STOPANSKA BANKA AD, SKOPJE

Financial Statements
Year Ended December 31, 2012 and
Independent Auditors' Report

CONTENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

Signed on behalf of Stopanska Banka AD, Skopje:

Gligor Bishev, Ph.D,
Chief Executive Officer and
Chairman of the Board of Directors

Diomidis Nikoletopoulos,
Chief Retail, Financial and Operations Officer and
Member of the Board of Directors

Toni Stojanovski, MSc,
Chief Risk Officer and
Member of the Board of Directors

Theodoulos Skordis,
Chief Corporate Officer and
Member of the Board of Directors

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (page 3 to 76) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Stopanska Banka AD, Skopje as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO Deloitte doo

April 9, 2013

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

STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2012
(In thousands of Denars)

	Notes	2012	2011
Interest income		4,442,966	4,339,414
Interest expense		(2,066,489)	(2,302,664)
Net interest income	6	2,376,477	2,036,750
Fee and commission income		1,025,772	945,138
Fee and commission expense		(90,738)	(97,460)
Net fee and commission income	7	935,034	847,678
Trading income, net	8	51,477	30,717
Foreign exchange gains, net	9	106,507	133,796
Other operating income	10	70,786	80,357
Impairment losses, net	11	(562,573)	(348,967)
Personnel expenses	12	(717,073)	(733,364)
Depreciation and amortization	13	(169,551)	(186,077)
Other operating expenses	14	(1,079,583)	(1,075,189)
Profit before tax		1,011,501	785,701
Income tax expense	15	(4,322)	(17,569)
Profit for the year		1,007,179	768,132
Other comprehensive income			
(Loss)/Gain on available-for-sale financial assets, net	32	(1,884)	23,722
Other comprehensive income for the year, net of tax		(1,884)	23,722
Total comprehensive income for the year		1,005,295	791,854
Profit attributable to:			
Owners of the Bank		1,007,179	768,132
Total comprehensive income attributable to:			
Owners of the Bank		1,005,295	791,854
Earnings per share	33		
Basic (in Denars)		57.68	43.99
Diluted (in Denars)		57.68	43.99

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

The financial statements have been approved by the management of the Bank on January 28, 2013 and accepted by the Bank's Supervisory Board.

Signed on behalf of Stopanska Banka AD, Skopje:

Gligor Bishev, Ph.D,
Chief Executive Officer and
Chairman of the Board of Directors

Diomidis Nikoletopoulos,
Chief Retail, Financial and Operations Officer and
Member of the Board of Directors

Toni Stojanovski, MSc,
Chief Risk Officer and
Member of the Board of Directors

Theodoulos Skordis,
Chief Corporate Officer and
Member of the Board of Directors

STATEMENT OF FINANCIAL POSITION
At December 31, 2012
(In thousands of Denars)

	Notes	2012	2011
ASSETS			
Cash and cash equivalents	16	23,938,661	21,695,862
Held-for-trading financial assets	17	181,051	141,828
Available-for-sale financial assets	18	2,193,268	93,984
Held-to-maturity financial assets	19	1,201,478	1,741,696
Placement with, and loans to banks	20	295,532	123,289
Loans to customers	21	46,163,847	44,598,280
Other assets	22	837,633	997,228
Income tax receivable		4,884	7,536
Investment property	23	112,232	58,286
Intangible assets	24	116,640	152,269
Property and equipment	25	887,729	938,075
Total assets		75,932,955	70,548,333
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	26	264,962	146,172
Deposits from customers	27	59,255,539	56,701,616
Loans payable	28	2,518,847	832,501
Subordinated debt	29	2,777,163	2,780,212
Other liabilities	30	672,806	613,995
Provisions	31	138,403	173,897
Total liabilities		65,627,720	61,248,393
EQUITY			
Share capital	32	3,511,242	3,511,242
Reserves	32	852,559	854,443
Retained earnings		5,941,434	4,934,255
Total equity		10,305,235	9,299,940
Total liabilities and equity		75,932,955	70,548,333
Commitments and contingencies	35	10,667,871	11,326,830

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

STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2012
(In thousands of Denars)

	Share capital	Revalua-tion reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2011	3,511,242	(652)	709,889	1,083	4,286,524	8,508,086
Transfer to statutory reserve	-	-	120,401	-	(120,401)	-
Total other comprehensive income for the year, net of tax	-	23,722	-	-	-	23,722
Profit for the year	-	-	-	-	768,132	768,132
Balance, December 31, 2011	3,511,242	23,070	830,290	1,083	4,934,255	9,299,940
Balance, January 1, 2012	3,511,242	23,070	830,290	1,083	4,934,255	9,299,940
Total other comprehensive income for the year, net of tax	-	(1,884)	-	-	-	(1,884)
Profit for the year	-	-	-	-	1,007,179	1,007,179
Balance, December 31, 2012	3,511,242	21,186	830,290	1,083	5,941,434	10,305,235

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

STATEMENT OF CASH FLOWS
Year ended December 31, 2012
(In thousands of Denars)

	2012	2011
Profit before tax	1,007,179	768,132
Adjustments for:		
Depreciation of property and equipment	108,433	124,671
Depreciation of investment property	3,185	3,648
Amortization of intangible assets	57,933	57,758
Gain on sale of property and equipment, net	(2,495)	(2,619)
Gain on sale of foreclosure assets, net	-	(17,461)
Interest income	(4,442,966)	(4,339,414)
Interest expense	2,066,489	2,302,664
Net trading income	(51,477)	(30,717)
Deferred tax expense	-	15,504
Impairment losses on financial assets, net	513,793	342,867
Impairment losses on non-financial assets	48,780	6,100
Provision/ (Reversal) for employee benefits, net	2,150	(11,549)
Reversal of provision for litigation, net	(1,493)	(2,920)
Interest receipts	4,635,192	4,480,057
Interest paid	(2,083,487)	(2,306,758)
Operating profit before changes in operating assets and liabilities:	1,861,216	1,389,963
(Increase)/decrease of operating assets:		
Held-for-trading financial assets	(39,223)	(20,966)
Due from banks	(172,039)	13
Loans to customers	(2,331,689)	(2,437,269)
Mandatory reserves and restricted deposits according NBRM regulations	175,197	(67,677)
Other receivables	100,629	(23,763)
Net deferred tax assets and liabilities	-	15,504
Increase/(decrease) of operating liabilities:		
Held-for-trading financial liabilities	-	-
Deposits from banks	118,790	(2,174,041)
Deposits from customers	2,553,923	3,194,448
Other liabilities	58,811	111,006
Net cash flows generated fro/(used for) operating activities before income tax	2,325,615	(12,782)
Income tax paid	(1,670)	(4,800)
Net cash flows generated fro/(used for) operating activities	2,323,945	(17,582)

(Continued)

STATEMENT OF CASH FLOWS (Continued)
Year ended December 31, 2012
(In thousands of Denars)

	2012	2011
Cash flows from investing activities		
Acquisition of property and equipment	(9,566)	(45,746)
Acquisition of intangible assets	(23,001)	(26,498)
(Payments for)/Proceeds from investments, net	(1,554,492)	1,032,568
(Payments for)/Proceeds from sale of property and equipment	(152)	6,059
Dividend received	4,520	3,070
Net cash flows from investing activities	(1,582,691)	969,453
Cash flows from financing activities		
Net increase of loans (including subordinated debt)	1,683,297	354,955
Dividends paid	(6,555)	(8,139)
Net cash flows from financing activities	1,676,742	346,816
Net increase of cash and cash equivalents	2,417,996	1,298,687
Cash and cash equivalents, beginning of the year	18,812,887	17,514,200
Cash and cash equivalents at the end of the year	21,230,883	18,812,887

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

1. GENERAL INFORMATION

Stopanska Banka AD, Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is St. 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with a network of 64 branches (2011: 64 branches).

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

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

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 94.64% (2011: 94.64%) shareholding in the Bank and represents its ultimate parent company.

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

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

The Bank’s financial statements for the year ended December 31, 2012 have been approved by the management of the Bank on January 28, 2013 and accepted by the Bank’s Supervisory Board.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

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

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

(b) Basis of measurement

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

(c) Functional and reporting currency

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

(d) Use of estimates and judgments

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

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

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

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

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

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

- Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011),

- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011),

- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012).

