

**STOPANSKA BANKA AD - SKOPJE**

**Audit Financial Statements  
for the year ended  
December 31, 2010**

**CONTENTS**

	<b>Page</b>
Responsibility for the Financial Statements	1
Income Statement	2
Balance Sheet	3 - 4
Statement of Changes in Equity	5 - 6
Statement of Cash Flows	7 - 8
Notes to the Financial Statements	9 - 119

**RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

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

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

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev  
Chief Executive Officer

Mr. Diomidis Nikolettopoulos  
Chief Finance and Operations Officer

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (page 3 to 119) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the balance sheet as of December 31, 2010 and the related income statement, statement of changes in equity and cash flow statement 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 accounting standards applied in the Republic of Macedonia and regulations of the National Bank of the Republic of Macedonia and the internal controls that are relevant for the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 the results of its operations, changes in equity and its cash flows for the year then ended in accordance with accounting standards applied in the Republic of Macedonia.

Deloitte DOO  
Skopje, February 28, 2011

Lidija Nanus  
Manager  
Chartered Accountant

Aleksandar Arizanov  
Chartered Accountant

**INCOME STATEMENT****for the period from January 1, 2010 to December 31, 2010****(In thousands of Denars)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
Interest income		4,888,716	5,212,928
Interest expense		(2,387,026)	(2,285,040)
<b>Net interest income</b>	6	<u>2,501,690</u>	<u>2,927,888</u>
Fee and commission income		987,563	921,509
Fee and commission expense		(80,851)	(69,225)
<b>Net fee and commission income</b>	7	<u>906,712</u>	<u>852,284</u>
Trading (expense)/income, net	8	(12,028)	42,524
Trading (expense)/income from other financial instruments, net	9	-	-
Foreign exchange gains, net	10	157,772	161,875
Other operating income	11	260,676	224,234
Share in the profit of associates	24	-	-
Impairment losses on financial assets, net	12	(890,691)	(1,478,707)
Impairment losses on non-financial assets, net	13	(62,157)	(79,833)
Personnel expenses	14	(758,503)	(717,180)
Depreciation and amortization	15	(192,175)	(186,378)
Other operating expenses	16	(1,104,873)	(1,049,428)
Share in the loss of associated companies	24	-	-
<b>Profit before tax</b>		806,423	697,279
Income tax	17	<u>(3,747)</u>	<u>(7,106)</u>
<b>Net profit for the year</b>		<u>802,676</u>	<u>690,173</u>
<b>Earning per shares</b>	41		
Basic earnings per share (in MKD)		45.98	39.53
Diluted earnings per share (in MKD)		45.98	39.53

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:

Mr. Gligor Bishev  
Chief Executive Officer

Mr. Diomidis Nikolettopoulos  
Chief Finance and Operations Officer

**BALANCE SHEET**  
**As at December 31, 2010**  
**(In thousands of Denars)**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>			
Cash and cash equivalents	18	20,329,498	18,003,692
Trading financial assets	19	120,862	199,274
Financial assets at fair value through income statement determined as such at initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Placements with, and loans to banks	22.1	120,349	146,775
Loans to customers	22.2	42,221,428	41,600,738
Investments in securities	23	2,970,517	3,469,777
Investments in associates	24	-	-
Receivables for income tax (current)	30.1	4,801	10,283
Other receivables	25	183,623	262,833
Collateralized assets	26	-	-
Assets acquired through foreclosure proceedings	27	837,989	606,635
Intangible assets	28	124,993	127,196
Property and equipment	29	1,118,825	1,186,619
Deferred tax assets	30.2	15,504	9,684
Non-current assets held for sale and group for sale	31	-	-
<b>Total assets</b>		<u>68,048,389</u>	<u>65,623,506</u>
<b>LIABILITIES</b>			
Trading financial liabilities	32	-	1,196
Financial liabilities at fair value through income statement determined as such at initial recognition	33	-	-
Derivative obligation held for risk management	21	-	-
Deposits from banks and financial institutions	34.1	2,320,213	2,695,175
Deposits from customers	34.2	53,507,168	51,798,454
Issued debt securities	35	-	-
Loans payable	36	478,419	267,327
Subordinated debt	37	2,779,339	2,763,333
Special reserve and provisions	38	161,765	155,873
Income tax payable (current)	30.1	-	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	502,989	436,101
Liabilities directly related to group of assets for sale	31	-	-
<b>Total liabilities</b>		<u>59,749,893</u>	<u>58,117,459</u>

# STOPANSKA BANKA AD - SKOPJE

<b>EQUITY</b>			
Share capital	40	3,511,242	3,511,242
Share premia		-	-
Registered shares		-	-
Capital component of hybrid financial instruments		-	-
Other equity instruments		-	-
Revaluation Reserves	32	(652)	9,575
Other Reserves	32	710,972	607,446
Retained earnings		4,076,934	3,377,784
<b>Total equity and reserves</b>		<u>8,298,496</u>	<u>7,506,047</u>
<b>Total liabilities and equity and reserves</b>		<u>68,048,389</u>	<u>65,623,506</u>
Contingent assets	42	-	-
Contingent liabilities	42	<u>13,356,935</u>	<u>9,899,233</u>

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev  
Chief Executive Officer

Mr. Diomidis Nikolettopoulos  
Chief Finance and Operations Officer

**Statement of changes in equity and reserves  
for the period from January 1, 2010 to December 31, 2010  
(In thousands of Denars)**

	Equity					Other reserves		Revalued reserves				Retained earnings		Total equity and reserves
	Subscribed capital	Share premia	(Registered shares)	Capital component of hybrid financial instruments	Other equity instruments	Statutory reserve	Other reserves	Revalued reserve for assets available for sale	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	available for distribution to shareholders	limited for distribution to shareholders	
<b>As at January 1, 2009</b>	3,511,242	-	-	-	-	406,200	1,083	30,767	-	-	-	2,887,774	-	6,837,066
Changes in fair value of assets available for sale	-	-	-	-	-	-	-	(24,527)	-	-	-	-	-	(24,527)
Changes in fair value of protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of protection against risk of net investment in international operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/losses recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets)/liabilities recognized in equity	-	-	-	-	-	-	-	3,335	-	-	-	-	-	3,335
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total unrealized profit/(loss) recognized in equity</b>	-	-	-	-	-	-	-	(21,192)	-	-	-	-	-	(21,192)
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	690,173	-	690,173
Allocation of statutory reserve	-	-	-	-	-	200,163	-	-	-	-	-	(200,163)	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>As at December 31, 2009</b>	<u>3,511,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>606,363</u>	<u>1,083</u>	<u>9,575</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,377,784</u>	<u>-</u>	<u>7,506,047</u>



# STOPANSKA BANKA AD - SKOPJE

## Statement of changes in equity and reserves (continued) for the period from January 1, 2010 to December 31, 2010 (In thousands of Denars)

	Equity					Other reserves		Revalued reserves				Retained earnings		Total equity and reserves
	Subscribed capital	Share premium	(Registered shares)	Capital component of hybrid financial instruments	Other equity instruments	Statutory reserve	Other reserves	Revalued reserve for assets available for sale	Reserve for protection against risk	Foreign exchange gains/losses reserves	Other revalued reserves	available for distribution to shareholders	limited for distribution to shareholders	
<b>As at January 1, 2010</b>	3,511,242	-	-	-	-	606,363	1,083	9,575	-	-	-	3,377,784	-	7,506,047
Changes in fair value of assets available for sale	-	-	-	-	-	-	-	(10,227)	-	-	-	-	-	(10,227)
Changes in fair value of protection against cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of protection against risk of net investment in international operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/losses recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets)/liabilities recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total unrealized profit/(loss) recognized in equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issued shares within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the financial year	-	-	-	-	-	-	-	-	-	-	-	802,676	-	802,676
Allocation of statutory reserve	-	-	-	-	-	103,526	-	-	-	-	-	(103,526)	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sold registered shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>As at December 31, 2010</b>	<u>3,511,242</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>709,889</u>	<u>1,083</u>	<u>(652)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,076,934</u>	<u>-</u>	<u>8,298,496</u>

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev  
Chief Executive Officer

Mr. Diomidis Nikolettopoulos  
Chief Financial and Operating Officer

**STATEMENT OF CASH FLOW**  
**for the period from January 1, 2010 to December 31, 2010**  
**(In thousands of Denars)**

	<b>2010</b>	<b>2009</b>
<b>Cash flows (used in)/ generated from operating activities</b>		
<b>Profit before taxation</b>	806,423	697,279
<i>Adjustments for:</i>		
Depreciation of:		
- intangible assets	37,145	40,754
- property and equipment	155,030	145,624
Gain on sale of:		
- intangible assets	-	-
- property and equipment	(13,053)	(9,504)
- assets acquired through foreclosures	(8,427)	(13,453)
Loss on sale of:		
- intangible assets	-	-
- property and equipment	-	14
- assets acquired through foreclosures	-	-
Interest income	(4,888,716)	(5,212,928)
Interest expense	2,387,026	2,285,040
Net trading expense / (income)	12,028	(42,524)
Value adjustment of financial assets, on a net basis		
- Additional value adjustment	1,763,320	1,884,763
- Release of value adjustment	(872,629)	(406,056)
Impairment loss of non-financial assets, on a net basis:		
- Additional impairment loss	62,157	79,833
- Release of impairment loss	-	-
Special reserves:		
- additional provisions	36,460	50,742
- release of provisions	(30,568)	(86,938)
Dividend income	-	-
Share in profit/(loss) of associates	-	-
Other rectifications	62,353	78,467
Interest receipts	4,947,611	5,196,371
Interest paid	(2,427,211)	(2,255,399)
<b>Operating profit before changes in operating assets</b>	<b>1,966,949</b>	<b>2,432,085</b>
<i>(Increase)/decrease of operating assets:</i>		
Trading assets	78,412	(81,505)
Derivative assets held for risk management	-	-
Due from banks and financial institutions	26,426	321,642
Loans to customers	(1,485,905)	(1,396,076)
Pledged assets	-	-
Assets acquired through foreclosure proceedings	(293,511)	(93,709)
Reserve requirements in foreign currency	45,790	(494,037)
Obligatory deposit with NBRM in accordance with special legislative	-	335,360
Other receivables	53,734	96,610
Deferred tax assets	(5,820)	(8,054)
Non-current assets held for sale and group for sale	-	-
<i>Increase/(decrease) of operating liabilities:</i>		
Trading liabilities	(1,196)	1,196
Derivative liabilities held for risk management	-	-
Deposits from banks and financial institutions	(374,962)	1,873,543
Deposits from customers	1,708,714	3,827,474
Other liabilities	66,888	(57,109)
Liabilities directly related to group of assets for sale	-	-
<b>Net cash flows (used in)/ generated from operating activities before tax</b>	<b>1,847,519</b>	<b>6,757,420</b>
(Paid)/Return on income tax	(4,085)	(44,177)
<b>Net cash flows (used in)/ generated from operating activities</b>	<b>1,843,434</b>	<b>6,713,243</b>

**STATEMENT OF CASH FLOWS (continued)**  
**for the period from January 1, 2010 to December 31, 2010**  
**(In thousands of Denars)**

	<b>2010</b>	<b>2009</b>
<b>Cash flows from investing activities</b>		
(Investments in securities)	(1,547,849)	(1,915,537)
Inflows from sale of investments in securities	2,027,261	2,272,141
(Outflows for investments in subsidiaries and affiliates)	-	-
Inflows from sale of investments in subsidiaries and affiliates	-	-
(Acquisition of intangible assets)	(34,942)	(23,402)
Inflows from sale of intangible assets	-	-
(Acquisition of property and equipment)	(99,237)	(162,455)
Inflows from sale of property and equipment	25,811	37,532
(Outflows for non-current assets held for sale)	-	-
Inflows from non-current assets held for sale	-	-
(Other outflows from investing activities)	-	-
Other inflows from investing activities	2,624	8,749
<b>Net cash flows from investing activities</b>	<b>373,668</b>	<b>217,028</b>
<b>Cash flows from financing activities</b>		
(Repayment of issued debt securities)	-	-
Inflows from issued debt securities	-	-
(Repayment of loan payables)	(18,021)	(38,662)
Increase in loan payables	229,113	-
(Repayment of issued subordinated debt)	-	-
Inflows from issued subordinated debt	-	-
Inflows from issued shares/equity instruments within the period	-	-
(Acquisition of registered shares)	-	-
Sold registered shares	-	-
(Paid dividends)	(10,251)	(8,022)
(Other outflows from financing activities)	-	-
Other inflows from financing activities	16,006	-
<b>Net cash flows from financing activities</b>	<b>216,847</b>	<b>(46,684)</b>
Effects from adjustment of value of cash and cash equivalents	-	-
Effects from foreign exchange gains/losses of cash and cash equivalents	(62,353)	(78,467)
<b>Net-increase/(decrease) of cash and cash equivalents</b>	<b>2,371,596</b>	<b>6,805,120</b>
Cash and cash equivalents as at January 1	15,142,604	8,337,484
<b>Cash and cash equivalents as at December 31</b>	<b>17,514,200</b>	<b>15,142,604</b>

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

Signed on behalf of Stopanska Banka AD - Skopje:

Mr. Gligor Bishev  
Chief Executive Officer

Mr. Diomidis Nikolettopoulos  
Chief Financial and Operating Office

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

Stopanska Banka AD - Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 68 branches (2009: 66 branches).

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

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

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

The shares of the Bank quote at the regular market of the Macedonian Stock Exchange, at the market of joint-stock companies with special liability for reporting and the code under which they are quoted is:

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

The financial statements of the Bank for the year ended December 31, 2010 were approved for issuing by the Supervisory Board of the Bank on February 24, 2010.

**b) Bases for preparing the financial statements****Standards on the basis of which the financial statements were prepared**

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

Standards which are published, but still not in application

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

**Presentation of financial statements**

The accompanying financial statements of the Bank are presented in accordance with the form and contents of the balance sheet schemes referred to in the Instructions for the types and contents of banks' financial statements published in the Official Gazette of RM Nos. 118/2007, 20/2010 and 157/2010, (hereinafter referred to as "Instructions"), which in certain separate parts differ from the manner of presenting certain positions of the financial statements in accordance with the provisions of the International Accounting Standard (IAS) 1 - presentation of financial statements. Namely, certain reclassifications of separate positions were made in order to present the financial statements in form required according to the Instructions, and which potentially significantly differ with regard to IAS 1 in the following:

- Presentation of "Investments in real estate" (IAS 40) with net present value as at December 31, 2010 in the amount of MKD 63,028 thousand (2009: MKD 79,682 thousand) is included in Property and equipment and Assets acquired in foreclosures in the amount of MKD 40,479 thousand and MKD 22,549 thousand respectively (2009: MKD 41,923 thousand and MKD 37,759 thousand, respectively).

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

**1. INTRODUCTION (continued)****b) Bases for preparing the financial statements (continued)****Presentation of financial statements (continued)**

These financial statements have been prepared under the historical cost convention, except for the valuation of investment in financial assets available for sale assessed at fair value, as well as other financial assets and financial liabilities assessed at fair value through the income statement based on the going concern assumption.

The presentation of the financial statements in conformity with the accounting standards applied in the Republic of Macedonia requires the Bank management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the income and expenditure arising within the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

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

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

**c) Significant accounting policies****Interest income and expense**

Interest income and expense is recognized in the income statement for all interest-bearing instruments on a calculation basis, by amortized cost using the effective interest rate.

The method of effective interest rate method for calculating the amortized cost value of financial assets or financial liabilities through the allocation of interest income and expenditure for the relevant interest in the relevant period. The effective interest rate is the rate that the estimated discounted future cash inflows or outflows over the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying value of financial asset or financial liability. When calculating the effective interest rate, the Bank assesses the cash flows taking into account the agreed terms of financial instruments (for example, prepayment options) but does not take into account future losses. An integral part of the calculation of effective interest rate and all fees paid and fees and expenses between the parties, as well as transaction costs and all other premiums or discounts when granting loans.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Fee and commission income**

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

**Dividend income**

Dividend income is recognized when the right to receive payment is established for all shareholders that participate in the Bank's capital.

**Foreign exchange translation**

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

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

**Financial assets**

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

**Securities held-for-trading**

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

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.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

☒ Available-for-sale financial assets (continued)

Financial assets available for sale are those which are kept for an indefinite time, and they can be sold if there is a need to address the problems associated with liquidity or changes in interest rates, exchange rates or stock price. Disclosed portfolio composed of equity in banks, financial institutions and enterprises, on which the Bank has no control.

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

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

**Held-to-maturity financial assets**

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

**Loans originated by the Bank**

Loans originated by the Bank include loans where cash is provided directly to the borrower. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

Interest on loans originated by the Bank is included in interest income and is recognized on an accrual basis.

Loans to customers and financial institutions are stated at their net amount reduced by provisions for impairment.

**Impairment of financial assets**

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

In the case of equity investments classified as available-for-sale, if there is a significant or prolonged decline in the fair value of the security below its cost, they are considered in determining whether the assets are impaired.



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Impairment of financial assets (continued)**

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

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

**Impairment losses on loans and advances**

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

The allowances for losses on impairment and uncollectability and for other active on-balance sheet and off-balance sheet positions are determined in accordance with the regulations prescribed by the NBRM with validity on each balance sheet date, according to which the Bank is obliged to classify the active on-balance sheet and off-balance sheet positions into groups on the basis of the degree (size) of the risk and assess the amount of contingent impairment losses calculated by application of objective and subjective criteria with the following percentages:

<u>Risk category</u>	<u>31.12.2010 Percentage</u>	<u>31.12.2009 Percentage</u>
A	0%-10%	0%
B	10%-25%	10%
C	25%-50%	25%
D	50%-75%	50%
E	75%-100%	100%

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Impairment losses on loans and advances (continued)**

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

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

**Derecognizing of financial assets**

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

**Financial liabilities**

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Deposits from banks and other financial institutions and clients**

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

**Loans payable**

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

**Other payables**

Other payables, other than deferred loan origination fees, which are stated at fair value on initial recognition and subsequently measured at amortized cost, are stated at their nominal amounts.

