attributable to:			
Owners of the Bank		876,248	727,359
Total comprehensive income attributable to:			
Owners of the Bank		866,021	706,167
<b>Earnings per share</b>	33		
Basic (in Denars)		50.19	41.66
Diluted (in Denars)		50.19	41.66

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

The financial statements were approved by the Bank management and are adopted by the Bank's Supervisory Board on February 24, 2011.

Signed on behalf of Stopanska Banka AD, Skopje:

Gligor Bishev  
Chief Executive Officer

Diomidis Nikolettopoulos  
Chief Finance and Operations Officer

**STOPANSKA BANKA AD, SKOPJE**

**STATEMENT OF FINANCIAL POSITION**  
**At December 31, 2010**  
**(In thousands of Denars)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Cash and cash equivalents	16	20,329,498	18,003,692
Held-for-trading financial assets	17	120,862	199,274
Available-for-sale financial assets	18	349,751	440,798
Held-to-maturity financial assets	19	2,620,766	3,028,979
Placement with, and loans to banks	20	120,349	146,775
Loans to customers	21	42,446,073	41,736,845
Other receivables	22	984,089	845,032
Income tax receivable		4,801	10,283
Investment property	23	62,947	65,871
Intangible assets, net	24	179,427	171,305
Property and equipment, net	25	1,023,912	1,100,987
Deferred tax assets	15	15,504	9,684
<b>Total assets</b>		<u><u>68,257,979</u></u>	<u><u>65,759,525</u></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits from banks	26	2,320,213	2,695,175
Held-for-trading financial liabilities		-	1,196
Deposits from customers	27	53,507,168	51,798,454
Loans payable	28	478,419	267,327
Subordinated debt	29	2,779,339	2,763,333
Other liabilities	30	502,989	436,101
Provisions	31	161,765	155,873
<b>Total liabilities</b>		<u><u>59,749,893</u></u>	<u><u>58,117,459</u></u>
<b>EQUITY</b>			
Share capital	32	3,511,242	3,511,242
Reserves	32	710,320	617,021
Retained earnings		4,286,524	3,513,803
<b>Total equity</b>		<u><u>8,508,086</u></u>	<u><u>7,642,066</u></u>
<b>Total liabilities and equity</b>		<u><u>68,257,979</u></u>	<u><u>65,759,525</u></u>
<b>Commitments and contingencies</b>	35	<u><u>13,356,935</u></u>	<u><u>9,899,233</u></u>

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

**STOPANSKA BANKA AD, SKOPJE**

**STATEMENT OF CHANGES IN EQUITY**  
**Year ended December 31, 2010**  
(In thousands of Denars)

	<b>Share capital</b>	<b>Revalua- tion reserve</b>	<b>Statutory reserve</b>	<b>Special fund</b>	<b>Retained earnings</b>	<b>Total</b>
Balance, January 1, 2009	3,511,242	30,767	406,200	1,083	2,986,607	6,935,899
Transfer to statutory reserve	-	-	200,163	-	(200,163)	-
Total other comprehensive income for the year, net of tax	-	(21,192)	-	-	-	(21,192)
Profit for the year	-	-	-	-	727,359	727,359
Balance, December 31, 2009	<u>3,511,242</u>	<u>9,575</u>	<u>606,363</u>	<u>1,083</u>	<u>3,513,803</u>	<u>7,642,066</u>
Balance, January 1, 2010	3,511,242	9,575	606,363	1,083	3,513,803	7,642,066
Transfer to statutory reserve	-	-	103,526	-	(103,526)	-
Total other comprehensive income for the year, net of tax	-	(10,227)	-	-	-	(10,227)
Profit for the year	-	-	-	-	876,247	876,247
Balance, December 31, 2010	<u>3,511,242</u>	<u>(652)</u>	<u>709,889</u>	<u>1,083</u>	<u>4,286,524</u>	<u>8,508,086</u>

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

STOPANSKA BANKA AD, SKOPJE

STATEMENT OF CASH FLOWS  
Year ended December 31, 2010  
(In thousands of Denars)

	<u>2010</u>	<u>2009</u>
<b>Profit before tax</b>	876,248	734,465
<i>Adjustments for:</i>		
Depreciation of property and equipment	137,169	133,018
Depreciation of investment property	362	2,633
Amortization of intangible assets	53,561	51,889
Gain on sale of property and equipment, net	(13,053)	(9,490)
Gain on sale of foreclosure assets, net	(8,427)	(13,453)
Interest income	(4,756,471)	(4,908,388)
Interest expense	2,387,026	2,285,040
Net trading (income)/expense	19,148	(28,322)
Deferred tax (benefit)/expense	(5,820)	(8,054)
Impairment losses on financial assets, net	587,199	959,391
Impairment losses on non-financial assets	62,157	79,833
Provision for employee benefits, net	(8,949)	22,490
Provision for litigation	7,793	12,240
Write off of liabilities for bonuses	(8,840)	(7,311)
Interest receipts	4,778,652	4,865,248
Interest paid	(2,391,548)	(2,255,399)
<b>Operating profit before changes in operating assets and liabilities:</b>	<u>1,716,207</u>	<u>1,915,830</u>
<i>(Increase)/decrease of operating assets:</i>		
Held-for-trading financial assets	78,412	(81,505)
Due from banks	26,426	317,533
Loans to customers	(1,264,063)	(1,006,274)
Mandatory reserves according NBRM regulations	45,790	(158,677)
Other receivables	(220,076)	27,764
Net deferred tax assets and liabilities	(5,820)	(9,684)
<i>Increase/(decrease) of operating liabilities:</i>		
Held-for-trading financial liabilities	(1,196)	1,196
Deposits from banks	(374,962)	1,873,543
Deposits from customers	1,708,714	3,827,474
Other liabilities	66,888	(47,621)
<b>Net cash flows generated from operating activities before income tax</b>	<u>1,776,320</u>	<u>6,659,579</u>
Income tax paid	(4,085)	(74,497)
<b>Net cash flows generated from operating activities</b>	<u>1,772,235</u>	<u>6,585,082</u>



STOPANSKA BANKA AD, SKOPJE

**STATEMENT OF CASH FLOWS (Continued)**  
**Year ended December 31, 2010**  
**(In thousands of Denars)**

	<u>2010</u>	<u>2009</u>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(78,147)	(149,693)
Acquisition of intangible assets	(46,643)	(36,806)
Acquisition of investment property	(1,362)	-
Net proceeds from investments	479,412	399,690
Proceeds from sale of property and equipment	25,811	43,158
Proceeds from sale of investment property	819	697
Dividend received	2,624	8,749
<b>Net cash flows from investing activities</b>	<u>382,514</u>	<u>265,795</u>
<b>Cash flows from financing activities</b>		
Net increase/(decrease) of loans (including subordinated debt)	227,098	(38,661)
Dividends paid	(10,251)	(7,096)
<b>Net cash flows from/(used in) financing activities</b>	<u>216,847</u>	<u>(45,757)</u>
<b>Net increase of cash and cash equivalents</b>	2,371,596	6,805,120
Cash and cash equivalents, beginning of the year	<u>15,142,604</u>	<u>8,337,484</u>
<b>Cash and cash equivalents at the end of the year</b>	<u><u>17,514,200</u></u>	<u><u>15,142,604</u></u>

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 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 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with a network of 66 branches (2009: 68 branches).

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

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

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2009: 73.04%) shareholding in the Bank and represents its ultimate parent company.

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

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

The Bank's financial statements of the Bank for the year ended 31 December 2010 have been approved by the Bank's Supervisory Board on 24 February 2011.

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 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 3.17 to the financial statements.

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

##### (e) Standards and Interpretations effective in the current period

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

- **IFRS 1 (revised) "First-time Adoption of IFRS"** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Additional Exemptions for First-time Adopters (effective for annual periods beginning on or after 1 January 2010),

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

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

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

- **Amendments to IFRS 2 “Share-based Payment”** - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010),
- **IFRS 3 (revised) “Business Combinations”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 27 “Consolidated and Separate Financial Statements”** (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** - Eligible hedged items (effective for annual periods beginning on or after 1 July 2009),
- **Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009** (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010),
- **IFRIC 17 “Distributions of Non-Cash Assets to Owners”** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18 “Transfers of Assets from Customers”** (effective for transfer of assets from customers received on or after 1 July 2009).

The adoption of these standards, revisions and interpretations has not led to any changes in the Bank's accounting policies.

##### (f) Standards and Interpretations in issue not yet adopted

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

- **IFRS 9 “Financial Instruments”** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IFRS 1 “First-time Adoption of IFRS”**- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 “Financial Instruments: Disclosures”**- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 “Income Taxes” - Deferred Tax**: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 24 “Related Party Disclosures”** - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 “Financial Instruments: Presentation”** - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010),

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

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

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

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

The Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 3.1 Interest income and expense

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

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

##### 3.2 Fee and commission income

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

##### 3.3 Dividend income

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.4 Foreign exchange translation

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

##### 3.5 Financial assets

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

###### **Held-for-trading financial assets**

Held-for-trading financial assets, which comprise securities issued in local currency by the Ministry of Finance are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at cost 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.

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

###### **Available-for-sale financial assets**

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

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.5 Financial assets (Continued)

###### Available-for-sale financial assets (Continued)

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

###### Held-to-maturity financial assets

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

###### Loans originated by the Bank

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

###### Impairment of financial assets

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

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement. The amount of the impairment loss for financial assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.5 Financial assets (Continued)

###### Impairment losses on loans and advances

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

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

###### Derecognition of financial assets

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



## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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.

##### **Held-for-trading financial liabilities**

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

##### **Loans payable**

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

##### **Other payables**

Other payables are stated at their nominal amounts.

##### **Derecognition of financial liabilities**

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

##### 3.7 Property and equipment

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

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

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates are as follows:

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.7 Property and equipment (Continued)

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.

##### 3.8 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.

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.10 Investment property (Continued)

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 receivables. Initially, these assets are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring ownership arises) and the fair value less estimated cost to sell, as determined by local certified valuers on the date of asset foreclosure.

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

##### 3.12 Cash and cash equivalents

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

##### 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.

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.14 Provisions (Continued)

###### Employment benefits (Continued)

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

##### 3.15 Income tax

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

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

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

##### 3.16 Leases

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

##### 3.17 Critical accounting judgments and estimates

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

###### Fair value of financial instruments

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 3.17 Critical accounting judgments and estimates (Continued)

###### **Fair value of financial instruments (Continued)**

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

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

###### **Allowance for loan losses**

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

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

###### **Useful lives of tangible and intangible assets**

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

###### **Actuarial assumptions in respect of defined benefit plan**

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

###### **Financial crises**

Developments on the financial markets, may affect future cash flows of the Bank that otherwise would be expected under the regular public interest. As a result, future cash flows are subject to possible fluctuations and whether the fluctuations are significant relative to the previously expected cash flows remains uncertain.