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

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

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

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2015),
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 12 “Disclosures of Interests in Other Entities” (effective for annual periods beginning on or after January 1, 2013),
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013),
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013),
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” - Mandatory Effective Date and Transition Disclosures,
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” - Transition Guidance (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” - Investment Entities (effective for annual periods beginning on or after January 1, 2014),
- Amendments to IAS 1 “Presentation of financial statements” - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012),
- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after January 1, 2013),
- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014),
- Amendments to various standards “Improvements to IFRSs (2012)” resulting from the annual improvement project of IFRS published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

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

g) Comparative Figures

In order to conform to the presentation of the figures in the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2011. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the financial statements. Details of reclassifications are described in Note 37.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

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

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

3.2 Fee and commission income

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

3.3 Dividend income

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

3.4 Foreign exchange translation

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

3.5 Financial assets

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

Held-for-trading financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Held-for-trading financial assets (Continued)

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

Available-for-sale financial assets

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

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

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

Held-to-maturity financial assets

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

Loans originated by the Bank

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

Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (Continued)

Impairment losses on loans and advances

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

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

Renegotiated loans

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

Derecognition of financial assets

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

3.6 Financial liabilities

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

Deposits from banks and other financial institutions and customers

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (Continued)

Held-for-trading financial liabilities

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

Loans payable

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

Other payables

Other payables are stated at their nominal amounts.

Derecognition of financial liabilities

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

3.7 Property and equipment

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

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

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates for 2012 and 2011 are as follows:

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

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

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

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

3.9 Impairment of tangible and intangible assets

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

3.10 Investment property

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

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

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

3.11 Assets acquired through foreclosure proceedings

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

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3.12 Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Managed funds

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

3.14 Provisions

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

Employment benefits

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

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

3.15 Income tax

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

3.16 Leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Segment reporting

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

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

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

3.18 Offsetting

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

3.19 Financial guarantee contracts

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

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

3.20 Related party transactions

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

3.21 Earnings per share

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates

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

Fair value of financial instruments

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

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

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

Allowance for loan losses

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

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

Useful lives of tangible and intangible assets

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

Actuarial assumptions in respect of defined benefit plan

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Critical accounting judgments and estimates (Continued)

Risk related to the Greek crisis and the European debt crisis

The crisis in the Greek economy resulted in impairment losses recorded in several classes of assets such as Greek government bonds and other loans in Greece which have adversely impacted the financial position, the results of operations, cash flows and regulatory ratios of the NBG S.A in the 2011 and the 2012 financial statements. Furthermore, the crisis has limited the NBG Group's access to liquidity from other financial institutions. The NBG S.A. relies on liquidity facilities provided by the ECB and the Bank of Greece ("BoG") (collectively referred to as the "Eurosystem liquidity facilities").

The ability of the NBG S.A. to continue as a going concern is dependent on raising sufficient funds to restore the NBG S.A. financial position, which is currently negative, and to maintain adequate levels of capital; and on the continuing reliance upon and the continuation of the Eurosystem liquidity facilities.

The NBG Group management's position is that NBG S.A (and the Group) can continue to operate for the foreseeable future given that the specific requirements of Company Law 2190/1920 were covered by the recapitalization plan for Greek banks and that the recapitalization plan for Greek banks forms an integral part of the financial assistance under the second economic adjustment program for Greece, which was ratified by the Greek Parliament on 14 February 2012 and adopted by the Council of the EU (the "Eurogroup") on 21 February 2012 and 13 March 2012 (the "Program").

The Program, which has already been approved by the Troika along with a specific sequence of disbursements, commits funds for the recapitalization plan, amounting up to €50 billion and is now in the implementation phase under the auspices of the Bank of Greece.

Despite the negative global trends in the financial services industry, Stopanska banka AD Skopje remained well-capitalized, highly liquid, and primarily funded by domestic deposits. The Bank has no exposure to any foreign European government debt nor significant placements or significant financial commitments with its Parent company. The recent stress test, performed under strict criteria demonstrated that the Bank is adequately capitalized and sufficiently liquid, and the management believes that any eventual withdrawal of the deposits by the Parent would not affect significantly the liquidity of Stopanska banka AD Skopje. As disclosed in Note 29 and Note 34, the Bank has received two subordinated loans from its Parent company amounting to EUR 20 and 25 million as of December 31, 2012 (representing 4.23% of the total liabilities of the Bank). The subordinated term debt is used as supplementary capital reserves and the maturity of debt is until December 2016 and November 2018 and the loans cannot be withdrawn by the Parent without the prior consent of the National Bank of Republic of Macedonia. The strong capital base with a capital adequacy ratio of 19.4%, as disclosed in Note 4.6, enables the Bank to face any reasonably foreseeable adversity. Management believes that the Bank is well positioned to adequately support its business plan over the coming year.

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk

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

4.2.1 Credit risk measurement, limits and mitigation policies

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

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

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

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

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

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

Impairment and provisioning policies

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.2 Impairment and provisioning policies

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

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

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

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

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

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

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

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

	In thousands of Denars	
	31 December 2012	31 December 2011
Credit risk exposure relating to on balance sheet assets		
Cash and cash equivalents	23,938,661	21,695,862
Held-for-trading financial assets	181,051	141,828
Available-for-sale financial assets	2,193,268	93,984
Held-to-maturity financial assets	1,201,478	1,741,696
Placement with, and loans to banks	295,532	123,289
Loans to customers	46,163,847	44,598,280
Other receivables (less foreclosure assets)	204,182	216,173
	74,178,019	68,611,112
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	2,905,426	4,085,774
Standby letters of credits	156,449	188,412
Commitments to extend credits	7,387,650	6,862,321
Other off-balance sheet commitments	321,372	326,670
Gross exposure	10,770,897	11,463,177
Less: Provision for off-balance sheet items	(103,026)	(136,347)
	10,667,871	11,326,830
Total credit risk exposure	84,845,890	79,937,942

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers

Loans to customers are summarized below:

a) Loans to customers neither past due nor impaired

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

b) Loans to customers past due but not individually impaired

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

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 181-365 days	Past due 1-2 years	Past due over 2 years	Total
December 31, 2011								
Cards	276,117	32,917	8,058	54,425	-	73,946	-	445,463
Consumer	2,491,943	541,171	186,750	372,139	151,484	764,243	-	4,507,730
Mortgage	921,477	156,373	47,624	20,826	800	15,628	-	1,162,728
Small-business loans	1,495,762	-	-	-	-	-	-	1,495,762
Corporate loans	526,877	-	-	-	-	-	-	526,877
Total	5,712,176	730,461	242,432	447,390	152,284	853,817	-	8,138,560

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

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

	2012	2011
Cash and balances with the Central bank	571,088	377,951
Movable property	2,956,609	3,621,802
Residential property	25,893,450	24,077,359
Other real estate	3,925,289	4,203,427
Total	33,346,436	32,280,539

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.4 Loans to customers (Continued)

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

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

	2012	2011
Cash and balances with the Central bank	745,175	472,072
Financial and corporate guarantees	3,930,392	4,629,260
Movable property	10,593,351	11,706,976
Real estate	28,945,255	24,078,871
Total	44,214,173	40,887,179

c) Renegotiated loans to customers

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

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

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

During 2012 the Bank has renegotiated loans at a total value of Denar 2,479,690 thousand (2011: 1,426,042).

4.2.5 Foreclosed assets

During 2012, the Bank engaged two external appraisal companies in order to determine the fair value of the foreclosed assets.