**Derivative financial instruments**

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

**Derecognizing of financial liabilities**

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

**Property and equipment**

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2010****1. INTRODUCTION (continued)****c) Significant accounting policies (continued)****Property and equipment (continued)**

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

**Intangible assets**

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses, if there are such. Intangible assets include computer software and software that was acquired apart from hardware. Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is 5 years. The Bank annually reviews its intangible assets and assesses whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

**Impairment of tangible and intangible assets**

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

**Assets acquired through foreclosure proceedings**

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and is reported in foreclosed assets. Initially, these assets are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arise) and the fair value less estimated cost to sell, as determined by local certified valuers on the date of asset foreclosure.

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 1. INTRODUCTION (continued)

## c) Significant accounting policies (continued)

**Cash and cash equivalents**

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

**Managed funds**

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

**Provisions**

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

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

**Employment benefits**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

**Leases**

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

**d) Critical accounting judgments and estimates**

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

**Fair value of financial instruments**

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

The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

In the Republic of Macedonia sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2010****1. INTRODUCTION (continued)****d) Critical accounting judgments and estimates****Fair value of financial instruments (continued)**

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 lifetime of tangible and intangible assets**

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

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

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

**Financial crises**

Recent 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.

**NOTES TO THE FINANCIAL STATEMENTS**

**December 31, 2010**

**1. INTRODUCTION (continued)**

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

Except as stated in Note 1.b), there are no other changes in the accounting policies in preparing the enclosed financial statements. These changes in the accounting policies refer to the calculation of loan impairment provisions and other active on-balance and off-balance sheet items and are the result of changes in legal regulations prescribed by NBRM, which do not require retrospective application of these changes.

**f) Compliance with legislation**

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

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



**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2010****2. RISK MANAGEMENT**

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

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

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

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

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

**2.1 Credit risk**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

The Bank has internal system of client classification the main purpose of which is to determine their creditworthiness and assess the acceptable level of credit risk at the start of lending. Classification of clients to which the Bank is exposed to is reviewed at least on annual basis.

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

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

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

**2.1.2 Impairment and provisioning policies**

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

The classification is made according to the following criteria:

- client's creditworthiness;
- client's regularity in settling the liabilities, and
- collateral quality.

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

The individual approach encompasses the individually significant exposures that are above materiality thresholds set by the Bank. The materiality threshold is 0.007% of the total exposure to credit risk of the Bank. Impairment provision of individually assessed items on individual base are determined by evaluation of generated loss on the Balance Sheet date, which represents difference between the carrying and current value of projected future cash flows. Effective interest rate is used at discounting the future cash flows that include also the collateral value.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

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

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

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

Calculated impairment provision moves within the following limits:

- 0-10% of credit risk exposure classified into A risk category
- 10-25% of credit risk exposure classified into B risk category
- 25-50% of credit risk exposure classified into C risk category
- 50-75% of credit risk exposure classified into D risk category
- 75-100% of credit risk exposure classified into E risk category

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

**A. Analysis of maximum exposure to credit risk**

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
I. Carrying amount of exposures for which value adjustment/special reserve has been allocated																		
<i>Carrying amount of separate significant exposures before value adjustment and special reserve on an individual basis</i>																		
A risk category	120,350	146,808	14,626,345	6,071,289	348,370	439,415	2,620,766	3,028,979	20,329,498	18,003,692	26,050	16,157	130,032	242,391	6,117,115	2,689,348	44,318,526	30,638,079
B risk category	-	-	1,494,153	1,928,261	-	-	-	-	-	-	256	64	1	18	2,348	22,639	1,496,758	1,950,982
C risk category	-	-	1,093,679	2,057,920	-	-	-	-	-	-	2,967	2,743	6,426	116	241	4,710	1,103,313	2,065,489
D risk category	-	-	1,083,483	1,331,247	-	-	-	-	-	-	3,968	387	-	4,084	1,177	-	1,088,628	1,335,718
E risk category	23,804	24,708	2,722,850	1,962,460	290,939	286,579	-	-	-	-	13,144	14,341	36,097	3,391	188,374	81,570	3,275,208	2,373,049
	144,154	171,516	21,020,510	13,351,177	639,309	725,994	2,620,766	3,028,979	20,329,498	18,003,692	46,385	33,692	172,556	250,000	6,309,255	2,798,267	51,282,433	38,363,317
(Value adjustment and special reserve on an individual basis)	(23,805)	(24,741)	(3,908,870)	(3,839,989)	(289,558)	(285,196)	-	-	-	-	(14,634)	(15,327)	(37,634)	(13,400)	(91,348)	(88,589)	(4,365,849)	(4,267,242)
<b>Carrying amount of separate significant exposures less value adjustment and special reserve on an individual basis</b>	120,349	146,775	17,111,640	9,511,188	349,751	440,798	2,620,766	3,028,979	20,329,498	18,003,692	31,751	18,365	134,922	236,600	6,217,907	2,709,678	46,916,584	34,096,075

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
<i>Carrying amount of exposures assessed on a group basis before value adjustment and special reserve on a group basis</i>																		
- separate insignificant exposures (small loans portfolio)	-	-	22,857,093	23,204,598	-	-	-	-	-	-	-	-	17,028	7,921	7,156,374	7,202,612	30,030,495	30,415,131
- separate significant exposures not impaired on a separate basis	-	-	2,395,483	1,164,066	-	-	-	-	-	-	-	-	-	9	-	-	2,395,483	1,164,075
(Value adjustment and special reserve on a group basis)	-	-	(142,788)	(169,288)	-	-	-	-	-	-	-	-	(78)	(62)	(17,346)	(13,057)	(160,212)	(182,407)
<b>Carrying amount of exposures assessed on a group basis less value adjustment and special reserve on a group basis</b>	-	-	25,109,788	24,199,376	-	-	-	-	-	-	-	-	16,950	7,868	7,139,028	7,189,555	32,265,766	31,396,799

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
II. Carrying amount of exposures for which there has been no value adjustment/special reserve allocated																		
mature claims																		
<i>Maturity structure of mature claims for which no value adjustment has been allocated</i>																		
up to 30 days	-	-	11,936	60,447	-	-	-	-	-	-	-	-	-	-	-	-	11,936	60,447
<i>Carrying amount of mature claims for which no value adjustment has been allocated</i>	-	-	11,936	60,447	-	-	-	-	-	-	-	-	-	-	-	-	11,936	60,447
non-mature claims																		
Restructured claims	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other claims	-	-	-	7,829,727	-	-	-	-	-	-	-	-	-	-	-	-	-	7,829,727
<i>Carrying amount of non-mature claims for which no value adjustment has been allocated</i>	-	-	-	7,829,727	-	-	-	-	-	-	-	-	-	-	-	-	-	7,829,727

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
Total carrying amount of claims with credit risk before value adjustment and special reserve	144,154	171,516	46,273,086	45,610,015	639,309	725,994	2,620,766	3,028,979	20,329,498	18,003,692	46,385	33,692	189,584	257,930	13,465,629	10,000,879	83,708,411	77,824,776
(Total value adjustment and special reserve)	(23,805)	(24,741)	(4,051,658)	(4,009,277)	(289,558)	(285,196)	-	-	-	-	(14,634)	(15,327)	(37,712)	(13,462)	(108,694)	(101,646)	(4,526,061)	(4,449,649)
Total carrying amount of claims with credit risk less value adjustment and special reserve	120,349	146,775	42,221,428	41,600,738	349,751	440,798	2,620,766	3,028,979	20,329,498	18,003,692	31,751	18,365	151,872	244,468	13,356,935	9,899,233	79,182,350	73,375,127

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
<i>Value of collateral for credit exposure assessed for impairment on an individual basis</i>																
First-class security instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	577,198	623,717	-	-	307,525	305,866	-	-	-	-	-	-	884,723	929,583
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees			108,100	519,780									1,280,198	370,596	1,388,298	890,376
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	5,459,987	4,029,240	-	-	-	-	-	-	-	-	96,009	-	5,555,996	4,029,240
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
private property (flats, houses)	-	-	4,154,272	4,906,022	-	-	-	-	-	-	-	-	66,651	-	4,220,923	4,906,022
commercial property	-	-	30,736,350	29,331,813	-	-	-	-	-	-	-	-	45,109	-	30,781,459	29,331,813
Pledge over movables	-	-	19,347,240	16,155,590	-	-	-	-	-	-	-	-	353,120	-	19,700,360	16,155,590
Other types of security	-	-	2,541,023	2,434,503	-	-	-	-	-	-	-	-	9,925	-	2,550,948	2,434,503
<b>Total value of collateral for credit exposure assessed for impairment on an individual basis</b>	-	-	62,924,170	58,000,665	-	-	307,525	305,866	-	-	-	-	1,851,012	370,596	65,082,707	58,677,127



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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

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

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposure		Total	
	current	previous	current	previous	current	previous	current	previous	current	previous	current	previous	current	previous	current	previous
	year	year	year	year	year	year	year	year	year	year	year	year	year	year	year	year
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<i>Value of collateral for credit exposure assessed for impairment on a group basis</i>																
First-class security instruments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (in depot and/or restricted in accounts with the Bank)	-	-	176,087	93,221	-	-	-	-	-	-	-	-	-	-	176,087	93,221
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except for bank and insurance company guarantees)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property:	-	-	128,489	82,680	-	-	-	-	-	-	-	-	-	-	128,489	82,680
private property (flats, houses)	-	-	20,279,973	18,238,558	-	-	-	-	-	-	-	-	-	-	20,279,973	18,238,558
commercial property	-	-	3,218,616	3,006,941	-	-	-	-	-	-	-	-	-	-	3,218,616	3,006,941
Pledge over movables	-	-	3,942,373	3,860,496	-	-	-	-	-	-	-	-	-	-	3,942,373	3,860,496
Other types of security	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total value of collateral for credit exposure assessed for impairment on a group basis</b>	-	-	27,745,538	25,281,896	-	-	-	-	-	-	-	-	-	-	27,745,538	25,281,896

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

**C. Concentration of credit risk by industry and by geographical region**

In thousands of Denars

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
<i>Industry</i>																		
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agriculture, hunting and forestry	-	-	654,825	910,908	-	-	-	-	-	-	251	75	-	-	11,297	27,266	666,373	938,249
Fishing	-	-	-	11,556	-	-	-	-	-	-	-	-	-	-	-	-	-	11,556
Ore and stone extraction	-	-	82,646	103,579	-	-	-	-	-	-	-	-	-	-	1,705	461	84,351	104,040
Processing industry	-	-	6,422,675	8,041,075	2,190	2,189	-	-	-	-	511	1,915	489	4,731	1,288,203	760,725	7,714,068	8,810,635
Power, gas and water	-	-	1,085,638	482,301	-	-	-	-	-	-	-	9	-	-	1,291,939	156,638	2,377,577	638,948
Construction	-	-	1,207,437	981,946	-	-	-	-	-	-	-	130	-	117	1,475,589	1,064,632	2,683,026	2,046,825
Wholesale and retail trade	-	-	4,266,914	3,923,236	1,563	1,491	-	-	-	-	57	157	120,130	203,532	279,189	162,479	4,667,853	4,290,895
Hotels and restaurants	-	-	465,665	454,818	-	-	-	-	-	-	71	56	16	22	3,535	556	469,287	455,452
Traffic, warehousing and communications	-	-	894,295	777,013	-	-	-	-	-	-	249	100	37	52	263,682	106,209	1,158,263	883,374
Financial intermediation	120,349	146,775	24,114	-	89,203	77,571	308,464	311,508	19,239,187	17,026,972	-	2	-	-	1,481,940	370,596	21,263,257	17,933,424
Activities related to real estate, renting	-	-	197,956	538,384	-	-	-	-	-	-	-	53	-	13	12,300	55,506	210,256	593,956
Public administration and defense; mandatory social welfare	-	-	40,333	58,121	256,795	359,547	2,312,302	2,717,471	1,090,311	976,720	1,571	-	2,569	11,659	-	-	3,703,881	4,123,518
Education	-	-	713,160	312,246	-	-	-	-	-	-	-	-	-	-	335	62	713,495	312,308
Health care and social work	-	-	176,985	175,877	-	-	-	-	-	-	9	-	-	-	285	1,695	177,279	177,572
Other public utilities, cultural, general and service activities	-	-	109,729	89,070	-	-	-	-	-	-	31	9	8	-	101,163	2,723	210,931	91,802
Private households with employees	-	-	-	3,672	-	-	-	-	-	-	-	-	-	-	-	-	-	3,672
Extraterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	25,851,863	24,724,294	-	-	-	-	-	-	19,636	-	9,691	8,118	7,139,028	7,189,685	33,020,218	31,922,097
Individual merchants and individuals not considered to be merchants	-	-	27,193	12,642	-	-	-	-	-	-	9,365	15,859	18,932	16,224	6,745	-	62,235	44,725
<b>Total</b>	<b>120,349</b>	<b>146,775</b>	<b>42,221,428</b>	<b>41,600,738</b>	<b>349,751</b>	<b>440,798</b>	<b>2,620,766</b>	<b>3,028,979</b>	<b>20,329,498</b>	<b>18,003,692</b>	<b>31,751</b>	<b>18,365</b>	<b>151,872</b>	<b>244,468</b>	<b>13,356,935</b>	<b>9,899,233</b>	<b>79,182,350</b>	<b>73,383,048</b>

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

**2. RISK MANAGEMENT (continued)**

**2.1 Credit risk (continued)**

**C. Concentration of credit risk by industry and by geographical region (continued)**

	Placements with and loans to banks		Placements with and loans to other clients		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalents		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
<i>Geographical region</i>																		
Republic of Macedonia	-	50,479	42,221,428	41,600,738	349,720	440,767	2,620,766	3,028,979	15,910,646	12,681,936	31,751	18,365	151,872	244,468	13,356,935	9,899,233	74,643,118	67,964,965
EU member countries	62,235	44,135	-	-	31	31	-	-	3,491,958	4,472,158	-	-	-	-	-	-	3,554,224	4,516,324
Europe (other)	-	-	-	-	-	-	-	-	648,093	468,257	-	-	-	-	-	-	648,093	468,257
OECD member countries (less European OECD member countries)	-	-	-	-	-	-	-	-	278,801	381,341	-	-	-	-	-	-	278,801	381,341
Other (more than 10% of total credit exposure)	58,114	52,161	-	-	-	-	-	-	-	-	-	-	-	-	-	-	58,114	52,161
<b>Total</b>	120,349	146,775	42,221,428	41,600,738	349,751	440,798	2,620,766	3,028,979	20,329,498	18,003,692	31,751	18,365	151,872	244,468	13,356,935	9,899,233	79,182,350	73,383,048

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2010****2. RISK MANAGEMENT (continued)****2.2 Liquidity risk**

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

**2.2.1 Liquidity risk management process**

The Bank's liquidity risk management process encompasses:

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 2. RISK MANAGEMENT (continued)

## 2.2 Liquidity risk (continued)

## 2.2.1 Liquidity risk management process (continued)

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

In thousands of Denars

December 31, 2010

	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	19,226,298	1,103,200	-	-	-	-	20,329,498
Trading assets	120,862	-	-	-	-	-	120,862
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	58,406	-	-	-	-	61,943	120,349
Loans to customers	3,168,532	4,541,746	14,553,077	3,699,782	8,004,085	8,254,206	42,221,428
Investment securities	142,664	158,765	978,826	1,064,426	532,881	92,955	2,970,517
Income Tax receivable (current)	4,801	-	-	-	-	-	4,801
Other receivables	183,623	-	-	-	-	-	183,623
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	15,504	-	-	-	-	-	15,504
<b>Total financial assets</b>	<u>22,920,690</u>	<u>5,803,711</u>	<u>15,531,903</u>	<u>4,764,208</u>	<u>8,536,966</u>	<u>8,409,104</u>	<u>65,966,582</u>
<b>FINANCIAL LIABILITIES</b>							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	2,012,688	-	307,525	-	-	-	2,320,213
Deposits from customers	22,214,882	7,613,942	20,598,110	1,782,727	1,080,897	216,610	53,507,168
Loans payable	46,354	-	47,989	76,489	158,188	149,399	478,419
Subordinated debt	-	11,614	-	-	-	2,767,725	2,779,339
Income tax liabilities (current)	-	-	-	-	-	-	-
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	502,989	-	-	-	-	-	502,989
<b>Total financial liabilities</b>	<u>24,776,913</u>	<u>7,625,556</u>	<u>20,953,624</u>	<u>1,859,216</u>	<u>1,239,085</u>	<u>3,133,734</u>	<u>59,588,128</u>
<b>Net liquidity gap</b>	<u>(1,856,223)</u>	<u>(1,821,845)</u>	<u>(5,421,721)</u>	<u>2,904,992</u>	<u>7,297,881</u>	<u>5,275,370</u>	<u>6,378,454</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 2. RISK MANAGEMENT (continued)

## 2.2 Liquidity risk (continued)

## 2.2.1 Liquidity risk management process (continued)

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

In thousands of Denars

December 31, 2009

	Up to 1 month	From 1 to 3 months	From 3 months to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
<b>FINANCIAL ASSETS</b>							
Cash and cash equivalents	16,312,138	1,691,554	-	-	-	-	18,003,692
Trading assets	199,274	-	-	-	-	-	199,274
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Placements with, and loans to banks	50,324	122	52,194	-	-	44,135	146,775
Loans to customers	3,094,581	3,968,179	15,933,941	3,659,363	7,435,546	7,509,128	41,600,738
Investment securities	368	132,488	796,404	350,328	2,108,940	81,249	3,469,777
Income tax receivable (current)	10,283	-	-	-	-	-	10,283
Other receivables	262,833	-	-	-	-	-	262,833
Collateralized assets	-	-	-	-	-	-	-
Deferred tax assets	9,684	-	-	-	-	-	9,684
<b>Total financial assets</b>	<u>19,939,485</u>	<u>5,792,343</u>	<u>16,782,539</u>	<u>4,009,691</u>	<u>9,544,486</u>	<u>7,634,512</u>	<u>63,703,056</u>
<b>FINANCIAL LIABILITIES</b>							
Trading liabilities	-	1,196	-	-	-	-	1,196
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	2,389,309	-	-	305,866	-	-	2,695,175
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
Income tax liabilities (current)	-	-	-	-	-	-	-
Differed tax liabilities	-	-	-	-	-	-	-
Other liabilities	345,123	-	-	-	-	90,978	436,101
<b>Total financial liabilities</b>	<u>26,514,172</u>	<u>9,224,769</u>	<u>16,178,230</u>	<u>2,040,701</u>	<u>913,500</u>	<u>3,090,214</u>	<u>57,961,586</u>
<b>Net liquidity gap</b>	<u>(6,574,687)</u>	<u>(3,432,426)</u>	<u>604,309</u>	<u>1,968,990</u>	<u>8,630,986</u>	<u>4,544,298</u>	<u>5,741,470</u>

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

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

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 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. There are indications for significant non-reconciliation for the period up to one year. The primary reason for the aforementioned unreconciled amounts lies in the fact that the short-term sources of funds with maturities up to 3 months have been engaged for granting loans with longer maturities. According to the Bank's management estimation based on different analyses, within the deposits from legal entities and citizens, there is a deposit core in the amount of MKD 39,453,904 thousand (2009 – MKD 35,313,666 thousand) which helps the maturity non-reconciliation to be overcome.