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 4. FINANCIAL INSTRUMENTS

##### 4.1 Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

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

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

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

##### 4.2 Credit risk

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

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.2 Credit risk (Continued)**

**4.2.1 Credit risk measurement, limits and mitigation policies**

The Bank's credit policy of prudent lending emphasises a detailed risk assessment prior to any credit decision and common set of minimum standards for credit limit evaluation, approval, renewal and monitoring of credit exposures.

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 Board of Directors and Supervisory Board are regularly informed of the credit risk that the Bank is exposed to.

The risk assessment process of corporate and retail borrowers is standardized and facilitated by the use of special risk rating systems and statistical scoring models. The application of these risk management tools, based on various quantitative and qualitative data inputs and analysis, has contributed to systematisation of the risk identification process and a risk-controlled growth of specific sub-portfolios.

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

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

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits towards different types of borrowers, industry sectors, geographic location and type of collateral, also limit of the exposure to Bank internal persons, and large exposures 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.

The exposure limits are monitored on regular basis and all the conclusions are supported by adequate actions from the appropriate level of the Bank.

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 4. FINANCIAL INSTRUMENTS (Continued)

##### 4.2 Credit risk (Continued)

##### 4.2.1 Credit risk measurement, limits and mitigation policies (Continued)

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 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 flows that include also the collateral value for collaterals that are acceptable according IFRS and NBRM criteria.

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

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

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

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

The Bank enhanced the impairment methodology and process by introducing participation from different levels of the Bank in the impairment assessment and the projections of the expected cash flows of the borrowers towards the Bank. The applied methodology is supported by a software tool that contributes to automated and accurate impairment calculations.



**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.2 Credit risk (Continued)**

**4.2.2 Impairment and provisioning policies (Continued)**

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

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

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

	<b>In thousands of Denars</b>	
	<b>31 December 2010</b>	<b>31 December 2009</b>
	<u>          </u>	<u>          </u>
<b>Credit risk exposure relating to on balance sheet assets</b>		
Cash and cash equivalents	20,329,498	18,003,692
Held-for-trading financial assets	120,862	199,274
Available-for-sale financial assets	349,751	440,798
Held-to-maturity financial assets	2,620,766	3,028,979
Placement with, and loans to banks	120,349	146,775
Loans to customers	42,446,073	41,736,845
Other receivables (less foreclosure assets)	168,649	263,663
	<u>66,155,948</u>	<u>63,820,026</u>
<b>Credit risk exposure relating to off-balance sheet assets/liabilities</b>		
Financial guarantees	4,206,895	3,054,747
Standby letters of credits	561,143	130,351
Commitments to extend credits	8,379,308	6,522,574
Other off-balance sheet commitments	318,283	293,207
Gross exposure	<u>13,465,629</u>	<u>10,000,879</u>
Less: Provision for off-balance sheet items	<u>(108,694)</u>	<u>(101,646)</u>
	<u>13,356,935</u>	<u>9,899,233</u>
<b>Total credit risk exposure</b>	<u>79,512, 883</u>	<u>73,719,259</u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.2 Credit risk (Continued)**

**4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)**

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

Mortgages and consumer loans in the amounts over EUR 5,000 are fully secured by property (residential and business premises) with a loan to value ratio up to 75%. Also, deposits and government bonds are accepted as valid collateral.

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.

**4.2.4 Loans to customers**

Loans to customers are summarized below:

	Neither past due nor impaired	Past due but not impaired	Individu- ally impaired	Total gross	Allowance for individ. impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
<b>December 31, 2010</b>								
Cards	2,217,295	360,024	50,087	2,627,406	(2,690)	(85,582)	(88,272)	2,539,134
Consumer	14,047,892	3,470,666	39,810	17,558,368	(12,673)	(785,806)	(798,479)	16,759,889
Mortgage	5,431,360	1,108,167	266,457	6,805,984	(63,714)	(23,999)	(87,713)	6,718,271
Small business loans	3,422	-	9,076,086	9,079,508	(1,503,969)	-	(1,503,969)	7,575,539
Corporate loans	8,514	-	10,290,389	10,298,903	(1,445,663)	-	(1,445,663)	8,853,240
<b>Total</b>	<b>21,708,483</b>	<b>4,938,857</b>	<b>19,722,829</b>	<b>46,370,169</b>	<b>(3,028,709)</b>	<b>(895,387)</b>	<b>(3,924,096)</b>	<b>42,446,073</b>
<b>December 31, 2009</b>								
Cards	2,211,298	351,948	861	2,564,107	(370)	(92,156)	(92,526)	2,471,581
Consumer	13,522,923	3,556,377	47,805	17,127,105	(9,653)	(875,664)	(885,317)	16,241,788
Mortgage	4,914,856	1,034,045	191,471	6,140,372	(24,343)	(52,076)	(76,419)	6,063,953
Small business loans	3,731,739	1,144,359	4,248,647	9,124,745	(1,508,383)	-	(1,508,383)	7,616,362
Corporate loans	3,134,059	181,424	7,362,613	10,678,096	(1,334,935)	-	(1,334,935)	9,343,161
<b>Total</b>	<b>27,514,875</b>	<b>6,268,153</b>	<b>11,851,397</b>	<b>45,634,425</b>	<b>(2,877,684)</b>	<b>(1,019,896)</b>	<b>(3,897,580)</b>	<b>41,736,845</b>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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**

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

**b) Loans to customers past due but not individually impaired**

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

	<u>Past due up to 30 days</u>	<u>Past due 31-60 days</u>	<u>Past due 61-90 days</u>	<u>Past due 91-180 days</u>	<u>Past due 180-365 days</u>	<u>Past due 1-2 years</u>	<u>Past due over 2 years</u>	<u>Total</u>
<b>31 December 2009</b>								
Cards	205,837	31,706	11,952	102,453	-	-	-	351,948
Consumer	1,835,800	438,634	230,375	704,547	176,450	170,571	-	3,556,377
Mortgage	755,617	138,516	69,929	35,866	16,534	17,583	-	1,034,045
Small business loans	1,045,525	61,280	36,941	613	-	-	-	1,144,359
Corporate loans	181,424	-	-	-	-	-	-	181,424
<b>Total</b>	<u>4,024,203</u>	<u>670,136</u>	<u>349,197</u>	<u>843,479</u>	<u>192,984</u>	<u>188,154</u>	<u>-</u>	<u>6,268,153</u>

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

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

	<u>2010</u>	<u>2009</u>
Cash and balances with the Central bank	176,087	93,221
Movable property	3,942,373	3,860,496
Residential property	20,279,973	18,238,558
Other real estate	3,347,105	3,089,621
<b>Total</b>	<u>27,745,538</u>	<u>25,281,896</u>

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 4. FINANCIAL INSTRUMENTS (Continued)

##### 4.2 Credit risk (Continued)

##### 4.2.4 Loans to customers (Continued)

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

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

	<u>2010</u>	<u>2009</u>
Cash and balances with the Central bank	577,198	623,717
Financial and corporate guarantees	5,568,087	4,549,020
Movable property	19,347,240	16,155,590
Real estate	<u>37,431,645</u>	<u>36,672,338</u>
<b>Total</b>	<u>62,924,170</u>	<u>58,000,665</u>

###### Restructured loans to customers

The Bank has restructured 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 restructuring 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 restructured.

During 2010 and 2009, the Bank has not restructured any loans.

##### 4.2.5 Foreclosed assets during the year

During 2010, the Bank engaged two external appraisal companies in order to determine the fair value of the foreclosed assets.

In this period, the Bank sold 23 assets (2009: 9 assets) at a total value of Denar 12,754 thousand (2009: Denar 224,300 thousand), whereas it foreclosed 31 facilities (2009: 28 facilities) at a total value of Denar 284,015 thousand (2009: Denar 297,606 thousand). Activities have been undertaken for preparing the assets foreclosed during 2010 for sale because the general policy of the Bank is these facilities to be sold within a period of 3 years. The Bank utilizes such facilities for its own activities very rarely.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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, 2010 and 2009. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

<i>Geographical region</i>	Cash and cash equivalents		Held-for-trading financial assets		Available-for-sale financial assets		Held-to-maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		In thousand of Denars Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	Republic of Macedonia	15,910,646	12,681,936	42,592	109,538	349,720	440,767	2,620,766	3,028,979	-	-	42,446,073	41,736,845	168,649	263,663	61,538,446
EU member countries	3,491,958	4,472,158	-	-	31	31	-	-	62,235	50,045	-	-	-	-	3,554,224	4,522,234
Europe (other)	648,093	468,257	-	-	-	-	-	-	-	-	-	-	-	-	648,093	468,257
OECD member countries (less European OECD member countries)	278,801	381,341	69,817	79,925	-	-	-	-	-	-	-	-	-	-	348,618	461,266
Other	-	-	8,453	9,811	-	-	-	-	58,114	96,730	-	-	-	-	66,567	106,541
<b>Total</b>	<b>20,329,498</b>	<b>18,003,692</b>	<b>120,862</b>	<b>199,274</b>	<b>349,751</b>	<b>440,798</b>	<b>2,620,766</b>	<b>3,028,979</b>	<b>120,349</b>	<b>146,775</b>	<b>42,446,073</b>	<b>41,736,845</b>	<b>168,649</b>	<b>263,663</b>	<b>66,155,948</b>	<b>63,820,026</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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.