In this period, the Bank sold 14 assets (2011: 34 assets) at a total value of Denar 23,682 thousand (2011: Denar 128,741 thousand), whereas it foreclosed 2 facilities (2011: 5 facilities) at a total value of Denar 5,766 (2011: Denar 97,000 thousand). The general policy of the Bank is to sell these facilities within a period of 3 years, based on which the Bank is undertaking appropriate activities to release it.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2012 and 2011. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Cash and cash equivalents		Held-for-trading financial assets		Available-for-sale financial assets		Held-to-maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Geographical region																
Republic of Macedonia	20,912,356	17,274,602	23,161	31,473	2,193,237	93,953	1,201,478	1,741,696	-	-	46,163,847	44,598,280	204,182	216,173	70,698,261	63,956,177
EU member countries	2,820,404	3,323,839	-	-	31	31	-	-	237,236	64,174	-	-	-	-	3,057,671	3,388,044
Europe (other)	88,971	745,440	-	-	-	-	-	-	-	-	-	-	-	-	88,971	745,440
OECD member countries (less European OECD member countries)	116,930	351,981	151,461	103,372	-	-	-	-	-	-	-	-	-	-	268,391	455,353
Other	-	-	6,429	6,983	-	-	-	-	58,296	59,115	-	-	-	-	64,725	66,098
Total	23,938,661	21,695,862	181,051	141,828	2,193,268	93,984	1,201,478	1,741,696	295,532	123,289	46,163,847	44,598,280	204,182	216,173	74,178,019	68,611,112

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector

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

	Cash and cash equivalents		Held-for-trading financial assets		Available- for-sale financial assets		Held- to- maturity financial assets		Placements with and loans to banks		Loans to customers		Other receivables		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Industry																
Non-residents	-	-	-	-	-	-	-	-	-	-	-	-	-	2,166	-	2,166
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	-	-	735,042	764,127	47	19	735,089	764,146
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	142,211	168,420	11	179	142,222	168,599
Manufacturing	-	-	-	-	-	-	-	-	-	-	6,540,029	5,827,015	22,294	32,773	6,562,323	5,859,788
Electricity, gas, steam and air conditioning supply	-	-	-	-	-	-	-	-	-	-	1,975,314	1,698,080	-	3	1,975,314	1,698,083
Water supply; sewerage, waste management and remediation activities	-	-	-	-	-	-	-	-	-	-	9,906	5,473	-	103	9,906	5,576
Construction	-	-	-	-	-	-	-	-	-	-	1,553,898	1,504,570	-	357	1,553,898	1,504,927
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	-	-	1,137	890	-	-	-	-	4,864,997	4,988,377	172,374	157,378	5,038,508	5,146,645
Transportation and storage	-	-	-	-	-	-	-	-	-	-	655,566	754,852	125	622	655,691	755,474
Accommodation and food service activities	-	-	-	-	-	-	-	-	-	-	353,679	376,661	4	6	353,683	376,667
Information and communication	-	-	-	-	-	-	-	-	-	-	35,861	52,467	-	-	35,861	52,467
Financial and insurance activities	17,565,064	19,845,979	157,890	110,355	2,192,131	93,094	-	-	295,532	123,289	81,733	56,826	-	1	20,292,350	20,229,544
Real estate activities	-	-	-	-	-	-	-	-	-	-	241,996	194,850	-	355	241,996	195,205
Professional, scientific and technical activities	-	-	-	-	-	-	-	-	-	-	310,166	426,017	-	7	310,166	426,024
Administrative and support service activities	-	-	-	-	-	-	-	-	-	-	111,075	172,843	875	-	111,950	172,843
Public administration and defence; compulsory social security	6,373,597	1,849,883	23,161	31,473	-	-	1,201,478	1,741,696	-	-	-	-	-	981	7598236	3,624,033
Education	-	-	-	-	-	-	-	-	-	-	134,846	160,033	-	-	134,846	160,033
Human health and social work activities	-	-	-	-	-	-	-	-	-	-	26,562	144,004	-	27	26,562	144,031
Arts, entertainment and recreation	-	-	-	-	-	-	-	-	-	-	74,216	85,730	-	12	74,216	85,742
Other service activities	-	-	-	-	-	-	-	-	-	-	24,808	21,295	2	-	24,810	21,295
Individuals	-	-	-	-	-	-	-	-	-	-	28,291,942	27,196,640	2,636	15,370	28,294,578	27,212,010
Individual merchants and individuals not considered to be merchants	-	-	-	-	-	-	-	-	-	-	-	-	5,814	5,814	5,814	5,814
Total	23,938,661	21,695,862	181,051	141,828	2,193,268	93,984	1,201,478	1,741,696	295,532	123,289	46,163,847	44,598,280	204,182	216,173	74,178,019	68,611,112

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (Continued)

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

Industry sector (Continued)

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

	In thousands of Denars	
	2012	**2011**
Industry		
Non-residents	-	9,993
Agriculture, forestry and fishing	11,205	-
Mining and quarrying	21,961	86,361
Manufacturing	1,304,252	1,198,722
Electricity, gas, steam and air conditioning supply	75,347	620,235
Water supply; sewerage, waste management and remediation Activities	264	909,495
Construction	1,539,230	564,058
Wholesale and retail trade; repair of motor vehicles and motorcycles	318,132	254,451
Transportation and storage	168,717	14,269
Accommodation and food service activities	1,474	2,887
Information and communication	289	1,262,996
Financial and insurance activities	32,721	181,930
Real estate activities	511,337	39,517
Professional, scientific and technical activities	65,993	82,965
Administrative and support service activities	14,882	3,232
Education	-	24,327
Human health and social work activities	-	19,040
Arts, entertainment and recreation	12,307	1,559
Other service activities	599	-
Individuals	6,589,161	6,050,793
Total	10,667,871	11,326,830

4.3 Market risk

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

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for all currencies, which are monitored on a daily basis. The tables below summarize Bank's exposure to foreign exchange risk as at December 31, 2012 and 2011:

In thousands of Denars
December 31, 2012

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.1 Foreign exchange risk (Continued)

In thousands of Denars
December 31, 2011

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk

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

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

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2012 and 2011.

In thousands of Denars
December 31, 2012

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

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (Continued)

4.3.2 Interest rate risk (Continued)

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

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

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

4.4.1 Liquidity risk management process

The Bank's liquidity risk management process encompasses:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2012

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	20,563,394	3,375,267	-	-	-	-	23,938,661
Held-for-trading financial assets	165,177	-	5,703	5,420	4,751	-	181,051
Available-for-sale financial assets	1,307	-	2,049,620	-	50,000	92,341	2,193,268
Held-to-maturity financial assets	135,569	131,955	401,117	532,837	-	-	1,201,478
Placement with, and loans to banks	59,314	-	140,003	-	-	96,215	295,532
Loans to customers	3,935,354	3,836,641	15,140,377	4,795,282	9,047,892	9,408,301	46,163,847
Other receivables	204,182						204,182
Total assets	25,064,297	7,343,863	17,736,820	5,333,539	9,102,643	9,596,857	74,178,019
LIABILITIES AND EQUITY							
Deposits from banks	125,009	-	139,953	-	-	-	264,962
Deposits from customers	21,410,706	7,600,370	24,188,659	4,222,453	1,707,574	125,777	59,255,539
Loans payable	1,577,688	-	169,770	217,473	333,931	219,985	2,518,847
Subordinated debt	-	9,663	-	-	2,767,500	-	2,777,163
Other liabilities	672,806	-	-	-	-	-	672,806
Total liabilities and equity	23,786,209	7,610,033	24,498,382	4,439,926	4,809,005	345,762	65,489,317
Net liquidity gap	1,278,088	(266,170)	(6,761,562)	893,613	4,293,638	9,251,095	8,688,702

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

4.4.1 Liquidity risk management process (Continued)

In thousands of Denars
December 31, 2011

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
ASSETS							
Cash and cash equivalents	20,624,475	1,071,387	-	-	-	-	21,695,862
Held-for-trading financial assets	110,356	-	8,400	8,018	15,054	-	141,828
Available-for-sale financial assets	-	-	-	-	-	93,984	93,984
Held-to-maturity financial assets	143,387	131,965	401,046	532,419	532,879	-	1,741,696
Placement with, and loans to banks	59,714	-	-	-	-	63,575	123,289
Loans to customers	3,095,487	3,902,368	14,230,567	5,031,826	9,213,659	9,124,373	44,598,280
Other receivables	216,173	-	-	-	-	-	216,173
Total assets	24,249,592	5,105,720	14,640,013	5,572,263	9,761,592	9,281,932	68,611,112
LIABILITIES AND EQUITY							
Deposits from banks	146,172	-	-	-	-	-	146,172
Deposits from customers	21,185,584	7,789,031	22,356,963	4,261,052	934,867	174,119	56,701,616
Loans payable	68,973	-	125,152	164,041	304,068	170,267	832,501
Subordinated debt	-	12,487	-	-	1,230,100	1,537,625	2,780,212
Other liabilities	613,995	-	-	-	-	-	613,995
Total liabilities and equity	22,014,724	7,801,518	22,482,115	4,425,093	2,469,035	1,882,011	61,074,496
Net liquidity gap	2,234,868	(2,695,798)	(7,842,102)	1,147,170	7,292,557	7,399,921	7,536,616

Bank's assets and liabilities are classified according to their relevant maturities as at December 31, 2012 and 2011, except for loans and claims on other clients where the schedule in specific time intervals for loan products that have no defined maturity date (credit cards, OK loans, etc) is made by using the historical data on the collection amount in relation to the total on-balance sheet claims under these products. Although the initial analysis reveals that there is no reconciliation between assets and liabilities for the period up to one year, significant part of the Bank's deposits up to one year are stable and considered as core deposits, amounts to Denar 45,940,684 thousand (2011: Denar 43,605,326 thousand) which helps the maturity non-reconciliation to be overcome.