**2.3 Market risk**

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

**Foreign exchange risk**

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2010, and 2009

**Risk of changes in interest rates**

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

**NOTES TO THE FINANCIAL STATEMENTS****December 31, 2010****2. RISK MANAGEMENT (continued)****2.3 Market risk (continued)****Risk of changes in interest rates (continued)**

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

The table shows Analysis of compliance of interest rates on financial assets and liabilities as at December 31, 2010, and 2009

**Operational risk**

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



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2010

## 2. RISK MANAGEMENT (continued)

## 2.3 Market risk (continued)

## A. Analysis of value exposed to risk

	December 31, 2010		In thousands of Denars December 31, 2009	
	As at December 31	Average value	As at December 31	Average value
Value exposed to risk at interest-bearing instruments	-	-	-	-
Value exposed to risk at foreign currency instruments	-	-	-	-
Value exposed to risk at equity instruments	-	-	-	-
Variant	-	-	-	-
<b>Total</b>	-	-	-	-

## B. Sensitivity analysis at interest rate changes

	In thousands of Denars			
	Growth of yield curves by 1%	Decrease of yield curves by 1%	Growth of yield curves by 0.5% following 1 <sup>st</sup> year	Decrease of yield curves by 0.5% following 1 <sup>st</sup> year
<b>December 31, 2010</b>				
As at December 31	-	-	-	-
Average value for the period	-	-	-	-
Highest value for the period	-	-	-	-
Lowest value for the period	-	-	-	-
<b>December 31, 2009</b>				
As at December 31	-	-	-	-
Average value for the period	-	-	-	-
Highest value for the period	-	-	-	-
Lowest value for the period	-	-	-	-

The Bank does not make Analysis of the risk exposed value and Analysis of the sensitivity to interest rate fluctuations according to the above presentation in Tables A and B and in that segment it is still undergoing activities for compliance with the Methodology.

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**Sensitivity analysis (interest rates)**

As part of the interest rate risk monitoring, the Bank does not make Analysis of the risk exposed value and Analysis of the interest rate fluctuation sensitivity according to the above presentation in Tables A and B and it is still taking actions for compliance with the Methodology. However, the Bank makes analysis of the sensitivity of balance sheet items. The sensitivity analysis is made taking into consideration the interest-bearing claims and liabilities. Testing was made of what would happen if increase/decrease by +2, i.e. -2 % occurs.

	In thousands of Denars 31 December 2010		
	<b>Total</b>	<b>Change + 2%</b>	<b>Change - 2%</b>
<b>ASSETS</b>			
Cash and cash equivalents	20,329,498	385,195	(385,195)
Trading assets	-	-	-
Placements with, and loans to banks	120,349	1,239	(1,239)
Loans to customers	42,221,428	838,754	(838,754)
Investment securities	2,970,517	57,270	(57,270)
<b>Total assets</b>	<b>65,641,792</b>	<b>1,282,458</b>	<b>(1,282,458)</b>
<b>LIABILITIES</b>			
Deposits from banks and financial institutions	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)
<b>Total liabilities</b>	<b>59,085,139</b>	<b>1,165,602</b>	<b>(1,165,602)</b>
<b>Net interest gap</b>	<b>6,556,653</b>	<b>116,856</b>	<b>(116,856)</b>

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**Sensitivity analysis (interest rates) (continued)**

	In thousands of Denars 31 December 2009		
	<b>Total</b>	<b>Change + 2%</b>	<b>Change - 2%</b>
<b>ASSETS</b>			
Cash and cash equivalents	18,003,692	315,108	(315,108)
Trading assets	199,274	2,128	(2,128)
Placements with, and loans to banks	146,775	883	(883)
Loans to customers	41,600,738	733,488	(733,488)
Investment securities	3,469,777	-	-
<b>Total assets</b>	<u>63,420,256</u>	<u>1,051,607</u>	<u>1,051,607</u>
<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
<b>Total liabilities</b>	<u>57,524,289</u>	<u>583,443</u>	<u>583,443</u>
<b>Net interest gap</b>	<u>5,895,967</u>	<u>468,164</u>	<u>(468,164)</u>

If interest rates had been 2% higher with all other variables held constant, taking into account the balances of assets and liabilities as at December 31, 2010, the profit for the year would have been MKD 116.856 thousand (2009: MKD 468,164 thousand) higher. Conversely, if the interest rates had been 200 p.p. lower with all other variables held constant, profit for the year would have been MKD 116.856 thousand (2009: MKD 468,164 thousand) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

According to the Decision of the National Bank of Macedonia (Official Gazette br.163/2008) to manage the risk of changing interest rates in the banking book, which is applied from 1 January 2010, products of the Bank divided into three different groups according to the type of interest rate, as follows: 1) variable (products whose interest rates are changed by changing a reference interest rate), 2) adaptable (products whose interest rates are changed by the decisions of the bank) and 3) fixed (products whose interest rate remains unchanged according to the contract between the bank and client). For this purpose, the Bank during 2010 developed a model that predicts the expected revaluation of the respective products, and internal software solution used for preparation of specific reports (Note 2.3.1)

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**Sensitivity analysis (foreign currency)**

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

**In thousands of Denars**

<b>31 December 2010</b>	<b>Total</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)
Trading assets	120,862	12,086	(12,086)
Placements with, and loans to banks	120,349	12,035	(12,035)
Loans to customers	42,221,428	2,519,954	(2,519,954)
Investment securities	2,970,517	282,079	(282,079)
Other receivables	183,623	2,306	(2,306)
<b>Total assets</b>	<b>65,946,277</b>	<b>3,605,814</b>	<b>(3,605,814)</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>296,046</b>	<b>(296,046)</b>

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**Sensitivity analysis (foreign currency) (continued)**

<b>In thousands of Denars</b>			
<b>31 December 2009</b>	<b>Total</b>	<b>Change in exchange rates</b>	
		<b>+10%</b>	<b>-10%</b>
<b>ASSETS</b>			
Cash and cash equivalents	18,003,692	956,299	(956,299)
Trading assets	199,274	13,651	(13,651)
Placements with, and loans to banks	146,775	9,674	(9,674)
Loans to customers	41,600,738	2,587,076	(2,587,076)
Investment securities	3,469,777	338,856	(338,856)
Other receivables	262,833	312	(312)
<b>Total assets</b>	<b>63,683,089</b>	<b>3,905,868</b>	<b>(3,905,868)</b>
<b>LIABILITIES</b>			
Deposits from banks and financial institutions	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>220,874</b>	<b>(220,874)</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 MKD 296,046 thousand higher (2009: MKD 220,874 thousand). Conversely, if the MKD had strengthened 10% against the EUR (and all other currencies), the profit for the year would have been MKD 296,046 thousand lower (2009: MKD 220,874 thousand). The lower 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 lower open currency position at the end of 2010.

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.1 Analysis of compliance of interest rates of financial assets and liabilities (without trading and derivative portfolio)**

In thousands of Denars										
Instruments at fixed interest rate, including instruments at variable interest rate, subject to decision by Bank bodies										
	Weighted EIR (in %)	Instruments at variable interest rate	up to 1 month	1-3 months	3-12 months	1-2 years	2-5 years	over 5 years	Non-interest bearing	Total
December 31, 2010										
FINANCIAL ASSETS										
Cash and cash equivalents	2.45	549,557	17,606,982	1,103,200	-	-	-	-	1,069,759	20,329,498
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-	-	-
Placements with, and loans to banks	-	61,943	-	-	-	-	-	-	58,406	120,349
Loans to customers	9.12	-	1,627,601	26,666,691	10,040,810	887,469	1,818,435	896,715	283,707	42,221,428
Investment securities	0.34	-	-	2,270,208	579,557	8,706	5,019	-	107,027	2,970,517
Investments in associates	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	183,623	183,623
Collateralized assets	-	-	-	-	-	-	-	-	-	-
		611,500	19,234,583	30,040,099	10,620,367	896,175	1,823,454	896,715	1,702,522	65,825,415
FINANCIAL LIABILITIES										
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-	-	-
Deposits from banks	3.73	-	1,938,346	10,511	363,895	-	6,686	-	775	2,320,213
Deposits from customers	4.28	139,630	1,853,251	33,108,470	16,888,269	1,056,358	127,674	19,257	314,259	53,507,168
Issued debt securities	-	-	-	-	-	-	-	-	-	-
Loans payable	1.40	34,365	39,745	-	42,874	66,670	143,460	-	151,305	478,419
Subordinated debt	3.32	2,767,725	-	-	-	-	-	-	11,614	2,779,339
Other liabilities	-	-	-	-	-	-	-	-	502,989	502,989
		2,941,720	3,831,342	33,118,981	17,295,038	1,123,028	277,820	19,257	980,942	59,588,128
Non-compliance of interest rates of financial assets and liabilities										
		(2,330,220)	15,403,241	(3,078,882)	(6,674,671)	(226,853)	1,545,634	877,458	721,580	6,237,287

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.1 Analysis of compliance of interest rates of financial assets and liabilities (without trading and derivative portfolio) (continued)**

In thousands of Denars

In thousands of Denars										
			Instruments at fixed interest rate, including instruments at variable interest rate, subject to decision by Bank bodies							
	Weighted EIR (in %)	Instruments at variable interest rate	up to 1 month	1-3 months	3-12 months	1-2 years	2-5 years	over 5 years	Non-interest bearing	Total
December 31, 2009										
FINANCIAL ASSETS										
Cash and cash equivalents	3.47	-	15,049,988	1,682,131	-	-	-	-	1,271,573	8,003,692
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-	-	-
Placements with, and loans to banks	4.51	44,135	50,000	-	-	-	-	-	52,640	146,775
Loans to customers	10.67	36,674,378	16,534	33,798	652,264	1,803,489	1,719,667	-	700,608	41,600,738
Investment securities	1.80	-	368	-	488,094	350,328	2,108,940	81,249	440,798	3,469,777
Investments in associates	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	262,833	262,833
Collateralized assets	-	-	-	-	-	-	-	-	-	-
		36,718,513	15,116,890	1,715,929	1,140,358	2,153,817	3,828,607	81,249	2,728,452	63,483,815
FINANCIAL LIABILITIES										
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-	-	-	-	-	-
Deposits from banks	0.87	368,760	2,263,408	-	-	-	-	-	63,007	2,695,175
Deposits from customers	4.40	26,005,079	3,975,170	6,200,898	13,623,724	1,320,214	304,920	89,433	279,016	51,798,454
Issued debt securities	-	-	-	-	-	-	-	-	-	-
Loans payable	3.45	45,526	30,688	-	7,819	31,277	-	-	152,017	267,327
Subordinated debt	2.98	2,752,794	-	-	-	-	-	-	10,539	2,763,333
Other liabilities	-	-	-	-	-	-	-	-	436,101	436,101
		29,172,159	6,269,266	6,200,898	13,631,543	1,351,491	304,920	89,433	940,680	57,960,390
Non-compliance of interest rates of financial assets and liabilities										
		7,546,354	8,847,624	(4,484,969)	(12,491,185)	802,326	3,523,687	(8,184)	1,787,782	5,523,425

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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.2 Currency risk**

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



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

**2. RISK MANAGEMENT (continued)**

**2.3 Market risk (continued)**

**2.3.2 Currency risk (continued)**

	In thousands of Denars December 31, 2009				
	MKD	EUR	USD	Other currency	Total
<b>MONETARY ASSETS</b>					
Cash and cash equivalents	8,440,703	8,133,941	581,166	847,882	18,003,692
Trading assets	62,766	46,772	79,925	9,811	199,274
Financial assets at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-
Placement with, and loans to banks	50,036	23,870	50,914	21,955	146,775
Loans to customers	15,729,979	24,385,890	1,147,804	337,065	41,600,738
Investments in securities	81,219	3,388,558	-	-	3,469,777
Investments in affiliated companies	-	-	-	-	-
Receivables for income tax (current)	10,283	-	-	-	10,283
Other receivables	259,713	2,468	528	124	262,833
Collateralized assets	-	-	-	-	-
Deferred tax assets	9,684	-	-	-	9,684
<b>Total monetary assets</b>	<u>24,644,383</u>	<u>35,981,499</u>	<u>1,860,337</u>	<u>1,216,837</u>	<u>63,703,056</u>
<b>MONETARY LIABILITIES</b>					
Trading liabilities	-	1,196	-	-	1,196
Financial liabilities at fair value through the income statement determined as such at initial recognition	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-
Deposits from banks	20,309	2,624,152	6,605	44,109	2,695,175
Deposits from customers	20,559,899	28,639,482	1,781,413	817,660	51,798,454
Loans payable	187,174	39,450	40,703	-	267,327
Subordinated debt	-	2,763,333	-	-	2,763,333
Income tax payable (current)	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-
Other liabilities	343,076	93,025	-	-	436,101
<b>Total monetary liabilities</b>	<u>21,110,458</u>	<u>34,160,638</u>	<u>1,828,721</u>	<u>861,769</u>	<u>57,961,586</u>
<b>Net currency gap:</b>	<u>3,533,925</u>	<u>1,820,861</u>	<u>31,616</u>	<u>355,068</u>	<u>5,741,470</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010****3. CAPITAL ADEQUACY****Capital management**

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

- To comply with the capital requirements set by NBRM;
- To safeguard the Bank's ability to continue functioning as successful company and to continue providing returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

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

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

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

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

**3. CAPITAL ADEQUACY (continued)**

**Own assets**

The table below presents a survey of the Statement of own assets (Form OA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2010 and 2009.

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Paid-in and subscribed common and non-cumulative preferred shares and premium under these shares</b>	3,511,242	3,511,242
Nominal value	3,511,242	3,511,242
Nominal value of common shares	3,511,242	3,511,242
Nominal value of non-cumulative preferred shares	-	-
Premium	-	-
Premium under ordinary shares	-	-
Premium under non-cumulative preferred shares	-	-
<b>Reserves and retained profit or loss</b>	3,984,148	3,293,975
Reserve fund	790,890	606,364
Retained earnings	n/a	n/a
Retained earnings restricted for distribution to shareholders	3,274,258	2,687,611
Accumulated loss from previous years	-	-
Current profit	-	-
Retained loss from available-for-sale treasury shares	-	-
<b>Positions as a result of consolidation</b>	-	-
Minority share	-	-
Reserves under foreign exchange gains/losses	-	-
Other differences	-	-
<b>Deducted items</b>		
Loss at the year-end or current loss	-	-
Treasury shares	-	-
Intangible assets	-	-
Net negative revalorization reserves	(23,983)	-
Own common non-cumulative preferred shares	n/a	n/a
Difference between the amount of required special reserves for potential losses and allocated special reserves	n/a	n/a
Difference between the amount of required and made value adjustment/special reserves	-	-
Amount of allocated value adjustment and special reserves as a result of accounting delay	-	-
<b>Common shares, reserves and retained earnings and deducted items</b>	7,471,407	6,805,217
<b>Amount of other positions that can be included in the initial capital</b>	-	-
<b>Initial capital</b>	<u>7,471,407</u>	<u>6,805,217</u>

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

**3. CAPITAL ADEQUACY (continued)**

**Own assets (continued)**

	In thousands of Denars current year 2010	previous year 2009
<b>Additional capital I</b>		
<b>Paid-in and subscribed cumulative preferred shares and premium under these shares</b>	90,978	90,978
Nominal value	90,978	90,978
Premium	-	-
Equity cumulative preferred shares	n/a	n/a
Revaluation reserves	18,665	26,847
<b>Hybrid capital instruments</b>	-	-
<b>Subordinated instruments</b>	2,767,725	2,752,794
<b>Amount of subordinated instruments that can be part of the additional capital I</b>	2,767,725	2,752,794
<b>Additional capital I</b>	2,877,368	2,870,619
<b>Deducted items from initial capital and additional capital</b>	-	-
Investments in capital of other banks or financial institutions that are over 10% of the capital of those institutions	-	-
Investments in subordinated and hybrid capital instruments and other instruments	-	-
Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments that exceeds 10% of (I+II)	-	-
Direct investments in capital of insurance and reinsurance companies and pension fund management companies	-	-
Investments in financial instruments issued by insurance and reinsurance companies and pension fund management companies that are included in their capital	-	-
Amount of exceeding the limits for investments in non-financial institutions	-	-
Positions as a result of consolidation (negative amounts)	-	-
<b>Deducted items</b>	-	-
<b>Initial capital under deducted items</b>	7,471,407	6,805,217
<b>Additional capital I under deducted items</b>	2,877,368	2,870,619

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

3. CAPITAL ADEQUACY (continued)

Own assets (continued)

<b>Additional capital II</b>		
Subordinated instruments of the additional capital II	-	-
Additional capital I and II	2,877,368	2,870,619
Allowed amount of additional capital I and II	2,877,368	2,870,619
Additional capital I	2,877,368	2,870,619
Additional capital II	-	-
Initial capital surplus	2,823,741	2,318,445
Initial capital surplus (150%)	4,235,611	3,477,667
Initial capital surplus (250%)	7,059,352	5,796,112
<b>Allowed amount of additional capital II</b>	-	-
<b>Own assets</b>		
Initial capital	7,471,407	6,805,217
Additional capital I	2,877,368	2,870,619
Additional capital II	-	-
<b>OWN ASSETS</b>	<b>10,348,775</b>	<b>9,675,836</b>

n/a – not applicable

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

**3. CAPITAL ADEQUACY (continued)**

**Capital adequacy ratio**

The table below presents a survey of the Statement of the capital adequacy ratio (Form CA) prepared in accordance with the Instructions on implementing the Decision on the methodology of determining the capital adequacy according to the applicable prescribed regulations of NBRM on December 31, 2010 and 2009.