In thousand of Denars

	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	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<i>Industry</i>																
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, hunting and forestry	-	-	-	-	-	-	-	-	-	-	654,825	910,908	251	75	655,076	910,983
Fishing	-	-	-	-	-	-	-	-	-	-	-	11,556	-	-	-	11,556
Ore and stone extraction	-	-	-	-	-	-	-	-	-	-	82,646	103,579	-	-	82,646	103,579
Processing industry	-	-	-	-	2,190	2,189	-	-	-	-	6,422,675	8,041,075	1,000	7,507	6,425,865	8,050,771
Power, gas and water	-	-	-	-	-	-	-	-	-	-	1,085,638	482,301	-	9	1,085,638	482,310
Construction	-	-	-	-	-	-	-	-	-	-	1,207,437	981,946	-	247	1,207,437	982,193
Wholesale and retail trade	-	-	-	-	1,563	1,491	-	-	-	-	4,266,914	3,923,236	120,187	203,689	4,388,664	4,128,416
Hotels and restaurants	-	-	-	-	-	-	-	-	-	-	465,665	454,818	71	78	465,736	454,896
Traffic, warehousing and communications	-	-	-	-	-	-	-	-	-	-	894,295	777,013	286	152	894,581	777,165
Financial intermediation	19,239,187	17,026,972	80,867	89,736	89,203	77,571	308,464	311,508	120,349	146,775	24,114	-	-	-	19,862,184	17,652,562
Activities related to real estate, renting	-	-	-	-	-	-	-	-	-	-	197,956	538,384	-	66	197,956	538,450
Public administration and defense; mandatory social welfare	1,090,311	976,720	39,995	109,538	256,795	359,547	2,312,302	2,717,471	-	-	40,333	58,121	4,140	11,659	3,743,876	4,233,056
Education	-	-	-	-	-	-	-	-	-	-	713,160	312,246	-	-	713,160	312,246
Health care and social work	-	-	-	-	-	-	-	-	-	-	176,985	175,877	9	-	176,994	175,877
Other public utilities, cultural, general and service activities	-	-	-	-	-	-	-	-	-	-	109,729	89,070	39	9	109,768	89,079
Private households with employees	-	-	-	-	-	-	-	-	-	-	-	3,672	-	-	-	3,672
Extraterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	-	-	-	-	-	-	-	-	26,076,508	24,860,401	9,691	8,118	26,086,199	24,868,519
Individual merchants and individuals not considered to be merchants	-	-	-	-	-	-	-	-	-	-	27,193	12,642	32,975	32,054	60,168	44,696
<b>Total</b>	<b>20,329,498</b>	<b>18,003,692</b>	<b>120,862</b>	<b>199,274</b>	<b>349,751</b>	<b>440,798</b>	<b>2,620,766</b>	<b>3,028,979</b>	<b>120,349</b>	<b>146,775</b>	<b>42,446,073</b>	<b>41,736,845</b>	<b>168,649</b>	<b>263,663</b>	<b>66,155,948</b>	<b>63,820,026</b>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.2 Credit risk (Continued)**

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

*Industry sector (Continued)*

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

<i>Industry</i>	<b>In thousands of Denars</b>	
	<b>2010</b>	<b>2009</b>
Agriculture, hunting and forestry	11,297	27,266
Ore and stone extraction	1,705	461
Processing industry	1,288,203	760,725
Power, gas and water	1,291,939	156,638
Construction	1,475,589	1,064,632
Wholesale and retail trade	279,189	162,479
Hotels and restaurants	3,535	556
Traffic, warehousing and communications	263,682	106,209
Financial intermediation	1,481,940	370,596
Activities related to real estate, renting	12,300	55,506
Education	335	62
Health care and social work	285	1,695
Other public utilities, cultural, general and service activities	101,163	2,723
Individuals	7,139,028	7,189,685
Individual merchants and individuals not considered to be merchants	6,745	-
<b>Total</b>	<b>13,356,935</b>	<b>9,899,233</b>

**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).

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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, 2010 and 2009.

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



STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

	In thousands of Denars December 31, 2009					
	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
<b>ASSETS</b>						
Cash and cash equivalents	8,133,941	581,166	847,882	9,562,989	8,440,703	18,003,692
Held-for-trading financial assets	46,772	79,925	9,811	136,508	62,766	199,274
Available-for-sale financial assets	359,579	-	-	359,579	81,219	440,798
Held-to-maturity financial assets	3,028,979	-	-	3,028,979	-	3,028,979
Placement with, and loans to banks	23,870	50,914	21,955	96,739	50,036	146,775
Loans to customers	24,484,858	1,147,804	337,065	25,969,727	15,767,118	41,736,845
Other receivables	2,468	528	124	3,120	260,543	263,663
<b>Total assets</b>	<u>36,080,467</u>	<u>1,860,337</u>	<u>1,216,837</u>	<u>39,157,641</u>	<u>24,662,385</u>	<u>63,820,026</u>
<b>LIABILITIES</b>						
Deposits from banks	2,624,152	6,605	44,109	2,674,866	20,309	2,695,175
Held-for-trading financial liabilities	1,196	-	-	1,196	-	1,196
Deposits from customers	28,639,482	1,781,413	817,660	31,238,555	20,559,899	51,798,454
Loans payable	39,450	40,703	-	80,153	187,174	267,327
Subordinated debt	2,763,333	-	-	2,763,333	-	2,763,333
Other liabilities	93,025	-	-	93,025	343,076	436,101
<b>Total liabilities</b>	<u>34,160,638</u>	<u>1,828,721</u>	<u>861,769</u>	<u>36,851,128</u>	<u>21,110,458</u>	<u>57,961,586</u>
<b>Net currency gap:</b>	<u>1,919,829</u>	<u>31,616</u>	<u>355,068</u>	<u>2,306,513</u>	<u>3,551,927</u>	<u>5,858,440</u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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, 2010 and 2009.

	<b>In thousand of Denars</b>		
	<b>December 31, 2010</b>		
	<u>Interest bearing</u>	<u>Non-interest bearing</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	19,259,739	1,069,759	20,329,498
Held-for-trading financial assets	39,507	81,355	120,862
Available-for-sale financial assets	256,797	92,954	349,751
Held-to-maturity financial assets	2,606,693	14,073	2,620,766
Placement with, and loans to banks	61,943	58,406	120,349
Loans to customers	41,937,720	508,353	42,446,073
Other receivables	-	168,649	168,649
<b>Total assets</b>	<u>64,162,399</u>	<u>1,993,549</u>	<u>66,155,948</u>
<b>LIABILITIES</b>			
Deposits from banks	2,319,438	775	2,320,213
Deposits from customers	53,192,909	314,259	53,507,168
Loans payable	327,114	151,305	478,419
Subordinated debt	2,767,725	11,614	2,779,339
Other liabilities	-	502,989	502,989
<b>Total liabilities</b>	<u>58,607,186</u>	<u>980,942</u>	<u>59,588,128</u>
<b>Net interest gap:</b>	<u>5,555,213</u>	<u>1,012,607</u>	<u>6,567,820</u>

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

	In thousands of Denars December 31, 2009		
	<u>Interest bearing</u>	<u>Non-interest bearing</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	16,732,120	1,271,572	18,003,692
Held-for-trading financial assets	106,386	92,888	199,274
Available-for-sale financial assets	440,798	-	440,798
Held-to-maturity financial assets	3,018,349	10,630	3,028,979
Placement with, and loans to banks	94,135	52,640	146,775
Loans to customers	40,899,939	836,906	41,736,845
Other receivables	-	263,663	263,663
<b>Total assets</b>	<u>61,291,727</u>	<u>2,528,299</u>	<u>63,820,026</u>
<b>LIABILITIES</b>			
Deposits from banks	2,632,168	63,007	2,695,175
Held-for-trading financial liabilities	-	1,196	1,196
Deposits from customers	51,519,438	279,016	51,798,454
Loans payable	267,327	-	267,327
Subordinated debt	2,763,333	-	2,763,333
Other liabilities	-	436,101	436,101
<b>Total liabilities</b>	<u>57,182,266</u>	<u>779,320</u>	<u>57,961,586</u>
<b>Net interest gap:</b>	<u>4,109,461</u>	<u>1,748,979</u>	<u>5,858,440</u>

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

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

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

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

	In thousand of Denars						
	31 December 2010						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>ASSETS</b>							
Cash and cash equivalents	19,226,298	1,103,200	-	-	-	-	20,329,498
Held-for-trading financial assets	120,862	-	-	-	-	-	120,862
Available-for-sale financial assets	-	29,769	227,027	-	-	92,955	349,751
Held-to-maturity financial assets	142,664	128,996	751,799	1,064,426	532,881	-	2,620,766
Placement with, and loans to banks	58,406	-	-	-	-	61,943	120,349
Loans to customers	3,393,177	4,541,746	14,553,077	3,699,782	8,004,085	8,254,206	42,446,073
Other receivables	168,649	-	-	-	-	-	168,649
<b>Total assets</b>	<b>23,110,056</b>	<b>5,803,711</b>	<b>15,531,903</b>	<b>4,764,208</b>	<b>8,536,966</b>	<b>8,409,104</b>	<b>66,155,948</b>
<b>LIABILITIES AND EQUITY</b>							
Deposits from banks	2,012,688	-	307,525	-	-	-	2,320,213
Deposits from customers	22,214,882	7,613,942	20,598,110	1,782,727	1,080,897	216,610	53,507,168
Loans payable	46,354	-	47,989	76,489	158,188	149,399	478,419
Subordinated debt	-	11,614	-	-	-	2,767,725	2,779,339
Other liabilities	502,989	-	-	-	-	-	502,989
<b>Total liabilities and equity</b>	<b>24,776,913</b>	<b>7,625,556</b>	<b>20,953,624</b>	<b>1,859,216</b>	<b>1,239,085</b>	<b>3,133,734</b>	<b>59,588,128</b>
<b>Net liquidity gap</b>	<b>(1,666,857)</b>	<b>(1,821,845)</b>	<b>(5,421,721)</b>	<b>2,904,992</b>	<b>7,297,881</b>	<b>5,275,370</b>	<b>6,567,820</b>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.4 Liquidity risk (Continued)**

**4.4.1 Liquidity risk management process (Continued)**

	In thousand of Denars						Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	31 December 2009 Over 5 years	
<b>ASSETS</b>							
Cash and cash equivalents	16,312,138	1,691,554	-	-	-	-	18,003,692
Held-for-trading financial assets	199,274	-	-	-	-	-	199,274
Available-for-sale financial assets	-	-	440,798	-	-	-	440,798
Held-to-maturity financial assets	368	132,488	355,606	350,328	2,108,940	81,249	3,028,979
Placement with, and loans to banks	50,324	122	52,194	-	-	44,135	146,775
Loans to customers	3,094,390	3,968,179	15,933,941	3,659,363	7,571,844	7,509,128	41,736,845
Other receivables	263,663	-	-	-	-	-	263,663
<b>Total assets</b>	<b>19,920,157</b>	<b>5,792,343</b>	<b>16,782,539</b>	<b>4,009,691</b>	<b>9,680,784</b>	<b>7,634,512</b>	<b>63,820,026</b>
<b>LIABILITIES AND EQUITY</b>							
Deposits from banks	2,389,309	-	-	305,866	-	-	2,695,175
Held-for-trading financial liabilities	-	1,196	-	-	-	-	1,196
Deposits from customers	23,743,046	9,213,034	16,165,888	1,717,971	867,430	91,085	51,798,454
Loans payable	36,694	-	12,342	16,864	46,070	155,357	267,327
Subordinated debt	-	10,539	-	-	-	2,752,794	2,763,333
Other liabilities	345,123	-	-	-	-	90,978	436,101
<b>Total liabilities and equity</b>	<b>26,514,172</b>	<b>9,224,769</b>	<b>16,178,230</b>	<b>2,040,701</b>	<b>913,500</b>	<b>3,090,214</b>	<b>57,961,586</b>
<b>Net liquidity gap</b>	<b>(6,594,015)</b>	<b>(3,432,426)</b>	<b>604,309</b>	<b>1,968,990</b>	<b>8,767,284</b>	<b>4,544,298</b>	<b>5,858,440</b>