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

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2012

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

In thousands of Denars
December 31, 2011

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (Continued)

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

In thousands of Denars
December 31, 2012

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

In thousands of Denars
December 31, 2011

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		Fair value	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Financial assets				
Cash and cash equivalents	23,938,661	21,695,862	23,938,661	21,695,862
Held-for-trading financial assets	181,051	141,828	181,051	141,828
Available-for-sale financial assets	2,193,268	93,984	2,193,268	93,984
Held-to-maturity financial assets	1,201,478	1,741,696	1,201,478	1,741,696
Placement with, and loans to banks	295,532	123,289	295,532	123,289
Loans to customers	46,163,847	44,598,280	46,163,847	44,598,280
Other receivables (less foreclosure assets)	204,182	216,173	204,182	216,173
	74,178,019	68,611,112	74,178,019	68,611,112
Financial liabilities				
Deposits from banks	264,962	146,172	264,962	146,172
Deposits from customers	59,255,539	56,701,616	59,255,539	56,701,616
Loans payable	2,518,847	832,501	2,518,847	832,501
Subordinated debt	2,777,163	2,780,212	2,777,163	2,780,212
Other liabilities	672,806	613,995	672,806	613,995
	65,489,317	61,074,496	65,489,317	61,074,496

Cash and cash equivalents

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

Held-for-trading financial assets

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

Available-for-sale financial assets

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

Held-to-maturity financial assets

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

Placement with, and loans to banks

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

Loans to customers

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Other receivables, less foreclosure assets

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

Deposits from banks

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

Held-for-trading financial liabilities

Fair value as determined by inputs derived from market prices.

Deposits from customers

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

Loans payable (including subordinated debt)

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

Other liabilities

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

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (Continued)

Fair value hierarchy

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

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

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

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

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

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

				In thousands of Denars December 31, 2012
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-for-trading financial assets	181,051	181,051	-	-
Available-for-sale financial assets	92,341	67,934	-	24,407
Total	273,392	248,985	-	24,407

				In thousands of Denars December 31, 2011
	Fair value	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-for-trading financial assets	141,828	141,828	-	-
Available-for-sale financial assets	93,984	57,973	-	36,011
Total	235,812	199,801	-	36,011

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

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

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

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

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

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

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

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

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

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

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

Until 2011, in accordance with the previous methodology the risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of – and reflecting an estimate of credit risk associated with – each asset and counterparty, taking into consideration any eligible collateral or guarantees. A similar treatment was adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended December 31, 2012 and 2011 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management (Continued)

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

	In thousands of Denars December 31, 2012
Tier 1 capital	
Ordinary shares	3,511,242
Statutory reserves and retained earnings	4,350,569
Deductions from Tier 1 capital	(23,983)
Total qualifying Tier 1 capital	7,837,828
Tier 2 capital	
Cumulative non-voting shares and share premium	90,978
Revaluation reserves	19,141
Subordinated debt	2,521,705
Total qualifying Tier 2 capital	2,631,824
Total regulatory capital	10,469,652
Credit risk-weighted assets	
On-balance sheet	45,021,385
Off-balance sheet	6,780,013
Total credit risk-weighted assets	51,801,398
FX risk-weighted assets	7,557,758
Risk-weighted assets	59,359,156
Capital adequacy ratio	17.64%

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

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

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

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.1 Sensitivity analysis (foreign currency) (Continued)

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

At December 31, 2012, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and net equity would have been Denar 268,027 thousand higher (2011: Denar 522,664 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year and the net equity would have been Denar 268,027 thousand lower (2011: Denar 522,664 thousand).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates)

		In thousands of Denars December 31, 2012	
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	23,938,661	442,107	(442,107)
Held-for-trading financial assets	181,051	458	(458)
Available-for-sale financial assets	2,193,268	41,992	(41,992)
Held-to-maturity financial assets	1,201,478	23,943	(23,943)
Placement with, and loans to banks	295,532	4,739	(4,739)
Loans to customers	46,163,847	901,704	(901,704)
Other receivables	204,182	-	-
Total assets	74,178,019	1,414,943	(1,414,943)
LIABILITIES			
Deposits from banks	264,962	3,929	(3,929)
Deposits from customers	59,255,539	1,181,182	(1,181,182)
Loans payable (including subordinated debt)	5,296,010	102,666	(102,666)
Other liabilities	672,806	-	-
Total liabilities	65,489,317	1,287,777	(1,287,777)
Net interest gap:	8,688,702	127,166	(127,166)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (Continued)

4.7.2 Sensitivity analysis (interest rates) (Continued)

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

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

If interest rates had been 200 bp higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2012, profit for the year would have been Denar 127,166 thousand (2011: Denar 167,141 thousand lower) higher. Conversely, if the interest rates had been 200 bp lower with all other variables held constant, profit for the year would have been Denar 127,166 thousand (2011: Denar 167,141 thousand higher) lower. Such an effect arises due to lower sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

5. SEGMENT REPORTING

The Bank manages its business through the following business segments:

Retail banking

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

Corporate banking

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

Investment banking

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

Other

This segment includes all other insignificant operating activities.

Unallocated

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

5.1 Operating segments

In thousands of Denars
December 31, 2012

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

5. SEGMENT REPORTING (Continued)

5.1 Operating segments (Continued)

In thousands of Denars
December 31, 2011

	Retail banking	Corporate banking	Invest-ment banking	Other	Unallo-cated	Total
Net interest income	768,357	1,275,156	(6,551)	(212)	-	2,036,750
Net fee and commission income	341,304	369,978	114,782	21,614	-	847,678
Net trading income	-	-	30,717	-	-	30,717
Other operating income	37,345	23,904	-	-	152,904	214,153
Total income	1,147,006	1,669,038	138,948	21,402	152,904	3,129,298
Profit before tax	350,621	287,921	45,470	(12,571)	114,260	785,701
Income tax expense	-	-	-	-	(17,569)	(17,569)
Net profit for the year						768,132
Total assets	27,212,745	41,175,645	1,977,508	379	182,056	70,548,333
Total liabilities	45,635,268	15,294,268	-	23,036	295,821	61,248,393
Impairment of financial assets, net	(10,549)	(260,919)	(43,473)	(27,926)	-	(342,867)
Impairment of non-financial assets	(4,543)	(1,503)	-	-	(54)	(6,100)
Depreciation and amortization	(74,395)	(98,205)	-	(6,047)	(7,430)	(186,077)
Property and equipment purchases	(18,449)	(27,297)	-	-	-	(45,746)
Other expenses	(706,898)	(1,020,490)	(50,005)	-	(31,160)	(1,808,553)

5.2 Geographical areas

In thousands of Denars
December 31,2012

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

In thousands of Denars
December 31, 2011

	Macedonia	EU countries	Europe - other	OECD countries (less EU OECD countries)	Other and Unallo-cated	Total
Total income	2,752,707	297,310	69,231	10,050	-	3,129,298
Total assets	58,498,408	3,582,916	8,345,818	121,191	-	70,548,333