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Credit risk weighted assets</b>		
Credit risk weighted balance sheet assets	44,397,533	45,239,971
Credit risk weighted off-balance sheet assets	8,101,626	6,113,359
<b>Credit risk weighted assets</b>	52,499,159	51,353,330
Capital required for covering the credit risk	4,199,933	4,108,266
<b>Currency risk weighted assets</b>		
Aggregate foreign currency position	5,596,664	4,731,323
Net position in gold	-	-
Capital required for covering the currency risk	5,596,664	4,731,323
<b>Currency risk weighted assets</b>	447,733	378,506
<b>Other risk weighted assets</b>		
Capital required for covering the risk of changes in the commodity prices	-	-
Capital required for covering the market risks	-	-
Capital required for covering the specific risk of investments in debt instruments	-	-
Capital required for covering the general risk of investments in debt instruments	-	-
Capital required for covering the specific risk of investments in equity securities	-	-
Capital required for covering the general risk of investments in equity securities	-	-
Capital required for covering the settlement/delivery risk	-	-
Capital required for covering the counterparty risk	-	-
Capital required for covering the exceeding of exposure limits	-	-
Capital required for covering the market risks of option positions	-	-
Capital required for covering other risks	-	-
Capital required for covering currency risks	-	-
<b>Other risk weighted assets</b>		
<b>Risk weighted assets</b>	58,095,823	56,084,653
Capital required for covering the risks	4,647,666	4,486,772
<b>Own assets</b>	10,348,775	9,675,836
<b>Capital adequacy ratio</b>	17.81%	17.25%

n/a not applicable

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

**4. NOTIFICATION ACCORDING TO SEGMENTS**

**A. Primary business segments**

**In thousands of Denars**  
**December 31, 2010**

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income /(expense)	833,248	1,076,973	370,373	221,096	-	2,501,690
Net fees and commissions income / (expense)	350,749	492,433	1,175	62,355	-	906,712
Net trading income	-	-	(12,028)	-	-	(12,028)
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	196,478	30,512	-	-	191,458	418,448
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>1,380,475</b>	<b>1,599,918</b>	<b>359,520</b>	<b>283,451</b>	<b>191,458</b>	<b>3,814,822</b>
Financial result by segment	378,455	304,808	(48,217)	176,282	(4,905)	806,423
Income tax						(3,747)
<b>Profit/(loss) for the financial year</b>						<b>802,676</b>
Total assets by segment	26,569,240	38,473,116	2,834,351	-	-	67,876,707
Unallocated assets per segment	-	-	-	-	171,682	171,682
<b>Total assets</b>	<b>26,569,240</b>	<b>38,473,116</b>	<b>2,834,351</b>	<b>-</b>	<b>171,682</b>	<b>68,048,389</b>
Total liabilities by segment	42,198,483	16,362,426	-	725,002	-	59,285,911
Unallocated liabilities by segment	-	-	-	-	463,982	463,982
<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>
Adjustment of value of financial assets, on net basis	296,666	383,441	131,866	78,718	-	890,691
Impairment loss of non-financial assets, on net-basis	20,703	26,758	-	-	14,696	62,157
Depreciation	64,009	82,731	-	28,451	16,984	192,175
Restructuring costs	-	-	-	-	-	-
Costs for investment in real estate and equipment	33,053	42,721	14,693	-	8,770	99,237
Other expense	620,642	802,180	275,871	-	164,683	1,863,376

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

**4. NOTIFICATION ACCORDING TO SEGMENTS (continued)**

**A. Primary business segments (continued)**

**In thousands of Denars**  
**December 31, 2009**

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Investment banking</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income /(expenses)	1,374,987	1,194,759	373,276	(15,134)	-	2,927,888
Net fees and commissions income / (expenses)	342,277	502,508	6,957	542	-	852,284
Net trading income	-	-	42,524	-	-	42,524
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-
Other operating income	192,602	77,072	-	-	116,435	386,109
Income realized between segments	-	-	-	-	-	-
<b>Total income by segments</b>	<b>1,909,866</b>	<b>1,774,339</b>	<b>422,757</b>	<b>(14,592)</b>	<b>116,435</b>	<b>4,208,805</b>
<b>Financial result by segment</b>	<b>8,485</b>	<b>731,698</b>	<b>405,011</b>	<b>(14,804)</b>	<b>(433,111)</b>	<b>697,279</b>
Income tax						7,106
<b>Profit/(loss) for the financial year</b>						<b>690,173</b>
Total assets by segment	24,831,871	24,897,403	9,778,348	5,289	-	59,512,911
Unallocated assets by segment	-	-	-	-	6,110,595	6,110,595
<b>Total assets</b>	<b>24,831,871</b>	<b>24,897,403</b>	<b>9,778,348</b>	<b>5,289</b>	<b>6,110,595</b>	<b>65,623,506</b>
Total liabilities by segment	32,827,314	17,671,772	3,354,245	2,984	-	53,856,315
Unallocated liabilities by segment	-	-	-	-	4,261,144	4,261,144
<b>Total liabilities</b>	<b>32,827,314</b>	<b>17,671,772</b>	<b>3,354,245</b>	<b>2,984</b>	<b>4,261,144</b>	<b>58,117,459</b>
Adjustment of value of financial assets, on net basis	631,955	839,575	17,018	-	(9,841)	1,478,707
Impairment loss of non-financial assets, on net-basis	2,674	77,159	-	-	-	79,833
Depreciation	112,413	576	-	212	73,177	186,378
Restructuring costs	-	-	-	-	-	-
Costs for investment in real estate and equipment	80,837	856	-	600	80,162	162,455
Other expense	1,154,339	125,331	728	-	486,210	1,766,608



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

**4. NOTIFICATION ACCORDING TO SEGMENTS (continued)**

**B. Secondary geographical segments**

**In thousands of Denars**  
**December 31, 2010**

	<b>Republic of Macedonia</b>	<b>Member countries of European Union</b>	<b>Europe (other)</b>	<b>Member- countries of OECD (without European Member- countries of OECD)</b>	<b>Other</b>	<b>Unallocate d</b>	<b>Total</b>
Net interest income /(expenses)	2,422,256	64,561	5,645	7,999	-	1,229	2,501,690
Net fees and commissions income / (expenses)	874,888	25,865	2,261	3,205	-	493	906,712
Net trading income	(12,028)	-	-	-	-	-	(12,028)
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-	-
Other operating income	417,837	5	603	-	-	3	418,448
Income realized between segments	-	-	-	-	-	-	-
<b>Total income by segments</b>	<b>3,702,953</b>	<b>90,431</b>	<b>8,509</b>	<b>11,204</b>	<b>-</b>	<b>1,725</b>	<b>3,814,822</b>
<b>Financial result by segment</b>	<b>790,473</b>	<b>12,804</b>	<b>1,631</b>	<b>1,586</b>	<b>-</b>	<b>(71)</b>	<b>806,423</b>
Income tax							(3,747)
<b>Profit/(loss) for the financial year</b>							<b>802,676</b>
Total assets by segment	63,925,005	3,377,982	81,634	492,086	-	-	67,876,707
Unallocated assets by segment	-	-	-	-	-	171,682	171,682
<b>Total assets</b>	<b>63,925,005</b>	<b>3,377,982</b>	<b>81,634</b>	<b>492,086</b>	<b>-</b>	<b>171,682</b>	<b>68,048,389</b>
Total liabilities by segment	56,635,073	2,154,528	188,369	266,929	41,012	-	59,285,911
Unallocated liabilities by segment	-	-	-	-	-	463,982	463,982
<b>Total liabilities</b>	<b>56,635,073</b>	<b>2,154,528</b>	<b>188,369</b>	<b>266,929</b>	<b>41,012</b>	<b>463,982</b>	<b>59,749,893</b>
Adjustment of value of financial assets, on net basis	861,986	22,975	2,099	2,847	-	784	890,691
Impairment loss of non-financial assets, on net- basis	60,183	1,604	140	199	-	31	62,157
Depreciation	186,073	4,959	434	614	-	95	192,175
Restructuring costs	-	-	-	-	-	-	-
Costs for investment in real estate and equipment	96,085	2,563	224	318	-	47	99,237
Other expense	1,804,238	48,089	4,205	5,958	-	886	1,863,376

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

**4. NOTIFICATION ACCORDING TO SEGMENTS (continued)**

**B. Secondary geographical segments (continued)**

**In thousands of Denars**  
**December 31, 2009**

	<b>Republic of Macedonia</b>	<b>Member countries of European Union</b>	<b>Europe (other)</b>	<b>Member- countries of OECD (without European Member- countries of OECD)</b>	<b>Other</b>	<b>Unallocated</b>	<b>Total</b>
Net interest income /(expenses)	3,027,854	(109,085)	21,132	(9,152)	-	(2,861)	2,927,888
Net fees and commissions income / (expenses)	806,449	(6,685)	53,123	(556)	-	(47)	852,284
Net trading income	10,947	-	(405)	31,982	-	-	42,524
Net income from other financial instruments recorded at fair value	-	-	-	-	-	-	-
Other operating income	385,546	5	556	-	-	2	386,109
Income realized between segments	-	-	-	-	-	-	-
<b>Total income by segments</b>	<b>4,230,796</b>	<b>(115,765)</b>	<b>74,406</b>	<b>22,274</b>	<b>-</b>	<b>(2,906)</b>	<b>4,208,805</b>
<b>Financial result by segment</b>	<b>772,888</b>	<b>(160,291)</b>	<b>73,021</b>	<b>16,434</b>	<b>-</b>	<b>(4,773)</b>	<b>697,279</b>
Income tax							7,106
<b>Profit/(loss) for the financial year</b>							<b>690,173</b>
Total assets by segment	60,205,423	4,516,324	468,257	381,341	52,161	-	65,623,506
Unallocated assets by segment	-	-	-	-	-	-	-
<b>Total assets</b>	<b>60,205,423</b>	<b>4,516,324</b>	<b>468,257</b>	<b>381,341</b>	<b>52,161</b>	<b>-</b>	<b>65,623,506</b>
Total liabilities by segment	55,392,938	2,287,832	181,823	192,103	62,763	-	58,117,459
Unallocated liabilities by segment	-	-	-	-	-	-	-
<b>Total liabilities</b>	<b>55,392,938</b>	<b>2,287,832</b>	<b>181,823</b>	<b>192,103</b>	<b>62,763</b>	<b>-</b>	<b>58,117,459</b>
Adjustment of value of financial assets, on net basis	1,507,869	(25,020)	(4,142)	-	-	-	1,478,707
Impairment loss of non-financial assets, on net- basis	79,833	-	-	-	-	-	79,833
Depreciation	186,378	-	-	-	-	-	186,378
Restructuring costs							
Costs for investment in real estate and equipment	162,455	-	-	-	-	-	162,455
Other expense	1,683,828	69,546	5,527	5,840	-	1,867	1,766,608

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

**5. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

	<b>December 31, 2010</b>		<b>In thousands of Denars December 31, 2009</b>	
	<b>Carrying amount</b>	<b>Fair Value</b>	<b>Carrying amount</b>	<b>Fair Value</b>
<b>Financial assets</b>				
Cash and cash equivalents	20,329,498	20,329,498	18,003,692	18,003,692
Trading assets	120,862	120,862	199,274	199,274
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Placement with, and loans to banks	120,349	120,349	146,775	146,775
Loans to customers	42,221,428	42,221,428	41,600,738	41,600,738
Investment securities	2,970,517	2,970,517	3,469,777	3,469,777
Investments in affiliated companies	-	-	-	-
Receivables for income tax (current)	4,801	4,801	10,283	10,283
Other receivables	183,623	183,623	262,833	262,833
Collateralized assets	-	-	-	-
Differed tax assets	15,504	15,504	9,684	9,684
	<u>65,966,582</u>	<u>65,966,582</u>	<u>63,703,056</u>	<u>63,703,056</u>
<b>Financial liabilities</b>				
Liabilities for trading	-	-	1,196	1,196
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	2,320,231	2,320,231	2,695,175	2,695,175
Deposits from customers	53,507,168	53,507,168	51,798,454	51,798,454
Issued debt securities	-	-	-	-
Loans payable	478,419	478,419	267,327	267,327
Subordinated debt	2,779,339	2,779,339	2,763,333	2,763,333
Income tax liabilities (current)	-	-	-	-
Differed tax liabilities	-	-	-	-
Other liabilities	502,989	502,989	436,101	436,101
	<u>59,588,146</u>	<u>59,588,146</u>	<u>57,961,586</u>	<u>57,961,586</u>

*a) Cash and cash equivalents*

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

*b) Held-for-trading financial assets*

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2010****5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)***c) Placement with, and loans to banks*

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

*d) Loans to customers*

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

*e) Investment in securities*

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

*f) Other receivables*

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

*g) Deposits from banks*

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

*h) Deposits from other customers*

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

*i) Loans payable (including subordinated debt)*

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

*j) Other liabilities*

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

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

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

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

	<b>In thousands of Denars</b>	
	<b>Current year 2010</b>	<b>Previous year 2009</b>
<b>Interest income</b>		
Cash and cash equivalents	476,366	309,053
Financial assets at fair value through income statement, determined as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Placements with and loans to banks	1,014	9,586
Placements with and loans to customers	4,153,146	4,437,978
Investments in securities	62,116	123,191
Other receivables	367	2,494
(Adjustment of value of income interest, on net-basis)	(119,258)	297,676
Collected previously written-off interest	314,965	32,950
<b>Total interest income</b>	<b>4,888,716</b>	<b>5,212,928</b>
<b>Interest expense</b>		
Financial liabilities at fair value through income statement, determined as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	3,834	8,840
Deposits from customers	2,278,583	2,147,270
Issued debt securities	-	-
Loans payable	6,314	6,050
Subordinated debt	90,035	113,547
Other liabilities	8,260	9,333
<b>Total interest expense</b>	<b>2,387,026</b>	<b>2,285,040</b>
<b>Net interest income / (expense)</b>	<b>2,501,690</b>	<b>2,927,888</b>

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

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

**B. Sector analysis of interest income and expense**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Interest income</b>		
Non-financial companies	1,270,903	1,405,555
State	92,560	130,986
Non-profit institutions servicing households	1,393	1,619
Banks	7,862	212,165
Other financial companies (non-banking)	442,294	137,734
Households	2,852,609	2,994,243
Non-residents	25,388	-
(Adjustment of value of interest income, on net-basis)	(119,258)	297,676
Collected previously written-off interest	314,965	32,950
<b>Total interest income</b>	<b>4,888,716</b>	<b>5,212,928</b>
<b>Interest expenses</b>		
Non-financial companies	286,538	421,505
State	5,445	6,195
Non-profit institutions servicing households	16,828	17,192
Banks	5,180	8,905
Other financial companies (non-banking)	53,675	53,038
Households	1,914,539	1,648,007
Non-residents	104,821	130,198
<b>Total interest expense</b>	<b>2,387,026</b>	<b>2,285,040</b>
<b>Net interest income / (expense)</b>	<b>2,501,690</b>	<b>2,927,888</b>

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

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

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

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Fees and commissions income</b>		
Financing	146,557	120,757
Payment operations		
Domestic	193,006	172,721
International	113,424	117,603
L/Cs and L/Gs	66,714	60,549
Brokerage operations	4,171	5,857
Asset management	843	1,101
Commission and creditor activities	-	-
Issue of securities	-	-
Card operations	304,758	288,060
Deposit operations	82,304	83,510
Renting safe-deposit-boxes	6,392	6,716
Third party accounts collection	8,138	8,144
Other	61,256	56,491
<b>Total fees and commissions income</b>	<b>987,563</b>	<b>921,509</b>
<b>Fees and commissions expense</b>		
Financing	-	-
Payment operations		
Domestic	70,851	60,122
International	9,063	9,027
L/Cs and L/Gs	-	-
Brokerage operations	-	-
Asset management	-	-
Commission and creditor activities	-	-
Issue of securities	-	-
Other	937	76
<b>Total fees and commissions expense</b>	<b>80,851</b>	<b>69,225</b>
<b>Net fees and commissions income / (expense)</b>	<b>906,712</b>	<b>852,284</b>