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2010 and 2009, 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 39,453,904 thousand (2009: Denar 35,313,666 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, 2009

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

	In thousands of Denars									
	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2- 3 years	From 3- 4 years	From 4- 5 years	Over 5 years	Total
<b>31 December 2009</b>										
<b>LIABILITIES</b>										
Deposits from banks	209,371	2,372,793	423,178	308,961	337,431	-	-	-	-	3,651,734
Deposits from customers	17,212,631	652,942	15,014,055	16,529,938	1,791,550	414,754	389,039	165,800	96,763	52,267,472
Loans payable (including subordinated debt)	12,464	40,134	34,299	92,782	134,956	134,417	133,828	128,698	3,398,025	4,109,603
Other liabilities	345,123	-	-	-	-	-	-	-	90,978	436,101
<b>Total</b>	<b>17,779,589</b>	<b>3,065,869</b>	<b>15,471,532</b>	<b>16,931,681</b>	<b>2,263,937</b>	<b>549,171</b>	<b>522,867</b>	<b>294,498</b>	<b>3,585,766</b>	<b>60,464,910</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2009

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									
	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
<b>31 December 2010</b>										
Commitments to extend credits	8,379,307	-	-	-	-	-	-	-	-	8,379,307
Financial guarantees and LCs	-	242,846	662,119	1,495,830	2,132,811	8,885	-	190	225,357	4,768,038
<b>Total</b>	<b>8,379,307</b>	<b>242,846</b>	<b>662,119</b>	<b>1,495,830</b>	<b>2,132,811</b>	<b>8,885</b>	<b>-</b>	<b>190</b>	<b>225,357</b>	<b>13,147,345</b>
<b>31 December 2009</b>										
Commitments to extend credits	6,522,705	-	-	-	-	-	-	-	-	6,522,705
Financial guarantees and LCs	-	269,488	436,575	1,547,459	292,132	385,266	498	-	253,680	3,185,098
<b>Total</b>	<b>6,522,705</b>	<b>269,488</b>	<b>436,575</b>	<b>1,547,459</b>	<b>292,132</b>	<b>385,266</b>	<b>498</b>	<b>-</b>	<b>253,680</b>	<b>9,707,803</b>

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NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

	Carrying amount		In thousand of Denars Fair value	
	December 31	December 31	December 31	December 31
	2010	2009	2010	2009
<b>Financial assets</b>				
Cash and cash equivalents	20,329,498	18,003,692	20,329,498	18,003,692
Held-for-trading financial assets	120,862	199,274	120,862	199,274
Available-for-sale financial assets	349,751	440,798	349,751	440,798
Held-to-maturity financial assets	2,620,766	3,028,979	2,620,766	3,028,979
Placement with, and loans to				
banks	120,349	146,775	120,349	146,775
Loans to customers	42,446,073	41,736,845	42,446,073	41,736,845
Other receivables (less foreclosure assets)	168,649	263,663	168,649	263,663
	<u>66,155,948</u>	<u>63,820,026</u>	<u>66,155,948</u>	<u>63,820,026</u>
<b>Financial liabilities</b>				
Deposits from banks	2,320,213	2,695,175	2,320,213	2,695,175
Held-for-trading financial liabilities	-	1,196	-	1,196
Deposits from customers	53,507,168	51,798,454	53,507,168	51,798,454
Loans payable	478,419	267,327	478,419	267,327
Subordinated debt	2,779,339	2,763,333	2,779,339	2,763,333
Other liabilities	502,989	436,101	502,989	436,101
	<u>59,588,128</u>	<u>57,961,586</u>	<u>59,588,128</u>	<u>57,961,586</u>

*Cash and cash equivalents*

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

*Held-for-trading financial assets*

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

*Available-for-sale financial assets*

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

*Held-to-maturity financial assets*

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 4. FINANCIAL INSTRUMENTS (Continued)

##### 4.5 Fair value of financial assets and liabilities (Continued)

###### *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.

###### *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.

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. FINANCIAL INSTRUMENTS (Continued)**

**4.5 Fair value of financial assets and liabilities (Continued)**

*Fair value hierarchy*

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.

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

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NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

*Fair value hierarchy*

31 December 2009	In thousand of Denars			
	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Cash and cash equivalents	18,003,692	-	6,114,586	-
Held-for-trading financial assets	199,274	137,097	62,177	-
Available-for-sale financial assets	440,798	-	440,798	-
Held-to-maturity financial assets	3,028,979	-	3,028,979	-
Placement with, and loans to				
banks	146,775	-	-	-
Loans to customers	41,736,845	-	-	-
Other receivables (less foreclosure assets)	263,663	-	-	-
	<u>63,820,026</u>	<u>137,097</u>	<u>9,646,540</u>	<u>-</u>
<b>Financial liabilities</b>				
Deposits from banks	2,695,175	-	-	-
Held-for trading financial liabilities	1,196	-	1,196	-
Deposits from customers	51,798,454	-	-	-
Loans payable	267,327	-	-	-
Subordinated debt	2,763,333	-	-	-
Other liabilities	436,101	-	-	-
	<u>57,961,586</u>	<u>-</u>	<u>1,196</u>	<u>-</u>

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

## STOPANSKA BANKA AD, SKOPJE

### NOTES TO THE FINANCIAL STATEMENTS December 31, 2010

#### 4. FINANCIAL INSTRUMENTS (Continued)

##### 4.6 Capital management

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

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

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

The Bank's regulatory capital is divided into two tiers:

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

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit risk associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**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.

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

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.7 Sensitivity analysis (Continued)**

**4.7.1 Sensitivity analysis (foreign currency) (Continued)**

31 December 2009	Total	In thousands of Denars Change in exchange rate	
		+10%	-10%
<b>ASSETS</b>			
Cash and cash equivalents	18,003,692	956,299	(956,299)
Held-for-trading financial assets	199,274	13,651	(13,651)
Available-for-sale financial assets	440,798	44,080	(44,080)
Held-to-maturity financial assets	3,028,979	294,776	(294,776)
Placement with, and loans to banks	146,775	9,674	(9,674)
Loans to customers	41,736,845	2,596,973	(2,596,973)
Other receivables	263,663	312	(312)
<b>Total assets</b>	<b>63,820,026</b>	<b>3,915,765</b>	<b>(3,915,765)</b>
<b>LIABILITIES</b>			
Deposits from banks	2,695,175	267,487	(267,487)
Deposits from customers	51,798,454	3,123,855	(3,123,855)
Loans payable (including subordinated debt)	3,030,660	284,349	(284,349)
Other liabilities	436,101	9,303	(9,303)
<b>Total liabilities</b>	<b>57,960,390</b>	<b>3,684,994</b>	<b>(3,684,994)</b>
<b>Net currency gap:</b>	<b>5,859,636</b>	<b>230,771</b>	<b>(230,771)</b>

At 31 December 2010, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year would have been Denar 317,964 thousand higher (2009: Denar 230,771 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 would have been Denar 317,964 thousand lower (2009: Denar 230,771 thousand). The higher sensitivity of the Bank's assets and liabilities in case of change in foreign exchange rates compared to the previous year is a result of the higher open currency position as of December 31, 2010.

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NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

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



**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
December 31, 2010

**4. FINANCIAL INSTRUMENTS (Continued)**

**4.7 Sensitivity analysis (Continued)**

**4.7.2 Sensitivity analysis (interest rates) (Continued)**

	<b>In thousands of Denars</b>		
	<b>31 December 2009</b>		
	<b>Total</b>	<b>IR change + 200 bps</b>	<b>IR change - 200 bps</b>
<b>ASSETS</b>			
Cash and cash equivalents	18,003,692	315,108	(315,108)
Held-for-trading financial assets	199,274	2,128	(2,128)
Available-for-sale financial assets	440,798	8,816	(8,816)
Held-to-maturity financial assets	3,028,979	60,367	(60,367)
Placement with, and loans to banks	146,775	883	(883)
Loans to customers	41,736,845	733,488	(733,488)
Other receivables	263,663	-	-
<b>Total assets</b>	<b>63,820,026</b>	<b>1,120,790</b>	<b>(1,120,790)</b>
<b>LIABILITIES</b>			
Deposits from banks and financial institutions	2,695,175	7,375	(7,375)
Deposits from customers	51,798,454	520,102	(520,102)
Loans payable (including subordinated debt)	3,030,660	55,966	(55,966)
Other liabilities	436,101	-	-
<b>Total liabilities</b>	<b>57,960,390</b>	<b>583,443</b>	<b>(583,443)</b>
<b>Net interest gap:</b>	<b>5,859,636</b>	<b>537,347</b>	<b>(537,347)</b>

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 bps.

If interest rates had been 200 bps higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2010, profit for the year would have been Denar 117,646 thousand (2009: Denar 537,347 thousand lower) higher. Conversely, if the interest rates had been 200 bps lower with all other variables held constant, profit for the year would have been Denar 117,646 thousand (2009: Denar 537,347 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.