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

6. INTEREST INCOME AND EXPENSE

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

	In thousands of Denars Year ended December 31, 2012	2011
Interest income:		
Cash and cash equivalents	413,881	353,427
Placement with, and loans to banks	27,431	38,832
Loans to customers	3,827,131	3,793,283
Investment securities	171,192	106,660
Other receivables	3,331	47,212
	4,442,966	4,339,414
Interest expense:		
Deposits from banks and financial institutions	-	4,644
Deposits from customers	1,954,651	2,175,555
Loans payable	11,345	9,642
Subordinated debt	89,653	106,161
Other liabilities	10,840	6,662
	2,066,489	2,302,664
Net interest income	2,376,477	2,036,750

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

	Year ended December 31, 2012		In thousands of Denars Year ended December 31, 2011	
	Income	**Expense**	**Income**	**Expense**
Enterprises	1,115,064	237,707	1,143,158	262,911
State	172,772	8,406	132,463	4,833
Not-for-profit institutions	1,288	11,240	1,388	14,549
Banks	27,446	13,030	46,183	9,921
Other non-banking financial entities	414,549	44,308	368,952	51,252
Households	2,711,847	1,643,513	2,647,270	1,833,544
Non-residents	-	108,285	-	125,654
	4,442,966	2,066,489	4,339,414	2,302,664
Net interest income	2,376,477		2,036,750	

7. FEE AND COMMISSION INCOME AND EXPENSE

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

	Year ended December 31, 2012		Year ended December 31, 2011 (In thousands of Denars)	
	Income	**Expense**	**Income**	**Expense**
Loans provided	116,632	-	94,581	-
Domestic payment operations	281,751	68,726	267,244	78,177
Foreign payment operations	107,570	10,990	112,011	10,124
Letters of credit and guaranties	69,599	-	65,557	-
Brokerage	2,337	-	3,682	-
Assets administering	488	-	673	-
Credit cards	370,131	5,817	311,960	5,787
Consumer credit	-	88	-	349
Mortgage credit	-	445	-	188
Deposits	6,144	-	17,043	-
Safe box	6,391	-	6,650	-
Third party collection	6,979	-	8,435	-
Other	57,750	4,672	57,302	2,835
	1,025,772	90,738	945,138	97,460
Net fee and commission income	935,034		847,678	

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

	Year ended December 31, 2012		Year ended December 31, 2011 (In thousands of Denars)	
	Income	**Expense**	**Income**	**Expense**
Enterprises	568,171	4,120	549,177	1,680
State	5,316	-	1,047	-
Not-for-profit institutions	102	-	168	-
Banks	18,354	55,954	22,793	65,765
Other non-banking financial entities	-	24,314	-	23,691
Households	406,707	6,350	340,085	6,324
Non-residents	27,122	-	31,868	-
	1,025,772	90,738	945,138	97,460
Net fee and commission income	935,034		847,678	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

8. TRADING INCOME, NET

	In thousands of Denars Year ended December 31, 2012	2011
Held-for-trading financial assets:		
Net loss on fair valuation of debt securities	(2,736)	(1,896)
Net gain on fair valuation of equity securities	49,460	27,439
Income from trading securities - Equity shares (Dividend)	1,185	1,064
Trading securities - Sovereign bonds	3,568	4,110
	51,477	30,717

9. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2012	2011
Realized exchange gains, net	114,631	133,200
Unrealized exchange (losses)/gains, net	(8,124)	596
	106,507	133,796

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2012	2011
Dividend from available-for-sale investments	4,520	3,070
Gain on sale of property and equipment	2,495	2,619
Gain on sale of foreclosure assets	-	17,461
Rental income	3,126	2,704
Court claims collections	10,238	3,908
Early withdrawal of deposits and operations with non-residents	32,880	33,592
Income from meditation at mortgage insurance	4,773	3,804
Income from collected damage from insurance companies	820	1,187
Other	11,934	12,012
	70,786	80,357

11. IMPAIRMENT LOSSES, NET

	In thousands of Denars Year ended December 31, 2012	2011
Impairment losses on financial assets, net	513,793	342,867
Impairment losses on non-financial assets	48,780	6,100
	562,573	348,967

Impairment losses on financial assets, net

In thousands of Denars

	December 31, 2012			December 31, 2011		
	Charge	**Release**	**Net**	**Charge**	**Release**	**Net**
Placement with, and loans to banks (Note 20)	-	(204)	(204)	-	(69)	(69)
Loans to customers (Note 21)	1,546,452	(1,012,954)	533,498	1,856,418	(1,571,356)	285,062
Other assets(Note 22)	18,970	(5,768)	13,202	12,077	(7,170)	4,907
Available-for-sale financial assets (Note 18)	618	-	618	25,314	-	25,314
Off-balance sheet items (Note 31)	2,494	(35,815)	(33,321)	83,298	(55,645)	27,653
	1,568,534	(1,054,741)	513,793	1,977,107	(1,634,240)	342,867

Accrued Interest income on impaired financial assets as at December 31, 2012 amount to nil (2011: Denar 11,505 thousand).

Impairment losses on non-financial asset

	In thousands of Denars Year ended December 31, 2012	2011
Investment property (Note 23)	2,386	1,013
Assets acquired through foreclosure procedures (Note 22)	46,394	5,087
	48,780	6,100

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2012	2011
Wages and salaries	457,196	461,426
Social security cost	210,797	208,065
Other staff costs	46,931	75,422
Pension costs based on defined benefit plans, net	2,149	(11,549)
	717,073	733,364
Average number of employees during the period	1,021	1,048
Number of permanent employees at the end of the year	1,024	1,021

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2012	2011
Depreciation of property and equipment	108,433	124,671
Depreciation of investment property	3,185	3,648
Amortization of intangible assets	57,933	57,758
	169,551	186,077

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2012	2011
Insurance premiums for deposits	324,922	305,320
Insurance premiums for property and employees	16,680	16,913
Material and services	539,529	538,630
Administrative and marketing costs	103,472	96,595
Other taxes and contributions	3,196	3,142
Rent	61,913	62,161
Court claims	10,224	12,872
Travel expenses	7,378	6,414
Loss on sale of property and equipment	-	4,717
Other expenses	12,269	28,425
	1,079,583	1,075,189

15. INCOME TAX EXPENSE

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

	In thousands of Denars Year ended December 31, 2012	2011
Current income tax expense	4,322	2,065
Deferred income tax expense	-	15,504
	4,322	17,569

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

	In thousands of Denars Year ended December 31, 2012	2011
Profit before tax	1,011,501	785,701
Income tax at the statutory income tax rate of 10%	101,150	78,570
Tax on expenses not allowed for tax purposes	5,211	7,167
Deferred tax income relating to the origination and reversal of temporary differences	-	15,504
Tax exemption on non-distribution of the net profit	(102,039)	(83,672)
At effective rate of 0.43% (2011: 2.24%)	4,322	17,569

Effective from January 1, 2009, amendments of the local Income Tax Law have been introduced, with the major change on the taxation from 2009 to 2012 net profit. Such change provide entirely exemption of income tax, after taxation of certain expenses not deductable for tax purposes, if net profit for the year is not intended for distribution of dividends, and will be taxed at the time dividends are paid. The above change has no effect on the distribution of accumulated profits from 2008 and before. For the fiscal years from 2009 to 2012, the Bank has taken advantage of the income tax exemption for the above.

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

				In thousands of Denars
	Balance, 1 January	Statement of comprehensive income	Equity	Balance December 31,
December 31, 2012				
Deferred tax assets				
Other assets	-	-	-	-
Net deferred tax assets	-	-	-	-
December 31, 2011				
Deferred tax assets				
Other assets	15,504	(15,504)	-	-
Net deferred tax assets	15,504	(15,504)	-	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

16. CASH AND CASH EQUIVALENTS

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Cash on hand	1,108,956	1,350,340
Accounts and deposits with NBRM, except mandatory reserves in foreign currency	4,691,236	4,247,173
Accounts and deposits with foreign banks	1,635,732	518,404
Accounts and deposits with domestic banks	1,047	1,892
Treasury bills which can be traded on the secondary market	8,106,267	6,937,341
Other eligible bills which can be traded on the secondary market	4,323,977	1,849,883
Time deposits up to three months	1,361,048	3,900,472
Other short-term highly liquid assets	266	392
Interest receivable	2,354	6,990
Included in Statement of Cash Flows	21,230,883	18,812,887
Mandatory reserves in foreign currency	2,676,801	2,876,367
Restricted deposits	30,977	6,608
	23,938,661	21,695,862

Accounts and deposits with NBRM, except mandatory reserves in foreign currency in the amount of Denar 4,691,236 thousand (2011: Denar 4,247,173 thousand) represent mandatory reserves in Denars. These reserves bear an interest at a rate of 1% p.a. (2011: 2% p.a.).