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

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

**B. Sector analysis of fee and commission income and expense**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Fees and commissions income</b>		
Non-financial companies	574,031	527,176
State	275	441
Non-profit institutions servicing households	134	101
Banks	30,569	31,571
Other financial companies (non-banking)	-	-
Households	357,351	340,346
Non-residents	25,203	21,874
<b>Total fees and commissions income</b>	<b>987,563</b>	<b>921,509</b>
<b>Fees and commissions expense</b>		
Non-financial companies	22	-
State	-	-
Non-profit institutions servicing households	-	-
Banks	54,462	9,735
Other financial companies (non-banking)	26,367	59,490
Non-residents	-	-
<b>Total fees and commissions expense</b>	<b>80,851</b>	<b>69,225</b>
<b>Net fees and commissions income / (expense)</b>	<b>906,712</b>	<b>852,284</b>



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

**8. NET TRADING INCOME**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Trading assets</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	27	34
unrealized	(939)	(2,092)
Profit /(loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	(20,830)	31,576
Income from dividend from trading assets	262	-
Income from interest from trading assets	6,855	14,202
<i>Trading liabilities</i>		
Profit /(loss) from the changes in fair value of debt securities, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of trading deposits, on net-basis		
realized	-	-
unrealized	-	-
Profit /(loss) from the changes in fair value of other financial liabilities for trading, on net-basis		
realized	-	-
unrealized	-	-
Expenses for interest from financial liabilities held for trading	-	-
<i>Profit /(loss) from the changes in fair value of derivatives held for trading, on net-basis</i>		
realized	-	-
unrealized	2,597	(1,196)
<b>Net trading income</b>	<b>(12,028)</b>	<b>42,524</b>

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

**9. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<i>Financial assets at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of equity instruments, on net basis		
realized	-	-
unrealized	-	-
Income from dividend from financial assets at fair value through the income statement	-	-
Profit / (loss) from the changes in fair value of loans and claims at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Financial liabilities at fair value through the income statement determined as such at initial recognition</i>		
Profit / (loss) from the changes in fair value of debt securities, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement, on net-basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of loan liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
Profit / (loss) from the changes in fair value of other financial liabilities at fair value through the income statement, on net basis		
realized	-	-
unrealized	-	-
<i>Profit / (loss) from changes in fair value of derivative held for risk management at fair value through the income statement, on net-basis</i>		
realized	-	-
unrealized	-	-
<b>Net income from other financial instruments recorded at fair value</b>	<b>-</b>	<b>-</b>

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

**10. NET FOREIGN EXCHANGE GAIN/(LOSS)**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Realized net foreign exchange gains/(losses)	138.582	150,528
Non-realized net foreign exchange gains/(losses)		
- foreign exchange gains/(losses) of adjustment of the value of financial assets, on net basis	-	-
- other foreign exchange gains/(losses), on net basis	19.190	11,347
<b>Net foreign exchange gains/(losses)</b>	<b>157.772</b>	<b>161,875</b>

**11. OTHER OPERATING INCOME**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Profit from sales of assets available for sale	-	233
Dividend from equity instruments available for sale	2,624	8,749
Net income from investments in subsidiaries and affiliates	-	-
Capital gain from sales of:		
real estate and equipment	13,053	9,504
intangible assets	-	-
foreclosed assets	8.427	13,453
non-current assets held for sale and group for sale	-	-
Income from rent	2,531	3,604
Income from won court disputes	5,735	4,688
Collected previously written-off claims	98,950	39,279
Release of special reserves and provisions for:		
off-balance sheet credit exposures	19,412	85,591
contingent liabilities based on court disputes	-	-
pensions and other benefits for employees	25,156	1,347
restructuring	-	-
unfavorable agreements	-	-
other provisions	-	-
Other:		
managing accounts for the Ministry of Finance	-	-
early withdrawal of deposits of non-residents	33,657	34,031
Revenue from insurance mediation and mortgage bets on movables in process of approving loans to individuals	4,510	-
written off liabilities for employees bonuses	8,840	7,311
other income	37,782	16,444
<b>Total other operating income</b>	<b>260,676</b>	<b>224,234</b>

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2010

12. ADJUSTMENT OF VALUE OF FINANCIAL ASSETS, NET

written In thousands of Denars

	Placements with and loans to banks	Placements with and loans to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Fees and commissions receivables	Other receivables	Total
<b>December 31, 2010</b>								
<i>Adjustment of value on individual basis</i>								
Additional adjustment of value	-	1,694,839	-	-	-	14,001	29,283	1,738,123
(Release of adjustment of value)	-	(803,124)	-	-	-	(12,785)	(5,023)	(820,932)
	-	891,715	-	-	-	1,216	24,260	917,191
<i>Adjustment of value at group basis</i>								
Additional adjustment of value	-	25,197	-	-	-	-	-	25,197
(Release of adjustment of value)	-	(51,697)	-	-	-	-	-	(51,697)
	-	(26,500)	-	-	-	-	-	(26,500)
<b>Total adjustment of value of financial assets, on net-basis</b>	-	865,215	-	-	-	1,216	24,260	890,691
<b>December 31, 2009</b>								
<i>Adjustment of value on individual basis</i>								
Additional adjustment of value	33	1,675,646	17,018	-	-	2,764	13,521	1,708,982
(Release of adjustment of value)	(4,142)	(369,306)	-	-	-	(20,207)	(5,908)	(399,563)
	(4,109)	1,306,340	17,018	-	-	(17,443)	7,613	1,309,419
<i>Adjustment of value at group basis</i>								
Additional adjustment of value	-	175,781	-	-	-	-	-	175,781
(Release of adjustment of value)	-	(6,493)	-	-	-	-	-	(6,493)
	-	169,288	-	-	-	-	-	169,288
<b>Total adjustment of value of financial assets, on net-basis</b>	(4,109)	1,475,628	17,018	-	-	(17,443)	7,613	1,478,707

NOTES TO THE FINANCIAL REPORTS  
December 31, 2010

## 13. IMPAIRMENT LOSS ON NON-FINANCIAL ASSETS, NET

In thousands of Denars						
	Real estate and equipment	Intangible assets	Foreclosed assets	Non- current assets held for sale and group for sale	Other non- financial assets	Total
<b>December 31, 2010</b>						
Additional impairment loss	-	-	62,157	-	-	62,157
(Release of impairment loss)	-	-		-	-	-
<b>Total impairment loss of non-financial assets, on net-basis</b>	<b>-</b>	<b>-</b>	<b>62,157</b>	<b>-</b>	<b>-</b>	<b>62,157</b>
<b>December 31, 2009</b>						
Additional impairment loss	19,834	-	59,999	-	-	79,833
(Release of impairment loss)	-	-		-	-	-
<b>Total impairment loss of non-financial assets, on net-basis</b>	<b>19,834</b>	<b>-</b>	<b>59,999</b>	<b>-</b>	<b>-</b>	<b>79,833</b>

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

**14. PERSONNEL EXPENSES**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Short-term personnel benefits</b>		
Salaries	470,436	458,156
Compulsory contributions for social and health insurance	218,629	218,905
Short-term paid leaves	-	-
Costs for temporary employment	4,673	-
Share in profit and remuneration	-	18,351
Non-monetary benefits	-	-
Other personnel benefits	64,765	21,768
	<u>758,503</u>	<u>717,180</u>
<b>Post retirement benefits</b>		
Defined pension benefit plans	-	-
Retirement benefits	-	-
Increase of liability for defined pension benefit plans	-	-
Increase of liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
	<u>-</u>	<u>-</u>
Benefits due to termination of employment	-	-
Payments to employees based on shares, settled with equity instruments	-	-
Payments to employees based on shares, settled with monetary assets	-	-
Other	-	-
	<u>-</u>	<u>-</u>
<b>Total personnel expenses</b>	<u><u>758,503</u></u>	<u><u>717,180</u></u>

The amounts referring to provisions for retirement benefits in the amount of MKD 16,207 thousand (2009: MKD 23,837 thousand) are presented in Note 16.

	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Average number of employees for the period	1,092	1,149
Number of permanent employees at year-end	1,067	1,142
Number of temporary employees at year-end	4	6

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

**15. DEPRECIATION**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Depreciation of intangible assets</b>		
Internal developed software	-	-
Software acquired from external suppliers	37,145	40,754
Other internal developed intangible assets	-	-
Other intangible assets	-	-
Intangible leasehold improvements	-	-
	<u>37,145</u>	<u>40,754</u>
<b>Depreciation of property and equipment</b>		
Buildings	28,202	28,571
Means of transport	2,058	2,294
Furniture and equipment	102,753	97,283
Other equipment	4,157	4,871
Other items of property and equipment	1,444	1,471
Property and equipment leasehold improvements	16,416	11,134
	<u>155,030</u>	<u>145,624</u>
<b>Total depreciation</b>	<u><u>192,175</u></u>	<u><u>186,378</u></u>

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

**16. OTHER OPERATING EXPENSES**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Loss from sale of assets available for sale	-	-
Software licensing expense	-	-
Deposit insurance premia	272,939	233,254
Premia on property and employee insurance	15,286	15,665
Materials and services	537,959	506,078
Administrative and marketing expense	98,718	104,122
Other taxes and contributions	2,321	3,356
Rental expense	57,522	45,469
Court dispute expense	21,614	27,095
Special reserve for off-balance sheet exposure, on a net basis	26,460	14,665
Provisions for pension and other employee benefits, on a net basis	16,207	23,837
Provisions for contingent liabilities based on court disputes, on a net basis	7,793	12,240
Other provisions, on a net basis	-	-
Loss from sale of:		
property and equipment	-	14
intangible assets	-	-
foreclosed assets	-	-
non-current assets held for sale and group for sale	-	-
Other:		
business trip expense	9,740	11,113
extraordinary expense and other costs	38,314	52,520
<b>Total other operating expense</b>	<b>1,104,873</b>	<b>1,049,428</b>



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

**17. INCOME TAX**

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

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Current income tax</b>		
Expense/(income) based on current income tax for the year	9,567	15,160
Adjustments for previous years	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	<u>9,567</u>	<u>15,160</u>
<b>Deferred income tax</b>		
Deferred income tax that arises from temporary differences for the year	(5,820)	(11,389)
Recognition of previous unrecognized tax losses	-	-
Changes in tax rate	-	-
Introduction of new taxes	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	-	-
Other	-	-
	<u>(5,820)</u>	<u>(11,389)</u>
<b>Total expense/(return) on income tax</b>	<u><u>3,747</u></u>	<u><u>3,771</u></u>

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Current income tax</b>		
Recognized in income statement	9,567	15,160
Recognized in capital	-	-
	<u>9,567</u>	<u>15,160</u>
<b>Deferred income tax</b>		
Recognized in income statement	(5,820)	(8,054)
Recognized in capital	-	(3,335)
	<u>(5,820)</u>	<u>(11,389)</u>
<b>Total expense/(return) on income tax</b>	<u><u>3,747</u></u>	<u><u>3,771</u></u>

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

**17. INCOME TAX (continued)**

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

	<b>in %</b>	<b>in thousands of Denars</b>	<b>in %</b>	<b>in thousands of Denars</b>
	<b>current year 2010</b>		<b>previous year 2009</b>	
Profit/(loss) before taxation	100.00	806,423	100.00	697,279
Income tax as per applicable tax rate	10.00	80,642	10.00	69,728
Effects from different tax rates in other countries	-	-	-	-
Adjustments for previous years and changes in tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expense unrecognized for tax purposes	1.40	11,295	2.35	16,365
Tax-exempt income	-	-	-	-
Tax exemption unrecognized in income statement	-	-	-	-
Recognition of previous unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax loans or temporary differences from previous years	(0.21)	(1,728)	(0.17)	(1,205)
Changes in deferred tax	(0.72)	(5,820)	(1.16)	(8,054)
Other	(10.00)	(80,642)	(10.00)	(69,728)
<b>Total expense/(return) on income tax</b>		<b>3,747</b>		<b>7,106</b>
<b>Average effective tax rate</b>	<b>0.47</b>		<b>1.02</b>	

In accordance with amendments to income tax implemented on fiscal 2010, the realized profit, after taxation of certain expenses that are not tax recognized, is not taxable in full if it is not intended for paying dividends and other distributions from the profit in cash or non-cash that are taxable at the time of their disbursement.

For the fiscal 2009 and 2010, the Bank used the right to full exemption from paying income tax based on undistributed profit realized for the current year.

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

**18. CASH AND CASH EQUIVALENTS**

	<b>In thousands of Denars</b>	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>
Cash on hand	1,076,968	889,586	
Accounts and deposits with NBRM, besides mandatory FC deposits	2,934,019	2,809,629	
Current accounts and transaction deposits with foreign banks	548,510	352,387	
Current accounts and transaction deposits with local banks	1,047	1,831	
T-bills that may be traded in the secondary market	7,987,816	5,116,501	
Government bills that may be traded in the secondary market	1,090,311	976,720	
Time deposits up to 3 months	3,869,733	4,968,962	
Other short-term highly liquid assets	1,591	1,234	
Receivables based on interest	4,205	25,754	
(Value adjustment)	-	-	
<b>Included in cash and cash equivalents for the needs of the Statement on cash flows</b>	<b>17,514,200</b>	<b>15,142,604</b>	
Mandatory FC deposits	2,815,298	2,861,088	
Restricted deposits	-	-	
(Value adjustment)	-	-	
<b>Total</b>	<b>20,329,498</b>	<b>18,003,692</b>	

	<b>In thousands of Denars</b>	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>	<b>2009</b>
<b>Movements in value adjustment</b>			
As at January 1	-	-	
Value adjustment for the year	-	-	
Additional value adjustment	-	-	
(Release of value adjustment)	-	-	
Discount effects	-	-	
(Written off receivables)	-	-	
<b>As at December 31</b>	<b>-</b>	<b>-</b>	

Level of mandatory deposits in foreign currency is determined in the amount of 2.815.298 thousand of Denars (2009: 2.861.088 thousand of Denars) and it represents the prescribed amount of deposits allocated in accordance with the Decision on mandatory reserves with NBRM. The mandatory reserves in foreign currency are based on the average amount of deposits in foreign currencies existing during one calendar month. The reserve requirement in foreign currencies are calculated interest amount of 0.1% per annum (2009: 0.1% per annum with effect from 15 October 2009)

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

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

**18. CASH AND CASH EQUIVALENTS (continued)**

Treasury bills that can be traded at the secondary market in the amount of 7,987,816 thousand of Denars (2009: 5,116,501 thousand of Denars) have been purchased from NBRM with maturity period of 28 days. Depending on maturity, interest rates on these bills are 4.00% 2009: 8.50%).

Government bills that can be traded at the secondary market in amount of 1,090,311 thousands of Denars (2009: 976,720 thousands of Denars) have been purchased from the Ministry of Finance of the Republic of Macedonia with a maturity of three months up to six months. Depending on maturity, interest rates range from 4.30% to 4.55% (2009: 4.71 to 8.00% p.a.)

**19. TRADING ASSETS**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Trading securities</i>		
<i>Debt securities for trading</i>		
T-bills for trading	-	-
Government bills for trading	-	-
Other instruments in the money market	-	-
Government bonds	39,995	109,538
Corporate bonds	-	-
Other debt instruments	-	-
	<u>39,995</u>	<u>109,538</u>
Quoted		47,361
Unquoted		62,177
<i>Equity instruments for trading</i>		
Equity instruments issued by banks	78,270	89,736
Other equity instruments	-	-
	<u>78,270</u>	<u>89,736</u>
Quoted	78,270	89,736
Unquoted	-	-
<i>Trading derivatives</i>		
Agreements dependant on interest rate change	-	-
Agreements dependant on exchange rate change	2,597	-
Agreements dependant on changes in price of securities	-	-
Other agreements that meet the IAS 39 criteria	-	-
	<u>2,597</u>	<u>-</u>
<b>Total trading assets</b>	<u><u>120,862</u></u>	<u><u>199,274</u></u>

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

NOTES TO THE FINANCIAL REPORTS  
December 31, 2010

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

	In thousands of Denars current year 2010	previous year 2009
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Placements with and loans to banks	-	-
Placements with and loans to other clients	-	-
<b>Total financial assets at fair value through the income statement determined as such at initial recognition</b>	<b>-</b>	<b>-</b>

NOTES TO THE FINANCIAL REPORTS  
December 31, 2010

21. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

		In thousands of Denars	
		current year 2010	previous year 2009
		derivative assets	(derivative liabilities)
		derivative assets	(derivative liabilities)
<b>A.</b>	<b><i>Derivatives for protection against risk/Derivatives held for risk management</i></b>		
A.1	<i>by type of variable</i>		
	<b>Derivatives held for risk management</b>		
	Agreements dependant on interest rate change	-	-
	Agreements dependant on exchange rate change	-	-
	Agreements dependant on changes in price of securities	-	-
	Other agreements that meet the IAS 39 criteria	-	-
	<b>Total derivatives held for risk management</b>	-	-
A.2	<i>by type of protection against risk</i>		
	Protection against risk to fair value	-	-
	Protection against risk to cash flows	-	-
	Protection against risk to net investment in international operations	-	-
	<b>Total derivatives held for risk management</b>	-	-
<b>B</b>	<b>Inherent derivatives</b>		
	Agreements dependant on interest rate change	-	-
	Agreements dependant on exchange rate change	-	-
	Agreements dependant on changes in price of securities	-	-
	Other agreements that meet the IAS 39 criteria	-	-
	<b>Total inherent derivatives</b>	-	-
	<b>Total derivatives held for risk management</b>	-	-

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

**22. LOANS AND PLACEMENTS**

**22.1 PLACEMENTS WITH AND LOANS TO BANKS**

	<b>current year 2010</b>		<b>In thousands of Denars previous year 2009</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Loans to banks				
domestic banks	235	-	50,045	-
foreign banks	81,683	-	76,902	-
Time deposits at maturity period of				
over 3 months				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Repo				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Other receivables				
domestic banks	-	-	-	-
foreign banks	-	61,943	-	44,135
Receivables based on interests	293	-	434	-
Current maturity	-	-	-	-
<b>Total placements with and loans to banks before value adjustment</b>	<b>82,211</b>	<b>61,943</b>	<b>127,381</b>	<b>44,135</b>
(Value adjustment)	(23,805)	-	(24,741)	-
<b>Total placements with and loans to banks less value adjustment</b>	<b>58,406</b>	<b>61,943</b>	<b>102,640</b>	<b>44,135</b>

	<b>In thousands of Denars current year 2010</b>	<b>previous year 2009</b>
<b>Movements in value adjustment</b>		
As at January 1	24,741	29,093
Value adjustment for the year		
additional value adjustment	-	33
(release of value adjustment)	-	(4,142)
Discount effects	-	-
(Written off receivables)	(936)	(243)
<b>As at December 31</b>	<b>23,805</b>	<b>24,741</b>

**NOTES TO THE FINANCIAL REPORTS**  
**December 31, 2010****22. LOANS AND PLACEMENTS (continued)****22.2 PLACEMENTS WITH AND LOANS TO BANKS (continued)**

Part of loans and advances with banks amounting to 75,975 thousand of Denars (2009: 75,975 thousand of Denars) are limited and represent funds with banks in Republic of Serbia, for which bankruptcy proceedings were initiated in January 2002.(Note 34.1).