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NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

5. SEGMENT REPORTING

5.1 Primary business segments

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

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

5. SEGMENT REPORTING (Continued)

5.1 Primary business segments (Continued)

	In thousands of Denars 31 December 2009					
	Retail	Corporate	Invest- ment banking	Other	Unallo- cated	Total
Net interest income	1,374,525	904,883	359,074	(15,134)	-	2,623,348
Net fee and commission income	342,277	502,508	6,957	542	-	852,284
Net trading income	-	-	28,322	-	-	28,322
Other operating income	130,125	13,332	-	-	116,435	259,892
<b>Total segment income</b>	<u>1,846,927</u>	<u>1,420,723</u>	<u>394,353</u>	<u>(14,592)</u>	<u>116,435</u>	<u>3,763,846</u>
<b>Profit/(loss) before tax</b>	8,485	758,381	405,011	(14,804)	(422,608)	734,465
Income tax						(7,106)
<b>Net profit for the year</b>						<u>727,359</u>
<b>Total assets</b>	24,891,218	24,974,376	9,778,348	5,289	6,110,294	65,759,525
<b>Total liabilities</b>	32,827,314	17,671,772	3,354,245	2,984	4,261,144	58,117,459
Impairment of financial assets, net	597,287	354,927	17,018	-	(9,841)	959,391
Impairment of non-financial assets	2,674	50,476	-	-	26,683	79,833
Depreciation and amortization	112,413	576	-	212	74,339	187,540
Property and equipment purchases	80,837	856	-	600	36,492	149,693
Other expenses	1,131,849	125,331	728	-	544,709	1,802,617

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NOTES TO THE FINANCIAL STATEMENTS  
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5. SEGMENT REPORTING (Continued)

5.2 Secondary geographical segments

	In thousands of Denars					Total
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallocated	
Net interest income	2,290,011	64,561	5,645	7,999	1,229	2,369,445
Net fee and commission income	874,888	25,865	2,261	3,205	493	906,712
Net trading income	(19,148)	-	-	-	-	(19,148)
Other operating income	273,973	5	603	-	3	274,584
<b>Total segment income</b>	<b>3,419,724</b>	<b>90,431</b>	<b>8,509</b>	<b>11,204</b>	<b>1,725</b>	<b>3,531,593</b>
<b>Profit before tax</b>	<b>863,607</b>	<b>12,804</b>	<b>1,721</b>	<b>1,586</b>	<b>277</b>	<b>879,995</b>
Income tax						(3,747)
<b>Net profit for the year</b>						<b>876,248</b>
<b>Total assets</b>	<b>64,134,595</b>	<b>3,377,982</b>	<b>81,634</b>	<b>492,086</b>	<b>171,682</b>	<b>68,257,979</b>
<b>Total liabilities</b>	<b>56,635,073</b>	<b>2,154,528</b>	<b>188,369</b>	<b>266,929</b>	<b>504,994</b>	<b>59,749,893</b>
Impairment of financial assets, net	558,931	22,975	2,009	2,847	437	587,199
Impairment of non-financial assets	60,183	1,604	140	199	31	62,157
Depreciation and amortization	184,991	4,959	434	614	94	191,092
Property and equipment purchases	74,995	2,563	224	318	47	78,147
Other expenses	1,752,012	48,089	4,205	5,958	886	1,811,150

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

5. SEGMENT REPORTING (Continued)

5.2 Secondary geographical segments (Continued)

	In thousands of Denars 31 December 2009					Total
	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallocated	
Net interest income	2,723,314	(109,085)	21,132	(9,152)	(2,861)	2,623,348
Net fee and commission income	806,449	(6,685)	53,123	(556)	(47)	852,284
Net trading income	(3,255)	-	(405)	31,982	-	28,322
Other operating income	259,329	5	556	-	2	259,892
<b>Total segment income</b>	<u>3,785,837</u>	<u>(115,765)</u>	<u>74,406</u>	<u>22,274</u>	<u>(2,906)</u>	<u>3,763,846</u>
<b>Profit /loss) before tax</b>	<u>810,074</u>	<u>(160,291)</u>	<u>73,021</u>	<u>16,434</u>	<u>(4,773)</u>	<u>734,465</u>
Income tax						(7,106)
<b>Net profit for the year</b>						<u>727,359</u>
<b>Total assets</b>	60,341,442	4,516,324	468,257	381,341	52,161	65,759,525
<b>Total liabilities</b>	55,392,938	2,287,832	181,823	192,103	62,763	58,117,459
Impairment of financial assets, net	988,553	(25,020)	(4,142)	-	-	959,391
Impairment of non-financial assets	79,833	-	-	-	-	79,833
Depreciation and amortization	187,540	-	-	-	-	187,540
Property and equipment purchases	149,693	-	-	-	-	149,693
Other expenses	1,719,837	69,546	5,527	5,840	1,867	1,802,617

**STOPANSKA BANKA AD, SKOPJE**

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**6. INTEREST INCOME AND EXPENSE**

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

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Interest income:		
Cash and cash equivalents	476,366	309,053
Placement with, and loans to banks	1,014	9,586
Loans to customers	4,209,752	4,464,064
Investment securities	68,972	123,191
Other receivables	367	2,494
	<u>4,756,471</u>	<u>4,908,388</u>
Interest expense:		
Deposits from banks and financial institutions	3,834	8,840
Deposits from customers	2,278,583	2,147,270
Loans payable	6,314	6,050
Subordinated debt	90,035	113,547
Other liabilities (dividends of preference shares)	8,260	9,333
	<u>2,387,026</u>	<u>2,285,040</u>
Net interest income	<u>2,369,445</u>	<u>2,623,348</u>

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

	<b>Year ended</b>		<b>In thousands of Denars</b>	
	<b>December 31, 2010</b>		<b>Year ended</b>	
	<b>Income</b>	<b>Expense</b>	<b>December 31, 2009</b>	<b>Expense</b>
Enterprises	1,118,174	286,538	1,405,555	421,505
State	99,415	5,445	130,986	6,195
Not-for-profit institutions	1,393	16,828	1,619	17,192
Banks	7,862	5,180	212,165	8,905
Other non-banking financial entities	442,294	53,675	137,734	53,038
Households	3,087,333	1,914,539	3,020,329	1,648,007
Non-residents	-	104,821	-	130,198
	<u>4,756,471</u>	<u>2,387,026</u>	<u>4,908,388</u>	<u>2,285,040</u>
Net interest income	<u>2,369,445</u>		<u>2,623,348</u>	

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**7. FEE AND COMMISSION INCOME AND EXPENSE**

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

	<b>Year ended</b>		<b>In thousands of Denars</b>		
	<b>December 31, 2010</b>		<b>Year ended</b>		
	<b>Income</b>	<b>Expense</b>	<b>December 31, 2009</b>	<b>Income</b>	<b>Expense</b>
Loans provided	146,557	-	120,757	-	
Domestic payment operations	193,006	70,851	172,721	60,122	
Foreign payment operations	113,424	9,063	117,603	9,027	
Letters of credit and guaranties	66,714	-	60,549	-	
Brokerage	4,171	-	5,857	-	
Assets administering	843	-	1,101	-	
Credit cards	304,758	-	288,060	-	
Deposits	82,304	-	83,510	-	
Safe box	6,392	-	6,716	-	
Third party collection	8,138	-	8,144	-	
Other	61,256	937	56,491	76	
	<u>987,563</u>	<u>80,851</u>	<u>921,509</u>	<u>69,225</u>	
Net fee and commission income	<u>906,712</u>		<u>852,284</u>		

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

	<b>Year ended</b>		<b>In thousands of Denars</b>		
	<b>December 31, 2010</b>		<b>Year ended</b>		
	<b>Income</b>	<b>Expense</b>	<b>December 31, 2009</b>	<b>Income</b>	<b>Expense</b>
Enterprises	574,031	22	527,176	-	
State	275	-	441	-	
Not-for-profit institutions	134	-	101	-	
Banks	30,569	54,462	31,571	9,735	
Other non-banking financial entities	-	26,367	-	59,490	
Households	357,351	-	340,346	-	
Non-residents	25,203	-	21,874	-	
	<u>987,563</u>	<u>80,851</u>	<u>921,509</u>	<u>69,225</u>	
Net fee and commission income	<u>906,712</u>		<u>852,284</u>		

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

8. TRADING (EXPENSE)/INCOME, NET

	In thousands of Denars Year ended December 31,	
	2010	2009
<i>Held-for-trading financial assets:</i>		
Gain on sale of debt securities	27	34
Net loss on fair valuation of debt securities	(939)	(2,092)
Net (loss)/gain on fair valuation of equity securities	(20,830)	31,576
Gain/(Loss) on fair valuation on foreign exchange derivative contracts	2,594	(1,196)
	<u>(19,148)</u>	<u>28,322</u>

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31,	
	2010	2009
Foreign exchange gains	6,393,557	7,760,661
Foreign exchange losses	(6,235,785)	(7,598,786)
	<u>157,772</u>	<u>161,875</u>
<i>Analyzed as:</i>		
Realized exchange gains, net	138,582	150,528
Unrealized exchange gains, net	19,190	11,347
	<u>157,772</u>	<u>161,875</u>

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31,	
	2010	2009
Dividend from available-for-sale investments	2,624	8,749
Gain on sale of available-for-sale financial assets	-	233
Gain on sale of property and equipment	13,053	9,504
Gain on sale of foreclosure assets	8,427	13,453
Rental income	2,531	3,604
Court claims collections	5,735	4,688
Early withdrawal of deposits and operations with non-residents	33,657	34,031
Write off of liabilities for bonuses	8,840	7,311
Income from mediation at mortgage insurance	4,509	-
Income from accounting services	9,207	9,686
Equity investment in Jubmes (income from new shares received)	703	1,396
Income from collected damage from insurance companies	1,040	1,255
Other	26,486	4,107
	<u>116,812</u>	<u>98,017</u>



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NOTES TO THE FINANCIAL STATEMENTS  
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11. IMPAIRMENT LOSSES

	In thousands of Denars Year ended December 31,	
	2010	2009
Impairment losses on financial assets, net	587,199	959,391
Impairment losses on non-financial assets	62,157	79,833
	<u>649,356</u>	<u>1,039,224</u>

*Impairment losses on financial assets, net*

	31 December 2010			In thousand of Denars 31 December 2009		
	Charge	Release	Net	Charge	Release	Net
Placement with, and loans to banks (Note 20)	-	-	-	33	(4,142)	(4,109)
Loans to customers (Note 21)	1,853,100	(1,298,265)	554,835	1,354,455	(410,050)	944,405
Other receivables (Note 22)	30,339	(5,023)	25,316	16,285	(26,115)	(9,830)
Available-for-sale financial assets (Note 18)	-	-	-	17,018	-	17,018
Off-balance sheet items (Note 31)	26,460	(19,412)	7,048	15,109	(3,202)	11,907
	<u>1,909,899</u>	<u>(1,322,700)</u>	<u>587,199</u>	<u>1,402,900</u>	<u>(443,509)</u>	<u>959,391</u>

*Impairment losses on non-financial asset*

	In thousands of Denars Year ended December 31,	
	2010	2009
Investment property (Note 23)	3,842	17,226
Assets acquired through foreclosure procedures (Note 22)	58,315	62,607
	<u>62,157</u>	<u>79,833</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. PERSONNEL EXPENSES**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Wages and salaries	475,109	458,156
Social security cost	218,629	218,905
Other staff costs	64,995	21,768
Bonuses	-	18,351
Pension costs based on defined benefit plans, net (Note 31)	(8,949)	22,490
	<u>749,784</u>	<u>739,670</u>
Average number of employees during the period	1,092	1,149
Number of permanent employees at the end of the year	1,067	1,142
Number of seasonal employees at the end of the year	4	6

**13. DEPRECIATION AND AMORTIZATION**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Depreciation of property and equipment	137,169	133,018
Depreciation of investment property	362	2,633
Amortization of intangible assets	53,561	51,889
	<u>191,092</u>	<u>187,540</u>