Treasury bills which can be traded on the secondary market in the amount of Denar 8,106,267 thousand (2011: 6,937,341 thousand) represent bills issued by the Central Bank with a maturity of 28 days. Interest rates are 3.75% (2011: 4.0% p.a.).

Other eligible bills which can be traded on the secondary market in the amount of Denar 4,323,977 thousand (2011: 1,849,883 thousand) represent bills issued by the Ministry of Finance of the Republic of Macedonia with maturity up to three months. Depending on maturity, interest rates range from 4.00% to 4.20% p.a. (2011: from 4.20% to 4.30% p.a.).

17. HELD-FOR-TRADING FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2012	**December 31, 2011**
Debt securities issued by the Government	23,161	31,472
Equity securities issued by banks	157,890	110,356
	181,051	141,828

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

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2012	**December 31, 2011**
Debt securities issued by the Government	2,100,927	-
Equity securities issued by the banks	3,476	3,476
Equity securities issued by other entities	395,972	407,901
	2,500,375	411,377
Less: Allowance for impairment	(307,107)	(317,393)
	2,193,268	93,984

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2012	**December 31, 2011**
Balance at the beginning of the year	317,393	289,558
Addition for the year (Note 11)	618	25,314
Foreign exchange effects	(10,904)	2,521
	307,107	317,393

Debt securities issued by the Government in the amount of Denar 2,100,927 thousand include the amount of Denar 2,049,620 thousand (2011: nil) which relate to eligible bills issued by the Ministry of Finance of the Republic of Macedonia which can be traded on the secondary market with a maturity from three months up to one year and fixed interest rate of 4.75% p.a. as well as amount of Denar 51,307 thousand (2011: nil) which relate to continued coupon government bond issued by the state of Republic of Macedonia in July 2012 with maturity to July 2015 and fixed interest rate of 5.30% p.a. being repayable in annual coupons commencing from July 2013.

19. HELD-TO-MATURITY FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Government debt securities	1,201,478	1,741,696
	1,201,478	1,741,696

Part of the Government debt securities amounting to Denar 1,191,204 thousand (2011: Denar 1,726,969 thousand) represent government debt securities issued by the Republic of Macedonia in exchange for the Bank's non-performing receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables by the Republic of Macedonia from the Bank. These debt securities bear an interest rate of three month EURIBOR plus a margin of 1% and are repayable in 56 quarterly installments commencing from 2001 to 2014.

The remaining part of the Government debt securities amounting to Denar 10,274 thousand (2011: Denar 14,727 thousands) represent government securities issued by the Republic of Macedonia in February 2004 for denationalization. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in annual installments commencing from June 2006 to June 2014.

20. PLACEMENTS WITH, AND LOANS TO BANKS

			In thousands of Denars	
	Year ended December 31, 2012		Year ended December 31, 2011	
	Short-term	Long-term	Short-term	Long-term
Loans to domestic banks	205	-	205	-
Loans to foreign banks	82,376	-	82,623	-
Other amounts due from other banks	139,953	96,215	-	63,575
Interest receivable	302	-	609	-
	222,836	96,215	83,437	63,575
Less: Allowance for impairment	(23,519)	-	(23,723)	-
	199,317	96,215	59,714	63,575
	295,532		123,289	

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Balance at the beginning of the year	23,723	23,805
Release (Note 11)	(204)	(69)
Write off	-	(13)
Balance at the end of the year	23,519	23,723

Part of the loans to foreign banks amounting to Denar 73,548 thousand (2011: Denar 73,480 thousand) are restricted and represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002 (Note 26).

Other placement to foreign banks include restricted accounts amounting to Denar 96,215 thousand (2011: Denar 63,575 thousand) and represent deposits held with Barclays' Bank and HSBC, London, Great Britain as a collateral for the transactions performed with VISA and MASTER payment cards. These funds are not available for the Bank's daily operations.

21. LOANS TO CUSTOMERS

a) Analysis of loans by type of customer

In thousands of Denars

	Year ended December 31, 2012 Short-term	Year ended December 31, 2012 Long-term	Year ended December 31, 2011 Short-term	Year ended December 31, 2011 Long-term
Non-financial entities				
principal amount	10,389,692	10,364,640	9,047,398	10,901,365
interest receivable	86,689	-	99,702	-
State				
principal amount	4,784	501	7,618	6,236
interest receivable	92	-	78	-
Not-for-profit organizations				
principal amount	1,759	11,693	442	12,713
interest receivable	66	-	93	-
Households				
principal amount				
housing loans	215,345	7,470,474	175,722	7,075,181
consumer loans	819,857	9,694,814	692,835	8,635,401
auto loans	73,103	801,257	78,810	1,207,996
credit cards	850,650	8,137,334	821,971	8,175,053
other loans	135,279	1,463,762	139,230	1,325,890
interest receivable	121,128	-	160,727	-
Current maturity	5,329,411	(5,329,411)	5,147,501	(5,147,501)
	18,027,855	32,615,064	16,372,127	32,192,334
Total gross loans	50,642,919		48,564,461	
Provision for impairment	(4,479,072)		(3,966,181)	
	46,163,847		44,598,280	

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

Movement in allowance for impairment is as follows:

In thousands of Denars

	December 31, 2012	December 31, 2011
Balance at the beginning of the year	3,966,181	3,924,096
Charge for the year (Note 11)	1,546,452	1,856,418
Release (Note 11)	(1,012,954)	(1,571,356)
Write off	(20,607)	(242,977)
Balance at the end of the year	4,479,072	3,966,181

21. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Agriculture and forestry	735,042	764,127
Mining and quarrying	142,211	168,420
Manufacturing	6,540,029	5,827,015
Electricity, gas, steam and air conditioning supply	1,975,314	1,698,080
Water supply; sewerage, waste management and remediation activities	9,906	5,473
Construction	1,553,898	1,504,570
Wholesale and retail trade; repair of motor vehicles and motorcycles	4,864,997	4,988,377
Transportation and storage	655,566	754,852
Accommodation and food service activities	353,679	376,661
Information and communication	35,861	52,467
Financial and insurance activities	81,733	56,826
Real estate activities	241,996	194,850
Professional, scientific and technical activities	310,166	426,017
Administrative and support service activities	111,075	172,843
Education	134,846	160,033
Human health and social work activities	26,562	144,004
Arts, entertainment and recreation	74,216	85,730
Other service activities	24,808	21,295
Individuals	28,291,942	27,196,640
	46,163,847	44,598,280

c) Analysis of loans by type of security

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Cash and cash equivalents or restricted accounts held in Bank	997,396	644,822
Government bonds	3,449	3,179
Government guarantees	1,784,650	1,362,359
Bank guarantees	162,723	143,126
Corporate guarantees	281,299	511,850
Property	19,269,443	20,016,849
Equipment and other movable assets	2,367,198	2,349,684
Other securities	1,086,837	1,682,456
Non-secured	20,210,852	17,883,955
	46,163,847	44,598,280

d) Risks and uncertainties

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

21. LOANS TO CUSTOMERS (Continued)

d) Risks and uncertainties (Continued)

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

The Bank’s operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During 2012 and 2011, when the global financial crisis have enforceable to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital base through retaining the earnings.

The potential impact of the financial crises could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All of the above is focusing to protect and develop current and future customer/depositor base and achievements of the Bank’s goals and objectives for 2012 and beyond.