Part of facilities with foreign banks are as well the restricted accounts totaling 61,943 thousand of Denars (2009: 44,135 thousand of Denars), which represent deposits with Barclays' Bank, London, Great Britain, as collateral for VISA credit card transactions. These funds are not available in Bank's daily operations.



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

**22. LOANS AND PLACEMENTS (continued)**

**22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS**

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

	<b>current year 2010</b>		<b>In thousands of Denars previous year 2009</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Non-finance companies				
receivables upon principal	9,827,167	9,348,516	9,710,926	9,874,623
interest receivables	81,962	-	73,752	-
Government				
receivables upon principal	18,719	19,790	22,254	29,727
interest receivables	213	-	205	-
Non-profit institutions that serve households				
receivables upon principal	884	14,563	351	15,227
interest receivables	67	-	103	-
Financial companies, besides banks				
receivables upon principal	-	-	-	83
interest receivables	-	-	1	-
Households				
receivables upon principal				
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
mortgage loans	-	-	-	-
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 receivables	84,668	-	127,454	-
Non-residents, besides banks				
receivables upon principal	19	-	15	-
interest receivables	-	-	-	-
Current maturity	4,248,803	(4,248,803)	4,278,490	(4,278,490)
<b>Total placements with and loans to customers before value adjustment</b>	<b>16,165,976</b>	<b>30,107,110</b>	<b>15,997,821</b>	<b>29,612,194</b>
(Value adjustment)	(4,051,658)	-	(4,009,277)	-
<b>Total placements with and loans to customers less value adjustment</b>	<b>12,114,318</b>	<b>30,107,110</b>	<b>11,988,544</b>	<b>29,612,194</b>

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

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

**22. LOANS AND PLACEMENTS (continued)**

**22.2 PLACEMENTS WITH, AND LOANS TO CUSTOMERS (continued)**

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

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Value adjustment movement on a separate basis</b>		
As at 1 January	3,839,989	2,845,327
Value adjustment for the year		
additional value adjustment	1,694,839	1,675,646
(release of value adjustment)	(803,124)	(369,306)
Exchange rate gains/losses effects	-	-
(Written off receivables)	(822,834)	(311,678)
<b>As at 31 December</b>	<b>3,908,870</b>	<b>3,839,989</b>
<b>Value adjustment movement on a group basis</b>		
As at 1 January	169,288	857,810
Value adjustment for the year		
additional value adjustment	25,197	175,781
(release of value adjustment)	(51,697)	(6,493)
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	(857,810)
<b>As at 31 December</b>	<b>142,788</b>	<b>169,288</b>
<b>Total value adjustment for placements with and loans to customers</b>	<b>4,051,658</b>	<b>4,009,277</b>

**22. LOANS AND PLACEMENTS (continued)**

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

**22.2 PLACEMENTS WITH AND LOANS TO CUSTOMERS (continued)**

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

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>(current carrying amount of placements and loans)</i>		
First-class security instruments:		
cash deposits (in depot and/or restricted in accounts with the Bank)	542,221	556,782
government securities	4,271	-
government unconditional guarantees	746,361	-
bank guarantees	133,246	80,024
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (except for bank and insurance company guarantees)	531,817	1,361,496
Guarantees from individuals	-	-
Mortgage on property:		
private property (flats, houses)	9,993,327	9,402,181
commercial property	9,464,847	9,907,761
Pledge over movables	3,903,362	4,249,151
Other types of security	2,814,107	277,465
Unsecured	14,087,869	15,765,878
<b>Total placements with and loans to customers less value adjustment</b>	<b>42,221,428</b>	<b>41,600,738</b>

**NOTES TO THE FINANCIAL REPORTS**  
**December 31, 2010****22. LOANS AND PLACEMENTS (continued)****22.2 LOANS TO CUSTOMERS (continued)****Risks and uncertainties**

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

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

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During the third and fourth quarter of 2010, when the global financial crisis have commenced to influence the local economy, the Bank did not face any liquidity problems and undertook measures of strengthening its capital base through additional subordinated loans obtained from its parent company and retaining the earnings.

The potential impact of the financial crisis could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertaken are: limiting long-term financing as compared to the short-term financing, developing new loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed, making appropriate balance between the lending and borrowing interest rates, reassessment of the relationships with the corresponding banks and other participants in the local financial markets, where possible increase of collateral limits. All the above is focusing to protect and develop current and future customer/depositor base and achievement of the Bank's goals and objectives for 2010 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 loan value adjustment. Based on the above, any additional adjustment, if any, cannot be determined at this stage with any reasonable accuracy.

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

**23. INVESTMENTS IN SECURITIES**

**23.1 INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES**

	<b>In thousands of Denars</b>	<b>previous</b>
	<b>current</b>	<b>year</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Debt securities</i>		
T-bills	-	-
Government bills	256,797	359,548
Other instruments in the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	<u>256,797</u>	<u>359,548</u>
Quoted	256,797	359,548
Unquoted	-	-
<i>Equity instruments</i>		
Equity instruments issued by banks	3,476	3,476
Other equity instruments	379,036	362,970
	<u>382,512</u>	<u>366,446</u>
Quoted	55,352	21,720
Unquoted	327,160	344,726
<b>Total investment in financial instruments available for sale before value adjustment</b>	639,309	725,994
(Value adjustment)	<u>(289,558)</u>	<u>(285,196)</u>
<b>Total investment in financial instruments available for sale less value adjustment</b>	<u><u>349,751</u></u>	<u><u>440,798</u></u>
	<b>In thousands of Denars</b>	<b>previous</b>
	<b>current</b>	<b>year</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Movements in value adjustment</b>		
As at January 1	285,196	268,178
Value adjustment for the year		
additional value adjustment	4,362	17,018
(release of value adjustment)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	<u>-</u>	<u>-</u>
<b>As at December 31</b>	<u><u>289,558</u></u>	<u><u>285,196</u></u>

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

**23. INVESTMENTS IN SECURITIES (continued)**

**23.2 INVESTMENT IN HELD-TO-MATURITY SECURITIES**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Debt securities</i>		
T-bills	-	-
Government bills	-	-
Other instruments in the money market	-	-
Government bonds	2,312,302	2,722,287
Corporate bonds	308,464	306,692
Other debt instruments	-	-
	<u>2,620,766</u>	<u>3,028,979</u>
Quoted	2,312,302	2,722,287
Unquoted	308,464	306,692
<b>Total investment in financial instruments held to maturity before value adjustment</b>	<u>2,620,766</u>	<u>3,028,979</u>
(Value adjustment)	-	-
<b>Total investment in financial instruments held to maturity less value adjustment</b>	<u><u>2,620,766</u></u>	<u><u>3,028,979</u></u>

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Movements in value adjustment</b>		
As at January 1	-	-
Value adjustment for the year		
additional value adjustment	-	-
(release of value adjustment)	-	-
Exchange rate gains/losses effects	-	-
(Written off receivables)	-	-
	<u>-</u>	<u>-</u>
<b>As at December 31</b>	<u><u>-</u></u>	<u><u>-</u></u>

Part of the government bonds amounting to 2,254,106 thousand of Denars (2009: 2,625,064 thousand of Denars) represent bonds issued by the Republic of Macedonia in exchange for the Bank's receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables from end beneficiaries by the Republic of Macedonia in the Bank. These bonds bear an interest rate of three month EURIBOR plus 1 p.p. and are repayable in 56 equal quarterly installments commencing from 2001 to 2014.

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

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

**23. INVESTMENTS IN SECURITIES (continued)**

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

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

The Corporate bonds represent bond issued from NLB Tutunska Banka a.d. Skopje in the amount of 308,464 thousand of Denars (2009: 306,692 thousand of Denars), which is non-convertible and non-transferable. This bond bears an interest rate of six-month EURIBOR plus 1.2 p.a. with semi-annual payment of interest. The principal amount is repayable in three years commencing from May 2010 to November 2011.

**24. INVESTMENT IN AFFILIATED ENTITIES**

**A. Bank's participation in subsidiaries and affiliated entities**

Name of subsidiaries and affiliated entities	Country	Percentage of share in ownership		Percentage of voting right	
		current year 2010	previous year 2009	current year 2010	previous year 2009
-	-	-	-	-	-

**B. Financial data on affiliated companies – 100 percent**

Name of affiliated entities	Total assets	Total liabilities	Total equity and reserves	In thousands of Denars	
				Income	Profit/(loss) for the financial year
Current year 2010	-	-	-	-	-
Previous year 2009	-	-	-	-	-

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

**25. OTHER RECEIVABLES**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Receivables on buyers	60,973	104,321
Costs paid in advance	51,884	44,255
Calculated deferred income	-	-
Receivables upon fees and commissions	46,385	33,692
Receivables on employees	5	-
Advances for intangible assets	-	-
Advances for property and equipment	6,354	9,751
Other:		
Stock of materials	5,381	8,929
Receivables for overpaid VAT	-	11,659
Numismatic collections	9,383	10,034
Arka Sub-branch (court dispute)	11,500	11,500
Receivables under disbursements upon foreign VISA cards	40,171	44,792
Other	3,933	12,689
<b>Total other receivables before value adjustment</b>	<b>235,969</b>	<b>291,622</b>
(Value adjustment)	(52,346)	(28,789)
<b>Total other receivables less value adjustment</b>	<b>183,623</b>	<b>262,833</b>

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<b>Movements in value adjustment</b>		
As at January 1	28,789	63,385
Value adjustment for the year		
additional value adjustment	43,284	16,285
(release of value adjustment)	(17,808)	(26,115)
Exchange rate gains/losses effects		-
(Written off receivables)	(1,919)	(24,766)
<b>As at December 31</b>	<b>52,346</b>	<b>28,789</b>

**26. COLLATERALIZED ASSETS**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Debt securities	-	-
Equity instruments	-	-
<b>Total collateralized assets</b>	<b>-</b>	<b>-</b>



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

**27. ASSETS ACQUIRED THROUGH FORECLOSURE PROCEEDINGS**

	In thousands of Denars					
	Land	Buildings	Equipment	Residential facilities and flats	Other valuables	Total
<b>Purchase value</b>						
As at January 1, 2009	6,346	523,253	39,542	199,033	2,720	770,894
Assets acquired during the year	19	306,402	-	16,264	-	322,685
Sold during the year	-	(213,706)	(4,676)	(10,594)	-	(228,976)
Transfer to own assets	-	-	-	-	-	-
<b>As at December 31, 2009</b>	<b>6,365</b>	<b>615,949</b>	<b>34,866</b>	<b>204,703</b>	<b>2,720</b>	<b>864,603</b>
As at January 1, 2010	6,365	615,949	34,866	204,703	2,720	864,603
Assets acquired during the year	217	305,000	87,538	366	-	393,121
Sold during the year	(237)	(16,983)	(75,439)	(6,951)	-	(99,610)
Transfer to own assets	-	-	-	-	-	-
<b>As at December 31, 2010</b>	<b>6,345</b>	<b>903,966</b>	<b>46,965</b>	<b>198,118</b>	<b>2,720</b>	<b>1,158,114</b>
<b>Impairment</b>						
As at January 1, 2009	2,251	109,777	29,391	55,563	987	197,969
Impairment loss during the year	203	58,010	938	848	-	59,999
Transfer to own assets	-	-	-	-	-	-
<b>As at December 31, 2009</b>	<b>2,454</b>	<b>167,787</b>	<b>30,329</b>	<b>56,411</b>	<b>987</b>	<b>257,968</b>
As at January 1, 2010	2,454	167,787	30,329	56,411	987	257,968
Impairment loss during the year	936	44,108	2,199	14,680	234	62,157
Transfer to own assets	-	-	-	-	-	-
<b>As at December 31, 2010</b>	<b>3,390</b>	<b>211,895</b>	<b>32,528</b>	<b>71,091</b>	<b>1,221</b>	<b>320,125</b>
<b>Current carrying amount</b>						
As at January 1, 2009	4,095	413,476	10,151	143,470	1,733	572,925
<b>As at 31 December 2009</b>	<b>3,911</b>	<b>448,162</b>	<b>4,537</b>	<b>148,292</b>	<b>1,733</b>	<b>606,635</b>
<b>As at 31 December 2010</b>	<b>2,955</b>	<b>692,071</b>	<b>14,437</b>	<b>127,027</b>	<b>1,499</b>	<b>837,989</b>

The assets acquired through foreclosure procedure include business premises, flats and buildings not used in Bank's regular operations. In the course of 2010, the Bank recorded impairment losses for these assets in total amount of 62,157 thousand of Denars (2009: 59,999 thousand of Denars).

During 2010, the Bank engaged two external appraisal companies (2009: two) that appraised the total assets in order to determine their fair value.

During this period, the Bank sold 23 assets (2009: 9 assets) at total value of 12,754 thousand of Denars (2009: 224,300 thousand of Denars), and foreclosed 31 buildings (2009: 28 buildings) at total value of 284,015 thousand of Denars (2009: 297,606 thousand of Denars). Activities are being undertaken for preparing the foreclosed assets during 2010 for sale, as the Bank policy is to sell these buildings in a period of 3 years.

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

**28. INTANGIBLE ASSETS**

**A. Reconciliation of current carrying amount**

	In thousands of Denars					
	Internal developed software	Software bought from external suppliers	Other internal developed intangible assets	Other intangible assets	Investments in intangible assets taken under lease	Total
<b>Purchase value</b>						
As at January 1, 2009	-	534,468	-	-	-	534,468
increases by new supplies	-	23,402	-	-	-	23,402
increases by internal development	-	-	-	-	-	-
increases by business combinations	-	-	-	-	-	-
(sale and entering as expenditure)	-	(63,864)	-	-	-	(63,864)
(entering as expenditure through business combinations)	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-
<b>As at 31 December, 2009</b>	-	494,006	-	-	-	494,006
As at January 1, 2010	-	494,006	-	-	-	494,006
increases by new supplies	-	34,942	-	-	-	34,942
increases by internal development	-	-	-	-	-	-
increases by business combinations	-	-	-	-	-	-
(sale and entering as expenditure)	-	-	-	-	-	-
(entering as expenditure through business combinations)	-	-	-	-	-	-
(transfer to non-current assets held for sale)	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-
<b>As at 31 December, 2010</b>	-	528,948	-	-	-	528,948
<b>Accumulated depreciation and impairment</b>						
As at January 1, 2009	-	389,345	-	-	-	389,345
depreciation for the year	-	40,754	-	-	-	40,754
Impairment loss in the course of the year	-	-	-	-	-	-
(release of impairment loss in the course of the year)	-	-	-	-	-	-
(sale and entering as expenditure)	-	(63,289)	-	-	-	(63,289)
<b>As at 31 December, 2009</b>	-	366,810	-	-	-	366,810
As at January 1, 2010	-	366,810	-	-	-	366,810
depreciation for the year	-	37,145	-	-	-	37,145
Impairment loss in the course of the year	-	-	-	-	-	-
(release of impairment loss in the course of the year)	-	-	-	-	-	-
(sale and entering as expenditure)	-	-	-	-	-	-
<b>As at 31 December, 2010</b>	-	403,955	-	-	-	403,955
<b>Current carrying amount</b>						
As at January 1, 2009	-	145,123	-	-	-	145,123
<b>As at 31 December, 2009</b>	-	127,196	-	-	-	127,196
<b>As at 31 December, 2010</b>	-	124,993	-	-	-	124,993

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

**28. INTANGIBLE ASSETS (continued)**

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

In thousands of Denars						
	Internal developed software	Software bought from external suppliers	Other internal developed intangible assets	Other intangible assets	Investments in intangible assets taken under lease	Total
Current carrying amount as at						
December 31, 2009	-	-	-	-	-	-
December 31, 2010	-	-	-	-	-	-

As at December 31, 2010 and 2009, the Bank has no intangible assets for which there is limitation regarding ownership and/or have been pledged as security for Bank's liabilities.