**14. OTHER OPERATING EXPENSES**

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Insurance premiums for deposits	272,939	233,254
Insurance premiums for property and employees	15,286	15,665
Material and services	537,959	506,078
Administrative and marketing costs	98,718	104,122
Other taxes and contributions	2,321	3,356
Rent	57,522	45,469
Court claims	21,614	27,095
Provision for litigation (Note 31)	7,793	12,240
Travel expenses	9,740	11,113
Loss on sale of property and equipment	-	14
Other expenses	37,474	104,541
	<u>1,061,366</u>	<u>1,062,947</u>

**STOPANSKA BANKA AD, SKOPJE**

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**15. INCOME TAX EXPENSE**

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

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Current income tax expense	9,567	15,160
Deferred income tax income	(5,820)	(8,054)
	<u>3,747</u>	<u>7,106</u>

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

	<b>In thousands of Denars</b>	
	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Profit before tax	879,995	734,465
Income tax at the statutory income tax rate of 10%	87,999	73,446
Tax on expenses not allowed for tax purposes	11,295	16,365
Tax on income not taxable for tax purposes	-	-
Deferred tax income relating to the origination and reversal of temporary differences	(5,820)	(8,054)
Tax exemption on non-distribution of the net profit	(89,727)	(74,651)
At effective rate of 0.42% (2009: 0.97%)	<u>3,747</u>	<u>7,106</u>

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

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

	<b>31 December 2010</b>			<b>In thousand of Denars</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
Recognized in:						
<i>Income statement:</i>						
Other assets	15,504	-	15,504	9,684	-	9,684
	<u>15,504</u>	<u>-</u>	<u>15,504</u>	<u>9,684</u>	<u>-</u>	<u>9,684</u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**15. INCOME TAX EXPENSE (Continued)**

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

	In thousands of Denars			
	Balance 1 January	Income Statement	Equity	Balance 31 December
<b>31 December 2010</b>				
<i>Deferred tax assets</i>				
Other assets	9,684	5,820	-	15,504
Net deferred tax assets	<u>9,684</u>	<u>5,820</u>	<u>-</u>	<u>15,504</u>
<b>31 December 2009</b>				
<i>Deferred tax assets</i>				
Other assets	1,630	8,054	-	9,684
<i>Deferred tax liabilities</i>				
Available-for-sale financial assets	(3,335)	-	3,335	-
Net deferred tax assets/(liabilities)	<u>(1,705)</u>	<u>8,054</u>	<u>3,335</u>	<u>9,684</u>

**16. CASH AND CASH EQUIVALENTS**

	In thousands of Denars	
	December 31, 2010	December 31, 2009
Cash on hand	1,076,968	889,586
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	2,934,019	2,809,629
Accounts and deposits with foreign banks	548,510	352,387
Accounts and deposits with domestic banks	1,047	1,831
Treasury bills which can be traded on the secondary market	7,987,816	5,116,501
Other eligible bills which can be traded on the secondary market	1,090,311	976,720
Time deposits up to three months	3,869,733	4,968,962
Other short-term highly liquid assets	1,591	1,234
Interest receivable	4,205	25,754
Included in Statement of Cash Flows	<u>17,514,200</u>	<u>15,142,604</u>
Mandatory reserves in foreign currency	<u>2,815,298</u>	<u>2,861,088</u>
	<u><u>20,329,498</u></u>	<u><u>18,003,692</u></u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**16. CASH AND CASH EQUIVALENTS (Continued)**

The level of mandatory reserves in foreign currency held with the Central Bank in the amount of Denar 2,815,298 thousand (2009: Denar 2,861,088 thousand) is determined based on the Decision for mandatory reserves prescribed by the Central Bank. Those reserves are calculated based on the average amount of deposits in foreign currencies existing during one calendar month. These reserves bear an interest at a rate of 0.1% p.a. (2009: 0.1% p.a. starting from October 15, 2009).

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 2,934,019 thousand (2009: Denar 2,809,629 thousand) represent mandatory reserves in Denars. These reserves bear an interest at a rate of 2% p.a. (2009: 2% p.a.).

Treasury bills which can be traded on the secondary market in the amount of Denar 7,987,816 thousand (2009: 5,116,501 thousand) represent bills issued by the Central Bank with a maturity of 28 days. Interest rates are 4.0% (2009: 8.50% p.a.).

Other eligible bills which can be traded on the secondary market in the amount of Denar 1,090,311 thousand (2009: 976,720 thousand) represent bills issued by the Ministry of Finance of the Republic of Macedonia with a maturity of up to three months. Depending on maturity, interest rates range from 4.30% to 4.55% p.a. (2009: from 4.71% to 8.00% p.a.).

**17. HELD-FOR-TRADING FINANCIAL ASSETS**

	<b>In thousands of Denars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Debt securities issued by the Government	39,995	109,538
Equity securities issued by the banks	78,270	89,736
Derivatives held for trading	2,597	-
	<u>120,862</u>	<u>199,274</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**18. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
Debt securities issued by the Government	256,797	359,548
Equity securities issued by the banks	3,476	3,476
Equity securities issued by other entities	379,036	362,970
	<u>639,309</u>	<u>725,994</u>
Less: Allowance for impairment	(289,558)	(285,196)
	<u>349,751</u>	<u>440,798</u>

The movement in the provision for impairment is as follows:

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
Balance at the beginning of the year	285,196	268,178
Addition for the year	-	17,018
Foreign exchange effects	4,362	-
	<u>289,558</u>	<u>285,196</u>

**19. HELD-TO-MATURITY FINANCIAL ASSETS**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
Government debt securities	2,312,302	2,722,287
Corporate debt securities	308,464	306,692
	<u>2,620,766</u>	<u>3,028,979</u>

Part of the Government debt securities amounting to Denar 2,254,106 thousand (2009: Denar 2,625,064 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.

Part of the Government debt securities amounting to Denar 39,405 thousand (2009: Denar 74,835 thousand) represent debt securities from old savings deposits issued by the Republic of Macedonia in May 2000. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in semi-annual installments commencing from April 2002 to October 2011.

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**19. HELD-TO-MATURITY FINANCIAL ASSETS (Continued)**

The remaining part of the Government debt securities amounting to Denar 18,791 thousand (2009: Denar 22,388 thousand) represent government securities issued by the Republic of Macedonia in February 2004 for denationalization. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in annual installments commencing from June 2006 to June 2014.

The Corporate debt securities represent security issued from "NLB Tutunska Banka AD"- Skopje in the amount of Denar 308,464 thousand (2009: Denar 306,692 thousand) and is non-convertible and non-transferrable corporate debt security. This debt security bears an interest rate of six-month EURIBOR plus 1.2% p.a. with semi-annual payment of interest. The principal amount is repayable in three years commencing from May 2009 to November 2011.

**20. PLACEMENTS WITH, AND LOANS TO BANKS**

	Year ended		In thousands of Denars	
	December 31, 2010		Year ended	
	Short-term	Long-term	December 31, 2009	Long-term
Loans to domestic banks	235	-	50,045	-
Loans to foreign banks	81,683	-	76,902	-
Other placement to foreign banks	-	61,943	-	44,135
Interest receivable	293	-	434	-
	<u>82,211</u>	<u>61,943</u>	<u>127,381</u>	<u>44,135</u>
Less: Allowance for impairment	(23,805)	-	(24,741)	-
	<u>58,406</u>	<u>61,943</u>	<u>102,640</u>	<u>44,135</u>
	<u>120,349</u>		<u>146,775</u>	

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2010	December 31, 2009
Balance at the beginning of the year	24,741	29,093
Charge for the year	-	33
Release	-	(4,142)
Write off	(936)	(243)
Balance at the end of the year	<u>23,805</u>	<u>24,741</u>

Part of the loans to foreign banks amounting to Denar 75,975 thousand (2009: Denar 75,975 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26).

In other placement to foreign banks are included restricted accounts amounting to Denar 61,943 thousand (2009: Denar 44,135 thousand) and represent deposits held with Barclays' Bank, London, Great Britain as a collateral for the transactions performed with VISA payment cards. These funds are not available for the Bank's daily operations.

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

	In thousand of Denars			
	Year ended December 31, 2010		Year ended December 31, 2009	
	Short-term	Long-term	Short-term	Long-term
Non-financial entities				
principal amount	9,827,167	9,348,516	9,710,656	9,874,623
interest receivable	85,241	-	78,227	-
State				
principal amount	18,719	19,790	22,254	29,727
interest receivable	213	-	205	-
Not-for-profit organizations				
principal amount	884	14,563	351	15,227
interest receivable	67	-	103	-
Financial entities, except banks				
principal amount	-	-	-	83
interest receivable	-	-	1	-
Households				
principal amount				
housing loans	139,752	6,619,781	116,870	5,982,100
consumer loans	527,620	6,646,834	412,987	4,999,938
auto loans	81,930	1,606,844	51,403	1,846,432
credit cards	1,004,823	8,979,869	1,052,387	10,061,070
other loans	149,349	1,119,716	150,623	1,081,484
interest receivable	178,472	-	147,659	-
Non-residents, except banks				
principal amount	19	-	15	-
Current maturity	4,248,803	(4,248,803)	4,278,490	(4,278,490)
	<u>16,263,059</u>	<u>30,107,110</u>	<u>16,022,231</u>	<u>29,612,194</u>
Total gross loans	46,370,169		45,634,425	
Provision for impairment	(3,924,096)		(3,897,580)	
	<u>42,446,073</u>		<u>41,736,845</u>	

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



STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

21. LOANS TO CUSTOMERS (Continued)

a) Analysis of loans by type of customer (continued)

Movement in provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2010	December 31, 2009
Balance at the beginning of the year	3,897,580	3,703,137
Charge for the year	1,853,100	1,354,455
Release	(1,298,265)	(410,050)
Write off	(528,319)	(749,962)
Balance at the end of the year	<u>3,924,096</u>	<u>3,897,580</u>

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2010	December 31, 2009
Agriculture and forestry	654,825	910,908
Fishing	-	11,556
Mining of ore and stone	82,646	103,579
Processing industry	6,422,675	8,041,075
Electricity, gas and water	1,085,638	482,301
Construction	1,207,437	981,946
Trading (wholesale and retail)	4,266,914	3,923,236
Hotels and restaurants	465,665	454,818
Transport and communications	894,295	777,013
Real estate	197,956	538,384
Public administration	40,333	58,121
Education	713,160	312,246
Health and social work	176,985	175,877
Other communal activities	109,729	89,070
Other	<u>26,127,815</u>	<u>24,876,715</u>
	<u>42,446,073</u>	<u>41,736,845</u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**21. LOANS TO CUSTOMERS (Continued)**

**e) Analysis of loans by type of security**

	<b>In thousands of Denars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Cash and cash equivalents or restricted accounts held in Bank	542,221	556,782
Bank guarantees	133,246	80,024
Corporate guarantees	531,817	1,361,496
Property	19,458,174	19,309,942
Equipment and other movable assets	3,903,362	4,249,151
Other securities	2,814,107	277,465
Non-secured	15,063,146	15,901,985
	<u>42,446,073</u>	<u>41,736,845</u>

**d) Risks and uncertainties**

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

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 2010, when the global financial crisis have enforceable to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital 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 2011 and beyond.