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

22. OTHER ASSETS

a) Non-current assets held for sale

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Foreclosed collateral		
Land	4,124	6,350
Buildings	796,770	896,190
Other	4,960	4,524
	805,854	907,064
Less: Allowance for impairment (Note 11)	(172,403)	(126,009)
	633,451	781,055

b) Other receivables and prepaid expenses

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Trade receivables	91,035	101,522
Prepaid expenses	30,732	49,239
Receivables for commission and fees	12,008	28,573
Advances to suppliers	2,865	12,803
Other receivables	120,585	79,968
	257,225	272,105
Less: Allowance for impairment (Note 11)	(53,043)	(55,932)
	204,182	216,173

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

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Balance at the beginning of the year	55,932	51,480
Charge for the year	18,970	12,077
Release	(5,768)	(7,170)
Write off	(16,091)	(455)
Balance at the end of the year	53,043	55,932

23. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance at January 1, 2011	161,686
Balance at December 31, 2011	161,686
Balance at January 1, 2012	161,686
Transfer from assets acquired through foreclosure procedure	65,202
Disposals	(6,092)
Balance at December 31, 2012	220,796
Accumulated depreciation	
Balance at January 1, 2011	21,528
Charge for the year	3,648
Balance at December 31, 2011	25,176
Balance at January 1, 2012	25,176
Charge for the year	3,185
Disposals	(407)
Balance at December 31, 2012	27,954
Impairment	
Balance at January 1, 2011	77,211
Charge for the year (Note 11)	1,013
Balance at December 31, 2011	78,224
Balance at January 1, 2012	78,224
Charge for the year (Note 11)	2,386
Balance at December 31, 2012	80,610
Carrying amount	
Balance at December 31, 2012	112,232
Balance at December 31, 2011	58,286

As of December 31, 2012, the fair value of the investment property corresponds to the carrying amount presented in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
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24. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold improvements	Other intangibles	Total
Cost				
Balance at January 1, 2011	516,368	121,339	12,865	650,572
Additions	19,539	6,513	446	26,498
Transfer	5,550	3,769	(5,217)	4,102
Balance at December 31, 2011	541,457	131,621	8,094	681,172
Balance at January 1, 2012	541,457	131,621	8,094	681,172
Additions	17,782	3,466	1,753	23,001
Disposals	(15)	-	-	(15)
Transfer	3,494	-	(4,191)	(697)
Balance at December 31, 2012	562,718	135,087	5,656	703,461
Accumulated amortization				
Balance at January 1, 2011	404,240	66,905	-	471,145
Charge for the year	39,133	18,625	-	57,758
Balance at December 31, 2011	443,373	85,530	-	528,903
Balance at January 1, 2012	443,373	85,530	-	528,903
Charge for the year	40,899	17,034	-	57,933
Disposals	(15)	-	-	(15)
Balance at December 31, 2012	484,257	102,564	-	586,821
Carrying amount				
Balance at December 31, 2012	78,461	32,523	5,656	116,640
Balance at December 31, 2011	98,084	46,091	8,094	152,269

25. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	Total
Cost				
Balance at January 1, 2011	1,140,889	1,314,771	28,461	2,484,121
Additions	10,507	35,235	4	45,746
Transfer	-	10,759	(14,231)	(3,472)
Disposals	(5,262)	(65,047)	-	(70,309)
Balance at December 31, 2011	1,146,134	1,295,718	14,234	2,456,086
Balance at January 1, 2012	1,146,134	1,295,718	14,234	2,456,086
Additions	2,079	7,487	-	9,566
Transfer	27,380	29,583	(8,290)	48,673
Disposals	-	(90,346)	-	(90,346)
Balance at December 31, 2012	1,175,593	1,242,442	5,944	2,423,979
Accumulated depreciation				
Balance at January 1, 2011	379,549	1,080,660	-	1,460,209
Charge for the year	27,959	96,712	-	124,671
Disposals	(1,731)	(65,138)	-	(66,869)
Balance at December 31, 2011	405,777	1,112,234	-	1,518,011
Balance at January 1, 2012	405,777	1,112,234	-	1,518,011
Charge for the year	28,049	80,384	-	108,433
Disposals	-	(90,194)	-	(90,194)
Balance at December 31, 2012	433,826	1,102,424	-	1,536,250
Carrying amount				
Balance at December 31, 2012	741,767	140,018	5,944	887,729
Balance at December 31, 2011	740,357	183,484	14,234	938,075

The Bank's buildings as of December 31, 2012 include property with a net carrying amount of Denar 128,061 thousand (2011: Denar 107,485 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2012 and 2011 the Bank's property and equipment are free of any pledges and mortgages.

26. DEPOSITS FROM BANKS

In thousands of Denars

	December 31, 2012		December 31, 2011	
	Up to one year	Over one year	Up to one year	Over one year
Current accounts				
domestic banks	7,437	-	22,478	-
foreign banks	43,977	-	50,214	-
	51,414	-	72,692	-
Time deposits				
foreign banks	139,953	-	-	-
	139,953	-	-	-
Restricted deposits				
foreign banks	73,548	-	73,480	-
	73,548	-	73,480	-
Interest payable on deposits				
foreign banks	47	-	-	-
	47	-	-	-
Total deposits from banks	264,962		146,172	

The restricted deposits held with foreign banks amounting to Denar 73,548 thousand (2011: Denar 73,480 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 20).

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

27. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2012		December 31, 2011	
	Up to one year	Over one year	Up to one year	Over one year
Non-financial entities				
Current accounts	5,165,196	-	4,795,199	-
Sight deposits	48,070	-	36,754	-
Time deposits	3,320,660	727,398	3,259,184	672,810
Restricted deposits	171,300	485,142	202,200	365,181
Other deposits	29,430	-	44,325	-
Interest payable on deposits	50,548	-	64,813	-
	8,785,204	1,212,540	8,402,475	1,037,991
State				
Current accounts	128,737	-	37,834	-
Sight deposits	-	-	-	-
Time deposits	64,100	-	12,100	-
Restricted deposits	652	-	748	-
Interest payable on deposits	979	-	80	-
	194,468	-	50,762	-
Not-for-profit organizations				
Current accounts	371,097	-	373,502	-
Sight deposits	14	-	13	-
Time deposits	387,186	12,711	220,065	21,430
Restricted deposits	6,281	10,572	11,230	10,914
Interest payable on deposits	3870	-	4,541	-
	768,448	23,283	609,351	32,344
Financial institutions, except banks				
Current accounts	49,210	-	80,558	-
Sight deposits	-	-	-	-
Time deposits	616,680	316,734	681,943	271,737
Restricted deposits	288	53	1	-
Interest payable on deposits	8,828	-	9,003	-
	675,006	316,787	771,505	271,737
Households				
Current accounts	9,534,071	-	10,019,278	-
Sight deposits	32,610	-	12,330	-
Time deposits	25,018,103	10,091,369	26,300,507	7,205,267
Restricted deposits	606,961	1,108,558	710,440	537,677
Interest payable on deposits	80,718	-	86,134	-
	35,272,463	11,199,927	37,128,689	7,742,944
Non-residents, except banks				
Current accounts	232,802	-	280,098	-
Sight deposits	2	-		-
Time deposits	359,195	137,475	235,619	62,978
Restricted deposits	49,458	27,517	72,842	1,394
Interest payable on deposits	964	-	887	-
	642,421	164,992	589,446	64,372
Current maturity	6,494,371	(6,494,371)	3,779,350	(3,779,350)
	52,832,381	6,423,158	51,331,578	5,370,038
Total deposits from customers	59,255,539		56,701,616	

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

28. LOANS PAYABLE

In thousands of Denars

	December 31, 2012 Up to one year	December 31, 2012 Over one year	December 31, 2011 Up to one year	December 31, 2011 Over one year
Domestic sources:				
Agency for assets management				
- long-term loan in amount of Denar 149,399 thousand (2011: Denar 149,399 thousand) is payable in 2020 on a once off basis. Related fees for these loans are 1.5% p.a.	1,132	149,399	1,130	149,399
Agency for undeveloped regions				
- Matured in 2011, interest rate of 3.9% p.a annually.	15,689	-	26,690	-
MBPR				
- Matures in 2019 and interest rate is equal to 1.0% p.a. (2010: 1,0% p.a.)	1,717	813,618	1,311	599,032
NBRM				
- Matures in 2013 and interest rate is 3.73% p.a.	1,500,622	-	-	-
	1,519,160	963,017	29,131	748,431
Foreign sources:				
Council of Europe Social Development Fund				
- matures in 2014 and bears fixed interest rate of 6.73% p.a.	106	15,722	154	23,585
ICDF Taiwan				
- to be repaid in 20 equal semi-annual installments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% p.a.	50	14,835	48	25,195
Other banks	-	5,957	-	5,957
	156	36,514	202	54,737
Current maturity of long-term loans	228,143	(228,143)	164,792	(164,792)
	1,747,459	771,388	194,125	638,376
Total loans payable	2,518,847		832,501	