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

**29. PROPERTY AND EQUIPMENT**

**A. Reconciliation of the present carrying amount**

**In thousands of  
Denars**

	<b>Buildings</b>	<b>Transport vehicles</b>	<b>Furniture and office equipme nt</b>	<b>Other equipme nt</b>	<b>Other items of propert y and equipme nt</b>	<b>Property and equipme nt in progress</b>	<b>Leasehold improve ments</b>	<b>Total</b>
<b>Purchase value</b>								
As at 1 January 2009	1,167,104	52,218	1,279,040	76,442	58,934	22,294	74,720	2,730,752
Increments	21,652	2,640	37,983	5,748	-	81,428	13,004	162,455
Increments by business combinations (sale and entering as expenditure )	(18,564)	(28,181)	(155,577)	(5,017)	(1,175)	-	(351)	(208,865)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-
Transfer to non-current assets held-for-sale ( transfer from non-current assets held-for- sale )	-	-	-	-	-	-	-	-
Other transfers	4,120	-	51,634	-	-	(61,675)	6,498	577
<b>As at 31 December 2009</b>	<b>1,174,312</b>	<b>26,677</b>	<b>1,213,080</b>	<b>77,173</b>	<b>57,759</b>	<b>42,047</b>	<b>93,871</b>	<b>2,684,919</b>
As at 1 January 2010	1,174,312	26,677	1,213,080	77,173	57,759	42,047	93,871	2,684,919
Increments	5,754	-	28,812	542	-	47,204	16,925	99,237
Increments by business combinations (sale and entering as expenditure )	(19,344)	(2,743)	(79,118)	(642)	-	-	-	(101,847)
(entering as expenditure through business combinations)	-	-	-	-	-	-	-	-
Transfer to non-current assets held-for-sale ( transfer from non-current assets held-for- sale )	-	-	-	-	-	-	-	-
Other transfers	-	-	51,402	-	-	(60,793)	10,148	757
<b>As at 31 December 2010</b>	<b>1,160,722</b>	<b>23,934</b>	<b>1,214,176</b>	<b>77,073</b>	<b>57,759</b>	<b>28,458</b>	<b>120,944</b>	<b>2,683,066</b>
<b>Amortization and impairment</b>								
As at 1 January 2009	336,129	47,833	1,036,011	52,977	14,804	-	39,378	1,527,132
Depreciation for the year	28,571	2,294	97,283	4,871	1,471	-	11,134	145,624
Impairment loss during the year (release of impairment loss during the year)	19,834	-	-	-	-	-	-	19,834
(sale and entering as expenditure)	(5,472)	(28,181)	(154,863)	(4,984)	(439)	-	(351)	(194,290)
(transfer to non-current assets held-for-sale)	-	-	-	-	-	-	-	-
transfer from non-current assets held-for- sale	-	-	-	-	-	-	-	-
Other transfers	4	-	(4)	-	-	-	-	-
<b>As at 31 December 2009</b>	<b>379,066</b>	<b>21,946</b>	<b>978,427</b>	<b>52,864</b>	<b>15,836</b>	<b>-</b>	<b>50,161</b>	<b>1,498,300</b>
As at 1 January 2010	379,066	21,946	978,427	52,864	15,836	-	50,161	1,498,300
Depreciation for the year	28,202	2,058	102,753	4,157	1,444	-	16,416	155,030
Impairment loss during the year (release of impairment loss during the year)	-	-	-	-	-	-	-	-
(sale and entering as expenditure)	(6,832)	(2,743)	(78,872)	(642)	-	-	-	(89,089)
(transfer to non-current assets held-for-sale)	-	-	-	-	-	-	-	-
transfer from non-current assets held-for- sale	-	-	-	-	-	-	-	-
Other transfers	(333)	-	-	-	-	-	333	-
<b>As at 31 December 2010</b>	<b>400,103</b>	<b>21,261</b>	<b>1,002,308</b>	<b>56,379</b>	<b>17,280</b>	<b>-</b>	<b>66,910</b>	<b>1,564,241</b>
<b>Present carrying amount</b>								
As at 1 January 2009	830,975	4,385	243,029	23,465	44,130	22,294	35,342	1,203,620
<b>As at 31 December 2009</b>	<b>795,246</b>	<b>4,731</b>	<b>234,653</b>	<b>24,309</b>	<b>41,923</b>	<b>42,047</b>	<b>43,710</b>	<b>1,186,619</b>
<b>As at 31 December 2010</b>	<b>760,619</b>	<b>2,673</b>	<b>211,868</b>	<b>20,694</b>	<b>40,479</b>	<b>28,458</b>	<b>54,034</b>	<b>1,118,825</b>

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

**29. PROPERTY AND EQUIPMENT (continued)**

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

In thousands of  
Denars

	Buildings	Transport vehicles	Furniture and office equipme nt	Other equipme nt	Other items of propert y and equipme nt	Property and equipme nt in progress	Leasehold improve ments	Total
Present carrying amount as at:								
31 December 2009	-	-	-	-	-	-	-	-
31 December 2010	-	-	-	-	-	-	-	-

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.

**30. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES**

**30.1 Current tax assets and current tax liabilities**

	In thousands of Denars	
	current year 2010	previous year 2009
Income tax receivable (current)	4,801	10,283
Income tax payable (current)	-	-

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

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

**30.2 Deferred tax assets and deferred tax liabilities**

**A. Recognized deferred tax assets and deferred tax liabilities**

	31 December 2010			In thousands of Denars 31 December 2009		
	Deferred tax assets	Deferred tax liabilities	On net basis	Deferred tax assets	Deferred tax liabilities	On net basis
Derivative assets held for risk management	-	-	-	-	-	-
Placements with and loans to banks	-	-	-	-	-	-
Placements with and loans to other clients	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unutilized tax losses and unutilized tax loans	-	-	-	-	-	-
Other	5,820	-	5,820	8,054	-	8,054
<b>Deferred tax assets/liabilities recognized in the Income Statement</b>	5,820	-	5,820	8,054	-	8,054
Investments in financial assets available-for-sale	-	-	-	-	-	-
Protection against cash flow risk	-	-	-	-	-	-
<b>Deferred tax assets/liabilities recognized in the capital</b>	-	-	-	-	-	-
<b>Total recognized deferred tax assets/liabilities</b>	5,820	-	5,820	8,054	-	8,054

**B. Unrecognized deferred tax assets**

	In thousands of Denars	
	current year 2010	previous year 2009
Tax losses	-	-
Tax loans	-	-
<b>Total unrecognized deferred tax assets</b>	-	-

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

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

**30.2 Deferred tax assets and deferred tax liabilities (continued)**

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

	As at January 1	Recognized in Income Statement	In thousands of Denars Recognized in capital	As at December 31
<b>31 December 2009</b>				
Derivative assets held for risk management	-	-		-
Placements with and loans to banks	-	-		-
Placements with and loans to other clients	-	-		-
Investments in securities	-	-		-
Intangible assets	-	-		-
Property and equipment	-	-		-
Other receivables	1,630	8,054		9,684
Derivative liabilities held for risk management	-	-		-
Other liabilities	-	-		-
Unutilized tax losses and unutilized tax loans	-	-		-
Other	-	-		-
Investments in financial assets available-for-sale	(3,335)		3,335	-
Protection against cash flow risk	-		-	-
<b>Total recognized deferred tax assets/(liabilities)</b>	<b>(1,705)</b>	<b>8,054</b>	<b>3,335</b>	<b>9,684</b>

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

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

**30.2 Deferred tax assets and deferred tax liabilities (continued)**

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

	As at January 1	Recognized in Income Statement	In thousands of Denars Recognized in capital	As at December 31
<b>31 December 2010</b>				
Derivative assets held for risk management	-	-		-
Placements with and loans to banks	-	-		-
Placements with and loans to other clients	-	-		-
Investments in securities	-	-		-
Intangible assets	-	-		-
Property and equipment	-	-		-
Other receivables	9,684	5,820		15,504
Derivative liabilities held for risk management	-	-		-
Other liabilities	-	-		-
Unutilized tax losses and unutilized tax loans	-	-		-
Other	-	-		-
Investments in financial assets available-for-sale	-		-	-
Protection against cash flow risk	-		-	-
<b>Total recognized deferred tax assets/(liabilities)</b>	<b>9,684</b>	<b>5,820</b>	<b>-</b>	<b>15,504</b>

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

**A. Non-current assets held for sale**

	In thousands of Denars current year 2010	previous year 2009
Intangible assets	-	-
Property and equipment	-	-
<b>Total non-current assets held for sale</b>	<b>-</b>	<b>-</b>

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



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

**B. Group for sale**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Group of assets for sale</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in affiliates	-	-
Income tax receivables	-	-
Other assets	-	-
<b>Total group of assets for sale</b>	<b>-</b>	<b>-</b>
<i>Liabilities directly related to the group of assets for sale</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax payable	-	-
Other liabilities	-	-
<b>Total liabilities directly related to the group of assets for sale</b>	<b>-</b>	<b>-</b>

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

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>Previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Profit/(loss) recognized from sale of held for sale assets and group for sale	-	-

**32. TRADING LIABILITIES**

In thousands of Denars

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

	<b>current year 2010</b>	<b>previous year 2009</b>
<i>Deposits from banks</i>		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
<i>Deposits from other clients</i>		
Current accounts, demand deposits and overnight deposits	-	-
Time deposits	-	-
Other deposits	-	-
	-	-
<i>Issued debt securities</i>		
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
	-	-
<i>Other financial liabilities</i>	-	-
<i>Trading derivatives</i>		
Agreements depending on interest rate change	-	-
Agreements depending on exchange rate change	-	1,196
Agreements depending on securities price change	-	-
Other agreements that fulfill IAS 39 criteria	-	-
	-	-
<b>Total trading liabilities</b>	<b>-</b>	<b>1,196</b>

NOTES TO THE FINANCIAL REPORTS  
December 31, 2010

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

	current year 2010		In thousands of Denars previous year 2009	
	Present carrying amount	Agreed amount, payable at maturity	Present carrying amount	Agreed amount, payable at maturity
<i>Deposits from banks</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Deposits from other clients</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Time deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinated debt</i>	-	-	-	-
<i>Other liabilities</i>	-	-	-	-
<b>Total financial liabilities at fair value via the Income Statement, determined as such at initial recognition</b>	-	-	-	-

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

**34. DEPOSITS**

**34.1 DEPOSITS FROM BANKS**

	<b>current year 2010</b>		<b>In thousands of Denars previous year 2009</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Current accounts				
with domestic banks	16,102	-	7,889	-
with foreign banks	78,564	-	53,732	-
Demand deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Time deposits				
with domestic banks	-	-	-	-
with foreign banks	1,845,150	-	2,263,408	-
Restricted deposits				
with domestic banks	-	307,525	-	305,866
with foreign banks	72,097	-	63,640	-
Other deposits				
with domestic banks	-	-	-	-
with foreign banks	-	-	-	-
Liabilities on the basis of deposit interest				
with domestic banks	560	-	449	-
with foreign banks	215	-	191	-
Current maturity		-	-	-
<b>Total deposits from banks</b>	<b>2,012,688</b>	<b>307,525</b>	<b>2,389,309</b>	<b>305,866</b>

The restricted deposits held with domestic 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 22.1).

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

**34. DEPOSITS (continued)**

**34.2 DEPOSITS FROM OTHER CLIENTS**

	<b>current year 2010</b>		<b>In thousands of Denars previous year 2009</b>	
	<b>short-term</b>	<b>long-term</b>	<b>short-term</b>	<b>long-term</b>
Non-financial companies				
Current accounts	5,382,660	-	4,484,974	-
Demand 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	-
Liabilities on the basis of deposit interest	64,004	-	121,646	-
	<u>8,575,045</u>	<u>669,784</u>	<u>12,132,759</u>	<u>715,057</u>
Government				
Current accounts	75,505	-	73,486	-
Demand deposits	-	-	-	-
Time deposits	4,101	-	2,500	-
Restricted deposits	165	-	361	-
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	20	-	14	-
	<u>79,791</u>	<u>-</u>	<u>76,361</u>	<u>-</u>
Non-profit institutions serving the households				
Current accounts	380,675	-	348,240	-
Demand deposits	19	-	617	-
Time deposits	224,326	9,180	216,063	9,180
Restricted deposits	4,617	10,914	3,151	10,539
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	4,488	-	4,278	-
	<u>614,125</u>	<u>20,094</u>	<u>572,349</u>	<u>19,719</u>
Financial companies, except banks				
Current accounts	58,820	-	64,251	-
Demand deposits	-	-	-	-
Time deposits	758,228	211,737	774,841	44,602
Restricted deposits	494	78	478	29,961
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	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	-
Demand deposits	-	-	-	-
Time deposits	26,044,857	4,572,337	21,368,896	3,527,870
Restricted deposits	456,890	205,611	224,492	99,516
Other deposits	-	-	-	-
Payables based on interest under 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	-
Demand deposits	-	-	-	-
Time deposits	238,021	36,029	173,099	8,996
Restricted deposits	74,673	1,331	55,887	-
Other deposits	-	-	-	-
Liabilities on the basis of deposit interest	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>
<b>Total deposits from other clients</b>	<u>50,426,934</u>	<u>3,080,234</u>	<u>49,121,968</u>	<u>2,676,486</u>

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

**35. ISSUED DEBT SECURITIES**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Liabilities on the basis of interest on issued securities	-	-
<b>Total issued debt securities</b>	<b>-</b>	<b>-</b>

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

**36. LOANS PAYABLE**

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

	current year 2010		In thousands of Denars previous year 2009	
	short-term	long-term	short-term	long-term
Banks				
Residents				
Loans payable	-	263,023	-	40,703
Repo-transactions	-	-	-	-
Liabilities based on interest	570	-	98	-
Non-residents				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-financial companies				
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Government				
Loans payable	26,690	180,845	27,763	190,287
Repo-transactions	-	-	-	-
Liabilities based on interest	1,334	-	2,519	-
Non-profit institutions serving to households				
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Financial companies, except banks	-	-	-	-
Loans payable	-	-	-	-
Repo-transactions	-	-	-	-
Liabilities based on interest	-	-	-	-
Non-residents, except banks	-	-	-	-
Non-financial companies				
Loans payable	-	5,957	-	5,957
Repo-transactions	-	-	-	-
Interest payables	-	-	-	-
Households	-	-	-	-
Loans payable	-	-	-	-
Liabilities based on interest	-	-	-	-
Current maturity	65,749	(65,749)	18,656	(18,656)
<b>Total loans payable</b>	<b>94,343</b>	<b>384,076</b>	<b>49,036</b>	<b>218,291</b>

NOTES TO THE FINANCIAL REPORTS  
December 31, 2010

36. LOANS PAYABLE (continued)

B. Loans payable according to the creditor

	current year 2010		In thousands of Denars previous year 2009	
	short-term	long-term	short-term	long-term
<i>domestic sources:</i>				
<b>Asset Management Agency</b> - long-term loans amounting to MKD 150,529 thousand (2009: MKD 150,526 thousand) matures and is payable in January 2020 on a one-time basis. Related fees for these loans are 1.5% per annum	1,130	149,399	1,130	149,399
<b>Agency for underdeveloped regions</b> – matures in 2010 and the interest rate is equal to 3.9% per annum (2009: 3.9% p.a.).	26,690	-	28,896	1,792
<b>Македонска банка за поддршка на развојот</b> - со рок на достасување во 2015 година и каматна стапка од 1.0% на годишно ниво (2009: нема год.)	458	228,655	-	-
	28,278	378,054	30,026	151,191
<i>Foreign sources:</i>				
<b>Council of Europe Social Development Fund</b> - matures in 2014 and bears fixed interest rate of 6.73% per annum.	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% per annum.	112	34,368	98	40,703
Other banks	-	5,957	-	5,957
	316	71,771	354	85,756
Current maturity	65,749	(65,749)	18,656	(18,656)
<b>Total loans payable</b>	94,343	384,076	49,036	218,291



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

**37. SUBORDINATED DEBT**

	<u>Maturity</u>	<u>Interest rate</u>	<b>In thousands of Denars</b>	
			<b>current year</b>	<b>previous year</b>
			<b>2010</b>	<b>2009</b>
<i>Liabilities under subordinated deposits</i>				
Liabilities under principal			-	-
Liabilities based on interest			-	-
			-	-
<i>Liabilities under subordinated loans</i>				
NBG Athens, Greece		3 month		
(principal EUR 20 million)	27.12.2016	EURIBOR		
		+0.85% p.a.	1,230,100	1,223,464
NBG Athens, Greece		3 month		
(principal EUR 25 million)	05.11.2018	EURIBOR		
		+3.7% p.a.	1,537,625	1,529,330
Liabilities based on interest			11,614	10,539
			<u>2,779,339</u>	<u>2,763,333</u>
<i>Liabilities under subordinated issued debt securities</i>				
Liabilities under principal			-	-
Liabilities based on interest			-	-
			-	-
Redeemable preferred shares			-	-
<b>Total subordinated debt</b>			<u><u>2,779,339</u></u>	<u><u>2,763,333</u></u>

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

The interest is payable quarterly. It is mutually agreed with the creditor that the subordinated debt shall:

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

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

**38. SPECIAL RESERVES AND PROVISIONS**

In thousands of Denars

	Special reserves for off-balance sheet credit exposures	Provisions for contingent liabilities based on court disputes	Provisions for pensions and other employees benefits	Provisions for restructuring	Provisions for unfavorable agreements	Other provisions	Total
Balance as at January 1, 2009	172,572	3,200	16,297	-	-	-	192,069
Additional provisions during the year	14,665	12,240	23,837	-	-	-	50,742
(utilized provisions during the year)	-	-	(396)	-	-	-	(396)
(provisions recovery during the year)	(85,591)	-	(951)	-	-	-	(86,542)
<b>Balance as at 31 December 2009</b>	<b>101,646</b>	<b>15,440</b>	<b>38,787</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,873</b>
Balance as at January 1, 2010	101,646	15,440	38,787	-	-	-	155,873
Additional provisions during the year	26,460	7,793	2,207	-	-	-	36,460
(utilized provisions during the year)	-	-	(11,156)	-	-	-	(11,156)
(provisions recovery during the year)	(19,412)	-	-	-	-	-	(19,412)
<b>Balance as at 31 December 2010</b>	<b>108,694</b>	<b>23,233</b>	<b>29,838</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>161,765</b>

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%	6.0%
Average salary increase	5.50%	5.5%
Inflation rate	3.00%	3.0%

Mortality rate:

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

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

**39. OTHER LIABILITIES**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Liabilities to suppliers	7,785	11,209
Received advance payments	-	-
Liabilities for fees and commissions	-	30,651
Calculated costs	36,080	32,751
Deferred income from previous year	25,753	21,792
Short-term liabilities to employees	-	66
Short-term liabilities for employees benefits	-	25,661
Other:		
preferred cumulative shares	90,978	90,978
liabilities for dividend on preferred shares	9,104	10,251
disputed VISA cards transactions	5,414	4,811
unallocated inflows upon deposits and other inflows	302,217	173,933
other liabilities	25,658	33,998
<b>Total other liabilities</b>	<b>502,989</b>	<b>436,101</b>

As at December 31, 2010 the Bank has 227,444 non-redeemable cumulative preferred shares with a nominal value of Denar 400.