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

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**22. OTHER RECEIVABLES**

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Assets acquired through foreclosure proceedings, net	936,362	643,976
Less: Allowance for impairment (Note 11)	<u>(120,922)</u>	<u>(62,607)</u>
	815,440	581,369
Trade receivables	60,973	104,321
Prepaid expenses	51,884	44,255
Receivables for commission and fees	29,394	33,692
Advances to suppliers	5,381	9,751
Other receivables	<u>72,497</u>	<u>100,420</u>
	1,035,569	873,808
Less: Allowance for impairment for other receivables, less assets acquired through foreclosure proceedings	<u>(51,480)</u>	<u>(28,776)</u>
	<u>984,089</u>	<u>845,032</u>

The movement in the provision for impairment in other receivables, less assets acquired through foreclosure proceedings is as follows:

	<b>In thousands of Denars</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
	<u>          </u>	<u>          </u>
Balance at the beginning of the year	28,776	7,398
Charge for the year	30,339	16,285
Release	(5,023)	(26,115)
Other	<u>(2,612)</u>	<u>31,208</u>
Balance at the end of the year	<u>51,480</u>	<u>28,776</u>

Assets acquired through foreclosure proceedings include business premises, apartments and buildings and are not used by the Bank for its core operations.

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

23. INVESTMENT PROPERTY

	<u>In thousands of Denars</u>
<b>Cost</b>	
Balance at January 1, 2009	161,560
Disposals	<u>(1,136)</u>
Balance at December 31, 2009	160,424
Balance at January 1, 2010	160,424
Transfer from assets acquired through foreclosure procedure	1,174
Additions	1,362
Disposals	<u>(1,274)</u>
Balance at December 31, 2010	161,686
<b>Accumulated depreciation</b>	
Balance at January 1, 2009	18,990
Charge for the year	2,633
Disposals	<u>(439)</u>
Balance at December 31, 2009	21,184
Balance at January 1, 2010	21,184
Charge for the year	362
Disposals	<u>(18)</u>
Balance at December 31, 2010	21,528
<b>Impairment</b>	
Balance at January 1, 2009	56,143
Charge for the year (Note 11)	<u>17,226</u>
Balance at December 31, 2009	73,369
Balance at January 1, 2010	73,369
Charge for the year (Note 11)	<u>3,842</u>
Balance at December 31, 2010	77,211
<b>Carrying amount</b>	
Balance at December 31, 2010	<u>62,947</u>
Balance at December 31, 2009	<u>65,871</u>

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

24. INTANGIBLE ASSETS, NET

	In thousands of Denars			
	Software	Leasehold improve- ments	Other intangibles	Total
<b>Cost</b>				
Balance at January 1, 2009	522,899	74,715	11,853	609,467
Additions	20,596	13,404	2,806	36,806
Transfer	4,276	6,498	(4,852)	5,922
Disposals	(63,288)	(351)	-	(63,639)
Balance at December 31, 2009	<u>484,483</u>	<u>94,266</u>	<u>9,807</u>	<u>588,556</u>
Balance at January 1, 2010	484,483	94,266	9,807	588,556
Additions	31,355	11,769	3,519	46,643
Transfer	530	15,304	(461)	15,373
Balance at December 31, 2010	<u>516,368</u>	<u>121,339</u>	<u>12,865</u>	<u>650,572</u>
<b>Accumulated amortization</b>				
Balance at January 1, 2009	389,629	39,372	-	429,001
Charge for the year	40,754	11,135	-	51,889
Disposals	(63,288)	(351)	-	(63,639)
Balance at December 31, 2009	<u>367,095</u>	<u>50,156</u>	<u>-</u>	<u>417,251</u>
Balance at January 1, 2010	367,095	50,156	-	417,251
Charge for the year	37,145	16,416	-	53,561
Transfer	-	333	-	333
Balance at December 31, 2010	<u>404,240</u>	<u>66,905</u>	<u>-</u>	<u>471,145</u>
<b>Carrying amount</b>				
Balance at December 31, 2010	<u>112,128</u>	<u>54,434</u>	<u>12,865</u>	<u>179,427</u>
Balance at December 31, 2009	<u>117,388</u>	<u>44,110</u>	<u>9,807</u>	<u>171,305</u>

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

25. PROPERTY AND EQUIPMENT, NET

	In thousands of Denars			
	Buildings	Furniture and equipment	Construction in progress	Total
<b>Cost</b>				
Balance at January 1, 2009	1,166,400	1,407,699	22,747	2,596,846
Additions	22,352	46,362	80,979	149,693
Transfer	4,120	51,634	(61,676)	(5,922)
Disposals	(38,393)	(188,775)	-	(227,168)
Balance at December 31, 2009	<u>1,154,479</u>	<u>1,316,920</u>	<u>42,050</u>	<u>2,513,449</u>
Balance at January 1, 2010	1,154,479	1,316,920	42,050	2,513,449
Additions	1,589	29,354	47,204	78,147
Transfer	(5,983)	51,403	(60,793)	(15,373)
Disposals	(9,196)	(82,906)	-	(92,102)
Balance at December 31, 2010	<u>1,140,889</u>	<u>1,314,771</u>	<u>28,461</u>	<u>2,484,121</u>
<b>Accumulated depreciation</b>				
Balance at January 1, 2009	335,418	1,137,526	-	1,472,944
Charge for the year	28,571	104,447	-	133,018
Disposals	(5,476)	(188,024)	-	(193,500)
Balance at December 31, 2009	<u>358,513</u>	<u>1,053,949</u>	<u>-</u>	<u>1,412,462</u>
Balance at January 1, 2010	358,513	1,053,949	-	1,412,462
Charge for the year	28,201	108,968	-	137,169
Transfer	(333)	-	-	(333)
Disposals	(6,832)	(82,257)	-	(89,089)
Balance at December 31, 2010	<u>379,549</u>	<u>1,080,660</u>	<u>-</u>	<u>1,460,209</u>
<b>Carrying amount</b>				
Balance at December 31, 2010	<u>761,340</u>	<u>234,111</u>	<u>28,461</u>	<u>1,023,912</u>
Balance at December 31, 2009	<u>795,966</u>	<u>262,971</u>	<u>42,050</u>	<u>1,100,987</u>

The Bank's buildings as of December 31, 2010 include property with a net carrying amount of Denar 108,800 thousand (2009: Denar 131,995 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2010 and 2009 the Bank's property and equipment are free of any pledges and mortgages.

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
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26. DEPOSITS FROM BANKS

	December 31, 2010		In thousands of Denars December 31, 2009	
	Up to one year	Over one year	Up to one year	Over one year
<b>Current accounts</b>				
domestic banks	16,102	-	7,889	-
foreign banks	78,564	-	53,732	-
	<u>94,666</u>	<u>-</u>	<u>61,621</u>	<u>-</u>
<b>Time deposits</b>				
foreign banks	1,845,150	-	2,263,408	-
	<u>1,845,150</u>	<u>-</u>	<u>2,263,408</u>	<u>-</u>
<b>Restricted deposits</b>				
domestic banks	-	307,525	-	305,866
foreign banks	72,097	-	63,640	-
	<u>72,097</u>	<u>307,525</u>	<u>63,640</u>	<u>305,866</u>
<b>Interest payable on deposits</b>				
domestic banks	560	-	449	-
foreign banks	215	-	191	-
	<u>775</u>	<u>-</u>	<u>640</u>	<u>-</u>
	<u>2,012,688</u>	<u>307,525</u>	<u>2,389,309</u>	<u>305,866</u>
<b>Total deposits from banks</b>	<u>2,320,213</u>		<u>2,695,175</u>	

The restricted deposits held with foreign banks amounting to Denar 72,097 thousand (2009: Denar 63,640 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 20).

STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

27. DEPOSITS FROM CUSTOMERS

	December 31, 2010		In thousands of Denars December 31, 2009	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	5,382,660	-	4,484,974	-
Sight deposits	7,062	-	16,628	-
Time deposits	2,678,394	455,166	7,294,278	451,255
Restricted deposits	390,740	214,618	136,077	263,802
Other deposits	52,185	-	79,156	-
Interest payable on deposits	64,004	-	121,646	-
	<u>8,575,045</u>	<u>669,784</u>	<u>12,132,759</u>	<u>715,057</u>
State				
Current accounts	75,505	-	73,486	-
Time deposits	4,101	-	2,500	-
Restricted deposits	165	-	361	-
Interest payable on deposits	20	-	14	-
	<u>79,791</u>	<u>-</u>	<u>76,361</u>	<u>-</u>
Not-for-profit organizations				
Current accounts	380,675	-	348,240	-
Sight deposits	19	-	617	-
Time deposits	224,326	9,180	216,063	9,180
Restricted deposits	4,617	10,914	3,151	10,539
Interest payable on deposits	4,488	-	4,278	-
	<u>614,125</u>	<u>20,094</u>	<u>572,349</u>	<u>19,719</u>
Financial institutions, except banks				
Current accounts	58,820	-	64,251	-
Time deposits	758,228	211,737	774,841	44,602
Restricted deposits	494	78	478	29,961
Interest payable on deposits	10,801	-	10,191	-
	<u>828,343</u>	<u>211,815</u>	<u>849,761</u>	<u>74,563</u>
Households				
Current accounts	10,365,458	-	11,349,822	-
Time deposits	26,044,857	4,572,337	21,368,896	3,527,870
Restricted deposits	456,890	205,611	224,492	99,516
Interest payable on deposits	88,730	-	77,586	-
	<u>36,955,935</u>	<u>4,777,948</u>	<u>33,020,796</u>	<u>3,627,386</u>
Non-residents, except banks				
Current accounts	279,880	-	417,376	-
Time deposits	238,021	36,029	173,099	8,996
Restricted deposits	74,673	1,331	55,887	-
Interest payable on deposits	144,354	-	54,345	-
	<u>736,928</u>	<u>37,360</u>	<u>700,707</u>	<u>8,996</u>
Current maturity	<u>2,636,767</u>	<u>(2,636,767)</u>	<u>1,769,235</u>	<u>(1,769,235)</u>
Total	<u>50,426,934</u>	<u>3,080,234</u>	<u>49,121,968</u>	<u>2,676,486</u>
<b>Total deposits from customers</b>	<u>53,507,168</u>		<u>51,798,454</u>	