29. SUBORDINATED DEBT

	Maturity	Interest rate	In thousands of Denars December 31, 2012	December 31, 2011
National Bank of Greece:				
Principal EUR 20,000,000	27.12.2016	3-month EURIBOR +0.85% p.a.	1,230,000	1,230,100
Principal EUR 25,000,000	05.11.2018	3-month EURIBOR +3.7%p.a.	1,537,500	1,537,625
Accrued interest			9,663	12,487
			2,777,163	2,780,212

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

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

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

30. OTHER LIABILITIES

	In thousands of Denars December 31, 2012	December 31, 2011
Trade payables	11,475	3,000
Fee and commission liabilities	8	-
Accrued expenses	113,904	93,022
Deferred revenue	20,680	19,052
Cumulative preference shares	90,978	90,978
Dividends payable for preferred shares	6,232	7,561
Claimed transactions with VISA cards	8,577	9,093
Unallocated cash receipts due to depositors and others	420,954	355,106
Early repayments of loans and other liabilities	-	23,015
Custodian accounts (Note 35b)	(2)	13,168
	672,806	613,995

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

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

As of December 31, 2012 the Bank allocated an amount of Denar 5,231 thousand as a dividend to the holders of these shares for the year 2012 (2011: Denar 6,596 thousand).

31. PROVISIONS

In thousands of Denars

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

In thousands of Denars

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

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:

	2012	2011
Interest rate	5.00%	4.00%
Average salary increase	5.00%	5.00%
Inflation rate	2.50%	2.50%

Mortality rate:

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

32. EQUITY

a) Share capital

The share capital of the Bank as of December 31, 2012 and 2011 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201.1. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the liquidation of the Bank.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

32. EQUITY (Continued)

a) Share capital (Continued)

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2012 and 2011, officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2012		December 31, 2011	
	% of participation	In thousands of Denars	% of participation	In thousands of Denars
National Bank of Greece	94.64%	3,323,094	94.64%	3,323,094
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

b) Revaluation reserves

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

Components of other comprehensive income

	In thousands of Denars	
	December 31, 2012	December 31, 2011
Available-for-sale financial assets:		
(Loss)/Gain arising during the year, net	(1,884)	23,722
Other comprehensive income	(1,884)	23,722
Less: Income tax relating to components of other comprehensive income	-	-
Other comprehensive income for the year, net of tax	(1,884)	23,722

c) Statutory reserve

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

d) Special fund

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2012

33. EARNINGS PER SHARE

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

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

	December 31, 2012	December 31, 2011
Net profit attributable to shareholders for basic and diluted earnings per share (in thousands of Denars)	1,007,179	768,132
Weighted average number of shares for basic and diluted earnings per share	17,460,180	17,460,180
Basic earnings per share (in Denars)	57.68	43.99
Diluted earnings per share (in Denars)	57.68	43.99

34. RELATED PARTY TRANSACTIONS

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

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

Statement of financial position

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2012				
Assets				
Current accounts	2,457	-	3,918	6,375
Loans	-	12,098	-	12,098
Due from banks	-	-	942,036	942,036
	2,457	12,098	945,954	960,509
Liabilities				
Deposits	-	29,826	144,294	174,120
Subordinated debt	2,777,163	-	-	2,777,163
Other liabilities	621	-	-	621
	2,777,784	29,826	144,294	2,951,904
Off-balance sheet items				
Issued guarantees	1,028	-	-	1,028
December 31, 2011				
Assets				
Current accounts	7,617	-	6,740	14,357
Loans	-	10,020	-	10,020
Due from banks	1,053,772	-	-	1,053,772
	1,061,389	10,020	6,740	1,078,149
Liabilities				
Deposits	-	28,285	4,292	32,577
Subordinated debt	2,780,212	-	-	2,780,212
Other liabilities	516	-	-	516
	2,780,728	28,285	4,292	2,813,305
Off-balance sheet items				
Issued guarantees	-	-	111,246	111,246

34. RELATED PARTY TRANSACTIONS (Continued)

Statement of comprehensive income

In thousands of Denars

	Parent company	Key management personnel	Other related parties	Total
December 31, 2012				
Income				
Interest income	12,363	224	213	12,800
	12,363	224	213	12,800
Expenses				
Interest expense	89,653	-	64	89,717
Fee and commission expense	-	-	18	18
Other expenses	-	27,118	-	27118
	89,653	27,118	82	116,853
December 31, 2011				
Income				
Interest income	7,222	132	6	7,360
	7,222	132	6	7,360
Expenses				
Interest expense	106,807	-	17	106,824
Fee and commission expense	-	-	18	18
Other expenses	-	29,084	-	29,084
	106,807	29,084	35	135,926

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

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

In thousands of Denars

	December 31, 2012	December 31, 2011
Short-term compensation and benefits	25,273	23,535
Other	1,845	5,549
	27,118	29,084

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

35. COMMITMENTS AND CONTINGENCIES

a) Off-balance sheet items

	In thousands of Denars	
	December 31, 2012	**December 31, 2011**
Payment guarantees:		
in Denars	1,249,420	1,124,355
in foreign currency	274,283	350,052
in Denars with foreign currency clause	100,271	63,010
Performance guarantees:		
in Denars	804,369	646,404
in foreign currency	107,571	102,413
in Denars with foreign currency clause	69,273	1,417,759
Letters of credit in foreign currency	138,861	172,209
Cash covered letter of credit	17,588	16,203
Cash covered letter of guarantees	300,239	381,781
Unused current account overdrafts	2,055,501	2,038,795
Credit cards commitments	5,332,149	4,823,525
Other	321,372	326,671
	10,770,897	11,463,177
Less: provision for off-balance sheet items (Note 31)	(103,026)	(136,347)
	10,667,871	11,326,830

b) Managed funds

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

						In thousands of Denars
	December 31, 2012			December 31, 2011		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Loans in Denars	266,078	266,078	-	266,067	266,067	-
Loans in foreign currency	223,436	223,436	-	221,786	221,786	-
Other receivables in Denars	897,854	897,854	-	805,789	805,789	-
Other receivables in foreign currency	185,584	185,584	-	655,781	655,781	-
Custodian accounts (Note 30)	17,646	17,648	(2)	6,409	19,577	(13,168)
	1,590,598	1,590,600	(2)	1,955,832	1,969,000	(13,168)

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

c) Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2012 the legal proceedings filed against the Bank amounted to Denar 14,939 thousand (2011: Denar 19,261 thousand). The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations, The Bank have allocated provisions for impairment losses upon litigation in the amount of Denar 414 thousand (2011: Denar 2,547 thousand).

35. COMMITMENTS AND CONTINGENCIES (Continued)

d) Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range up to one year. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 3,126 thousand (2011: Denar 2,704 thousand) and the operating cost amount to Denar 1,013 thousand (2011: Denar 3,648 thousand).

The Bank as lessee

The payment for operating lease was recognized within other operating expenses and relate to business premises. Lease contracts are up to one year and have a clause stipulating a 30-days notice period. Rental expense paid by the Bank amounting to Denar 61,913 thousand (2011: Denar 62,161 thousand).

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

36. TAXATION RISK

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

37. RECLASSIFICATIONS

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

Statement of comprehensive income

	In thousands of Denars December 31, 2011		
	As restated	**As previously reported**	**Reclassification**
Trading expenses, net	30,717	26,607	4,110
Interest income	4,339,414	4,343,524	(4,110)
			-

Statement of financial position

	In thousands of Denars December 31, 2011		
	As restated	**As previously reported**	**Reclassification**
Other assets	997,228	997,858	(630)
Property and equipment, net	938,075	937,445	630
			-

38. EVENTS AFTER THE REPORTING DATE

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

39. EXCHANGE RATES

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

		In Denars
	2012	2011
1 USD	46.6510	47.5346
1 EUR	61.5000	61.5050