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

As at December 31, 2010 the Bank allocated an amount of Denar 8,188 thousand as a dividend to the holders of the non-redeemable cumulative preferred shares for the year 2010 (2009: Denar 9,325 thousand for the year 2009).

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

**40. SUBSCRIBED CAPITAL**

**A. Subscribed capital**

	In MKD		Number of issued shares				In thousands of Denars	
	Share nominal value		Common shares		Non-redeemable preferred shares		Total subscribed capital	
	Non-redeemable							
	Common shares	preferred shares	Current year 2010	Previous year 2009	Current year 2010	Previous year 2009	Current year 2010	Previous year 2009
As at 1 January – paid in full	201,1	400	17,460,180	17,460,180	227,444	227,444	3,602,220	3,602,220
Subscribed shares during the year	-	-	-	-	-	-	-	-
Realization of stock options	-	-	-	-	-	-	-	-
Division/accumulation of share nominal value	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
<b>As at 31 December – paid in full</b>			<u>17,460,180</u>	<u>17,460,180</u>	<u>227,444</u>	<u>227,444</u>	<u>3,602,220</u>	<u>3,602,220</u>

**B. Dividends**

**B.1 Announced dividends and paid dividends by the Bank**

	In thousands of Denars	
	current year 2010	previous year 2009
Announced dividends and paid dividends for the year	9,325	7,960

Announced dividends and paid dividends for the year in the amount of MKD 9,325 thousand are allocated from the realized net profit for 2009 (2009: MKD 7,960 thousand from net profit for 2008)

	In Denar	
	current year 2010	previous year 2009
Dividend per common share	-	-
Dividend per preferred share	41,00	35,00

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

	In thousands of Denars	
	current year 2010	previous year 2009
Announced dividends after 31 December	-	-

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

**40. SUBSCRIBED CAPITAL (continued)**

**B. Dividends (continued)**

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

	<b>current year 2010</b>	<b>In Denar previous year 2009</b>
Dividend per common share	-	-
Dividend per preferred share	-	-

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

The structure of shareholders whose stake exceeds 5% of the issued voting shares as at December 31, 2010 and 2009 was officially announced and accepted by the Central Securities Depository of the Republic of Macedonia, as follows:

	<b>In thousands of Denars</b>		<b>In %</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>	<b>current year 2010</b>	<b>previous year 2009</b>
<b>Name of shareholder</b>	<b>Subscribed capital (nominal value)</b>	<b>Subscribed capital (nominal value)</b>	<b>Voting right</b>	<b>Voting right</b>
National Bank of Greece	3,323,094	2,564,602	94.64%	73.04%
International Financial Corporation	-	379,246	-	10.80%
European Bank for Reconstruction and Development	-	379,246	-	10.80%
Other	188,148	188,148	5.36%	5.36%
<b>Total</b>	<b>3,511,242</b>	<b>3,511,242</b>	<b>100.00%</b>	<b>100.00%</b>

The share capital of the Bank as at December 31, 2010 consists of 17,460,180 fully paid up common shares with a nominal value of Denar 201.1.

During 2010, the National Bank of Greece bought the shares of the International Finance Corporation and European Bank for Reconstruction and Development, bringing its share in 2010 increased compared to 2009 to 21.60%

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

**NOTES TO THE FINANCIAL REPORTS**  
**December 31, 2010****40. SUBSCRIBED CAPITAL (continued)****Revalued reserves**

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

**Statutory reserves**

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

**Other reserves**

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

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

**41. EARNINGS PER SHARE**

**A Basic earnings per share**

	<b>current year 2010</b>	<b>In Denar previous year 2009</b>
<i>Net gains to which the holders of common shares are entitled</i>		
Net gains for the year	802,676	690,173
Dividend for non-redeemable preferred shares	-	-
Adjustment of net gains to which the holders of common shares are entitled	802,676	690,173
<b>Net gains to which the holders of common shares are entitled</b>	<b>802,676</b>	<b>690,173</b>
	<b>current year 2010</b>	<b>Number of shares previous year 2009</b>
<i>Weighted average number of common shares</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from changes in the number of common shares during the year	-	-
<b>Weighted average number of common shares on 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Basic earnings per share (in MKD)</b>	<b>45.98</b>	<b>39.53</b>

**B. Diluted earning per share**

	<b>current year 2010</b>	<b>In Denar previous year 2009</b>
<i>Net gains to which the holders of common shares are entitled (diluted)</i>		
Net gains for the year to which the holders of common shares are entitled	802,676	690,173
Adjustment of net gains to which the holders of common shares are entitled for the effects on all issued potential common shares	-	-
<b>Net gains to which the holders of common shares are entitled (diluted)</b>	<b>802,676</b>	<b>690,173</b>

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

**41. EARNINGS PER SHARE (continued)**

**B. Diluted earnings per share (continued)**

	<b>Number of shares</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
<i>Weighted average number of common shares (diluted)</i>		
Common shares issued on 1 January	17,460,180	17,460,180
Effects from issuance of potential common shares	-	-
<b>Weighted average number of common shares (diluted) on 31 December</b>	<b>17,460,180</b>	<b>17,460,180</b>
<b>Diluted earnings per share (in MKD)</b>	<b>45.98</b>	<b>39.53</b>

**42. COMMITMENTS AND CONTINGENCIES**

**42.1 COMMITMENTS**

	<b>In thousands of Denars</b>	
	<b>current</b>	<b>previous</b>
	<b>year</b>	<b>year</b>
	<b>2010</b>	<b>2009</b>
Payment uncovered guarantees		
in Denar	1,128,697	931,359
in foreign currency	552,023	653,219
in Denar with FC Clause	42,409	155,381
Performance uncovered guarantees		
in Denar	747,960	609,824
in foreign currency	248,043	236,435
in Denar with FC Clause	1,509,700	512,718
Uncovered letters of credit		
in Denar	-	-
in foreign currency	515,963	63,083
in Denar with FC Clause	-	-
Unutilized overdrafts under current accounts	2,410,089	1,117,401
Unutilized limits under credit cards	5,969,219	5,405,173
Taken liabilities for financing and unutilized credit limits	-	-
Other uncovered contingent liabilities	-	-
Issued covered letters of guarantee	296,346	249,018
Covered letters of credit	45,180	67,268
Other covered contingent liabilities	-	-
<b>Total contingent liabilities before special reserve</b>	<b>13,465,629</b>	<b>10,000,879</b>
(Special reserve)	(108,694)	(101,646)
<b>Total contingent liabilities reduced by special reserve</b>	<b>13,356,935</b>	<b>9,899,233</b>



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

**42. COMMITMENTS AND CONTINGENCIES (continued)**

**Litigations**

The Bank is involved in legal proceedings from its daily operations. The amount of litigation that link against the Bank on December 31, 2010, for which are made appropriate analysis on which the Bank's management believes that the final outcome of these disputes will be resolved to the detriment of the Bank and because it could result materially significant losses on the basis of these disputes, is 23.233 thousand. The said amount does not include penalty interest. According to the above, in 2010, the Bank allocated provisions for impairment losses upon litigation in the amount of 7.793 thousand (2009: 12.240).

**42.2 CONTINGENCIES**

	<b>In thousands of Denars</b>	
	<b>current year 2010</b>	<b>previous year 2009</b>
	-	-
<b>Total contingent assets</b>	-	-

**43. OPERATIONS ON BEHALF AND FOR ACCOUNT OF THIRD PARTIES**

	<b>Current year 2010</b>			<b>In thousands of Denars Previous year 2009</b>		
	<b>Assets</b>	<b>Liabilities</b>	<b>Net position</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net position</b>
Administration of assets on behalf and for account of third parties						
Denar deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
Denar loans	266,067	266,067	-	265,309	265,309	-
FC loans	233,305	233,305	-	227,502	227,502	-
Other Denar claims	680,902	680,902	-	591,007	591,007	-
Other FC claims	139,271	139,271	-	202,803	202,803	-
Asset management on behalf and for account of third parties						
Denar deposits	-	-	-	-	-	-
FC deposits	-	-	-	-	-	-
Denar loans	-	-	-	-	-	-
FC loans	-	-	-	-	-	-
Other Denar claims	-	-	-	-	-	-
Other FC claims	-	-	-	-	-	-
Custody accounts	-	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total</b>	<b>1,319,545</b>	<b>1,319,545</b>	<b>-</b>	<b>1,286,621</b>	<b>1,286,621</b>	<b>-</b>

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

**44. RELATED PARTY TRANSACTIONS**

**A. Balance Sheet**

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

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

**44. RELATED PARTY TRANSACTIONS (continued)**

**A. Balance Sheet (continued)**

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
<b>31 December 2009</b>						
<b>Assets</b>						
Current accounts	5,441	-	-	-	6,864	12,305
Trading assets	-	-	-	-	-	-
Loans and claims	-	-	-	-	-	-
mortgage loans	-	-	-	2,733	-	2,733
consumer loans	-	-	-	-	-	-
claims under financial leasing	-	-	-	-	-	-
claims under factoring and forfeiting	-	-	-	-	-	-
other loans and claims	734,708	-	-	-	-	734,708
Investments in securities	-	-	-	-	-	-
(Value adjustment)	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
<b>Total</b>	<b>740,149</b>			<b>2,733</b>	<b>6,864</b>	<b>749,746</b>
<b>Liabilities</b>						
Trading liabilities	-	-	-	-	-	-
Deposits	2,267,643	-	-	9,204	4,235	2,281,082
Issued securities	-	-	-	-	-	-
Liabilities under loans	-	-	-	-	-	-
Subordinated debt	2,752,794	-	-	-	-	2,752,794
Other liabilities	10,832	-	-	-	-	10,832
<b>Total</b>	<b>5,031,269</b>			<b>9,204</b>	<b>4,235</b>	<b>5,044,708</b>
<b>Contingent liabilities</b>						
Issued letters of guarantee	-	-	-	-	-	-
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities (Special reserve)	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Contingent assets</b>						
Received letters of guarantee	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

**44. RELATED PARTY TRANSACTIONS (continued)**

**B. Income and expenses arising from the related party transactions**

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
<b>2010 current year</b>						
<b>Income</b>						
Interest income	1,914	-	-	90	11	2,015
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non- current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>1,914</b>	<b>-</b>	<b>-</b>	<b>90</b>	<b>11</b>	<b>2,015</b>
<b>Expenditures</b>						
Interest expenditures	90,599	-	-	-	17	90,616
Expenditures for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenditures for procurement of non-current assets	-	-	-	-	-	-
Value adjustment of financial assets, on net basis	-	-	-	-	-	-
Other expenditures	-	-	-	24,214	-	24,214
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>90,599</b>	<b>-</b>	<b>-</b>	<b>24,214</b>	<b>17</b>	<b>114,830</b>

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

**44. RELATED PARTY TRANSACTIONS (continued)**

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

	In thousands of Denars					
	Parent company	Subsidiari es	Affiliates	Managem ent personnel of the Bank	Other related parties	Total
<b>2009 previous year</b>						
<b>Income</b>						
Interest income	4,726	-	-	195	-	4,921
Income from fees and commissions	-	-	-	-	-	-
Net gains from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from sale of non-current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>4,726</b>			<b>195</b>		<b>4,921</b>
<b>Expenditures</b>						
Interest expenditures	118,844	-	-	-	-	118,844
Expenditures for fees and commissions	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenditures for procurement of non-current assets	-	-	-	-	-	-
Value adjustment of financial assets, on net basis	-	-	-	-	-	-
Other expenditures	-	-	-	25,942	-	25,942
Transfers between entities	-	-	-	-	-	-
<b>Total</b>	<b>118,844</b>			<b>25,942</b>		<b>144,786</b>

**C. Remuneration for the management personnel of the Bank**

	In thousands of Denars	
	current year 2010	previous year 2009
Short-term benefits for employees	17,659	13,810
Benefits after employment termination	-	-
Benefits due to employment termination	-	-
Payments to employees on the basis of shares, settled by equity instruments	-	-
Payments to employees on the basis of shares, settled by monetary funds	-	-
Other	6,555	12,132
<b>Total</b>	<b>24,214</b>	<b>25,942</b>

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

**44. RELATED PARTY TRANSACTIONS (continued)**

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

**45. Lease commitments**

**A. Lessor**

**A.1 Payables under financial leaseholds**

	Total claims under financial leasehold	In thousands of Denars Maturity period of claims under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
<b>31 December 2010 (current year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-
<b>31 December 2009 (previous year)</b>				
Current value of minimum payment for the leasehold	-	-	-	-

**A.2 Payables under irrevocable operating leaseholds**

	Total claims under financial leasehold	In thousands of Denars Maturity period of claims under financial leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
<b>31 December 2010 (current year)</b>				
Current value of minimum payment for the leasehold	2,531	2,531	-	-
<b>31 December 2009 (previous year)</b>				
Current value of minimum payment for the leasehold	3,604	3,604	-	-

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

**45. Lease commitments (continued)**

**A. Lessor (continued)**

**A.2 Payables under irrevocable operating leaseholds (continued)**

	In thousands of Denars						
	<u>Land</u>	<u>Buildings</u>	<u>Means of transportation</u>	<u>Furniture and office equipment</u>	<u>Other equipment</u>	<u>Other items of property and equipment</u>	<u>Total</u>
Value of property given under operating leasehold:							
31 December 2010 (current year)	-	90,025	-	-	-	-	90,025
31 December 2009 (previous year)	-	41,922	-	-	-	-	41,922
<b>Total</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

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

**B. Lessee**

**B.1 Liabilities under financial leaseholds**

	In thousands of Denars			
	Maturity period of liabilities under financial leasehold			
	<u>Total liabilities under financial leasehold</u>	<u>up to 1 year</u>	<u>from 1 to 5 years</u>	<u>over 5 years</u>
As at 31 December 2010 (current year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 31 December 2009 (previous year)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

**45. Lease commitments (continued)**

**B. Lessee (continued)**

**B.1 Liabilities under financial leaseholds (continued)**

	In thousands of Denars						
	<u>Land</u>	<u>Buildings</u>	<u>Means of transporta tion</u>	<u>Furniture and office equipment</u>	<u>Other equipment</u>	<u>Other items of property and equipment</u>	<u>Total</u>
Value of the property taken under financial leasehold:							
<b>Purchase value</b>							
As at 1 January 2009	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>As at 31 December 2009</b>	-	-	-	-	-	-	-
As at 1 January 2010	-	-	-	-	-	-	-
increases	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>As at 31 December 2010</b>	-	-	-	-	-	-	-
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2009	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>As at 31 December 2009</b>	-	-	-	-	-	-	-
As at 1 January 2010	-	-	-	-	-	-	-
depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of impairment loss during the year)	-	-	-	-	-	-	-
(disposal of and entering as expenditure)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
<b>As at 31 December 2010</b>	-	-	-	-	-	-	-
<b>Current carrying amount</b>							
As at 1 January 2009	-	-	-	-	-	-	-
<b>As at 31 December 2009</b>	-	-	-	-	-	-	-
<b>As at 31 December 2010</b>	-	-	-	-	-	-	-



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

**45. Lease commitments (continued)**

**B. Lessee (continued)**

**B.2 Liabilities under irrevocable operating leaseholds**

	Total liabilities under operating leasehold	In thousands of Denars Maturity period of liabilities under operating leasehold		
		up to 1 year	from 1 to 5 years	over 5 years
As at 31 December 2010 (current year)	-	-	-	-
As at 31 December 2009 (previous year)	426	426	-	-

**46. SHARE BASED PAYMENTS**

	In thousands of Denars current year 2010	previous year 2009
Date of giving the option	-	-
Date of option expiry	-	-
Price of option realization	-	-
Price of the share on the date of giving the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value on the date of giving the option	-	-

	Current year 2010		Previous year 2009	
	number of options for shares	weighted average price of options for shares	number of options for shares	weighted average price of options for shares
As at 1 January	-	-	-	-
Changes during the year:	-	-	-	-
options given to the members of Supervisory Board	-	-	-	-
options given to the members of Board of Directors	-	-	-	-
other given options	-	-	-	-
forfeited options	-	-	-	-
options with expired deadline	-	-	-	-
As at 31 December	-	-	-	-

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

**47. TAXATION RISK**

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

**48. EXCHANGE RATES**

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

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