STOPANSKA BANKA AD, SKOPJE

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

28. LOANS PAYABLE

	December 31, 2010		In thousands of Denars December 31, 2009	
	Up to one year	Over one year	Up to one year	Over one year
<i>Domestic sources:</i>				
<b>Agency for assets management -</b> long-term loan in amount of Denar 150,529 thousand (2009: Denar 150,529 thousand) is payable in January 2020 on a once off basis, Related fees for these loans are 1.5% p.a.	1,130	149,399	1,130	149,399
<b>Agency for undeveloped regions -</b> Matures in 2010 and interest rate is equal to 3.9% p.a. (2009: 3.9% p.a.)	26,690	-	28,896	1,792
<b>MBPR -</b> Matures in 2015 and interest rate at 1.0% p.a. (2009: none.)	458	228,655	-	-
	<u>28,278</u>	<u>378,054</u>	<u>30,026</u>	<u>151,191</u>
<i>Foreign sources:</i>				
<b>Council of Europe Social Development Fund -</b> matures in 2014 and bears fixed interest rate at 6.73% p.a.	204	31,446	256	39,096
<b>ICDF Taiwan -</b> 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.	112	34,368	98	40,703
<b>Other banks</b>	-	5,957	-	5,957
	<u>316</u>	<u>71,771</u>	<u>354</u>	<u>85,756</u>
Current maturity of long-term loans	65,749	(65,749)	18,656	(18,656)
<b>Total</b>	<u>94,343</u>	<u>384,076</u>	<u>49,036</u>	<u>218,291</u>
<b>Total loans payable</b>	<u>478,419</u>		<u>267,327</u>	

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**29. SUBORDINATED DEBT**

	<u>Maturity</u>	<u>Interest rate</u>	<u>In thousands of Denars</u>	
			<u>December 31, 2010</u>	<u>December 31, 2009</u>
National Bank of Greece:				
Principal EUR 20,000,000	December 26, 2016	3-month EURIBOR +0.85% p.a.	1,230,100	1,223,464
Principal EUR 25,000,000	November 5, 2018	3-month EURIBOR +3.7% p.a.	1,537,625	1,529,330
Accrued interest			<u>11,614</u>	<u>10,539</u>
			<u>2,779,339</u>	<u>2,763,333</u>

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.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**30. OTHER LIABILITIES**

	In thousands of Denars	
	December 31, 2010	December 31, 2009
Trade payables	7,785	11,209
Fee and commissions liabilities	-	30,651
Accrued expenses	36,080	32,751
Deferred revenue	25,753	21,792
Liabilities for salaries	-	66
Liabilities for bonuses to employees	-	25,661
Preference shares	90,978	90,978
Dividends payable for preferred shares	9,104	10,251
Claimed transactions with VISA cards	5,414	4,811
Unallocated cash receipts due to depositors and others	302,217	173,933
Early repayments of loans and other liabilities	25,658	33,998
	<u>502,989</u>	<u>436,101</u>

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

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

As of December 31, 2010 the Bank allocated an amount of Denar 9,068 thousand as a dividend to the holders of these shares for the year 2010 (2009: Denar 9,325 thousand).

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31. PROVISIONS

In thousands of Denars

	<u>Off-balance sheet items</u>	<u>Employees benefits</u>	<u>Litigation</u>	<u>Total</u>
Balance at January 1, 2009	172,572	16,297	3,200	192,069
Additions	14,665	23,837	12,240	50,742
Release	<u>(85,591)</u>	<u>(1,347)</u>	<u>-</u>	<u>(86,938)</u>
Balance at December 31, 2009	<u>101,646</u>	<u>38,787</u>	<u>15,440</u>	<u>155,873</u>

In thousands of Denars

	<u>Off-balance sheet items</u>	<u>Employees benefits</u>	<u>Litigation</u>	<u>Total</u>
Balance at January 1, 2010	101,646	38,787	15,440	155,873
Additions	26,460	2,207	7,793	36,460
Release	<u>(19,412)</u>	<u>(11,156)</u>	<u>-</u>	<u>(30,568)</u>
Balance at December 31, 2010	<u>108,694</u>	<u>29,838</u>	<u>23,233</u>	<u>161,765</u>

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

The principal actuarial assumptions used were as follows:

	<u>2010</u>	<u>2009</u>
Interest rate	5.25%	6.00%
Average salary increase	5.50%	5.50%
Inflation rate	3.00%	3.00%

*Mortality rate:*

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

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**32. EQUITY**

**a) Share capital**

The share capital of the Bank as of December 31, 2010 and 2009 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

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

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2010 and 2009, officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>% of participation</b>	<b>In thousands of Denars</b>	<b>% of participation</b>	<b>In thousand of Denars</b>
National Bank of Greece	94.64%	3,323,094	73.04%	2,564,602
International Finance Corporation ("IFC")	-	-	10.80%	379,246
European Bank for Reconstruction and Development ("EBRD")	-	-	10.80%	379,246
Others	5.36%	188,148	5.36%	188,148
	<u>100%</u>	<u>3,511,242</u>	<u>100%</u>	<u>3,511,242</u>

**b) Revaluation reserves**

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

**Components of other comprehensive income**

	<b>In thousands of Denars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<i>Available-for-sale financial assets:</i>		
(Losses)/gains arising during the year, net	(10,227)	(24,760)
Less: Reclassification adjustments for gains included in profit and loss	-	233
Other comprehensive income	(10,227)	(24,527)
Less: Income tax relating to components of other comprehensive income	-	3,335
<b>Other comprehensive income for the year, net of tax</b>	<u>(10,227)</u>	<u>(21,192)</u>

**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**32. EQUITY (Continued)**

**c) Statutory reserve**

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

**d) Special fund**

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

**33. EARNINGS PER SHARE**

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

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

	<b>December 31,</b> <b>2010</b>	<b>December 31,</b> <b>2009</b>
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	876,248	727,359
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	50.19	41.66
Diluted earnings per share (in Denars)	50.19	41.66

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**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 thousand of Denars			Total
	Parent company	Key management personnel	Other related parties	
<b>31 December 2010</b>				
<b>Assets</b>				
Current accounts	10,694	-	4,286	14,980
Loans	882,101	1,576	-	883,677
	<u>892,795</u>	<u>1,576</u>	<u>4,286</u>	<u>898,657</u>
<b>Liabilities</b>				
Deposits	1,845,150	34,148	4,275	1,883,573
Subordinated debt	2,767,725	-	-	2,767,725
Other liabilities	11,614	-	-	11,614
	<u>4,624,489</u>	<u>34,148</u>	<u>4,275</u>	<u>4,662,912</u>
<b>Off-balance sheet items</b>				
Issued guarantees	-	-	111,246	111,246
	<u>-</u>	<u>-</u>	<u>111,246</u>	<u>111,246</u>
<b>31 December 2009</b>				
<b>Assets</b>				
Current accounts	5,441	-	6,864	12,305
Loans	734,708	2,733	-	737,441
	<u>740,149</u>	<u>2,733</u>	<u>6,864</u>	<u>749,746</u>
<b>Liabilities</b>				
Deposits	2,267,643	9,204	4,235	2,281,082
Subordinated debt	2,752,794	-	-	2,752,794
Other liabilities	10,832	-	-	10,832
	<u>5,031,269</u>	<u>9,204</u>	<u>4,235</u>	<u>5,044,708</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010**

**34. RELATED PARTY TRANSACTIONS (Continued)**

**Statement of comprehensive income**

	In thousand of Denars			
	<u>Parent company</u>	<u>Key management personnel</u>	<u>Other related parties</u>	<u>Total</u>
<b>31 December 2010</b>				
<b>Income</b>				
Interest income	1,914	90	11	2,015
<b>Expenses</b>				
Interest expense	90,599	-	17	90,616
Other expenses	-	24,214	-	24,214
	<u>90,599</u>	<u>24,214</u>	<u>17</u>	<u>114,830</u>
<b>31 December 2009</b>				
<b>Income</b>				
Interest income	4,726	195	-	4,921
<b>Expenses</b>				
Interest expense	118,844	-	-	118,844
Other expenses	-	25,942	-	25,942
	<u>118,844</u>	<u>25,942</u>	<u>-</u>	<u>144,786</u>

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

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

	In thousands of Denars	
	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Short-term compensation and benefits	17,659	13,810
Other	6,555	12,132
	<u>24,214</u>	<u>25,942</u>

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



**STOPANSKA BANKA AD, SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**35. COMMITMENTS AND CONTINGENCIES**

**a) Off-balance sheet items**

	<b>In thousands of Denars</b>	
	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Payment guarantees:		
in Denars	1,128,697	931,359
in foreign currency	341,347	554,090
in Denars with foreign currency clause	42,409	155,381
Performance guarantees:		
in Denars	747,960	609,824
in foreign currency	141,231	42,357
in Denars with foreign currency clause	1,509,700	512,718
Letters of credit in foreign currency	515,963	63,083
Cash covered letter of credit	45,180	67,268
Cash covered letter of guarantees	295,551	249,018
Unused current account overdrafts	2,410,089	1,117,401
Credit cards commitments	5,969,219	5,405,173
Other	318,283	293,207
	<u>13,465,629</u>	<u>10,000,879</u>
Less: provision for off-balance sheet items (Note 31)	<u>(108,694)</u>	<u>(101,646)</u>
	<u><u>13,356,935</u></u>	<u><u>9,899,233</u></u>

**b) Managed funds**

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

	<b>31 December 2010</b>			<b>In thousand of Denars 31 December 2009</b>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Loans in Denars	266,067	266,067	-	265,309	265,309	-
Loans in foreign currency	233,305	233,305	-	227,502	227,502	-
Other receivables in Denars	680,902	680,902	-	591,007	591,007	-
Other receivables in foreign currency	<u>139,271</u>	<u>139,271</u>	<u>-</u>	<u>202,803</u>	<u>202,803</u>	<u>-</u>
	<u><u>1,319,545</u></u>	<u><u>1,319,545</u></u>	<u><u>-</u></u>	<u><u>1,286,621</u></u>	<u><u>1,286,621</u></u>	<u><u>-</u></u>

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

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35. COMMITMENTS AND CONTINGENCIES (Continued)

c. Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2010 the legal proceedings filed against the Bank amounted to Denar 23,233 thousand. This amount does not include any penalty interest. 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 allocated provisions for impairment losses upon litigation in the amount of Denar 7,793 thousand (2009: Denar 12,240 thousand).

d. Lease commitments

*The Bank as lessor*

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 2,531 thousand (2009: Denar 3,604 thousand).

*The Bank as lessee*

The payments for operating lease were 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 57,522 thousand (2009: Denar 45,469 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. EXCHANGE RATES

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

	<u>2010</u>	<u>In Denars</u> <u>2009</u>
1 USD	46.3140	42.6651
1 EUR	61.5050	61.1732