S T O P A N S K A   B A N K A AD – S K O P J E

ANNUAL REPORT

2011

Skopje, March 2012

Note: All figures in this Report referring to SB are based on Statutory Financial Statements

Key Financial Highlights

	2010	2011	% change
Income Statement indicators			
Net Interest Income	40.7	35.6	-12.4%
Net Commissions Income	14.7	13.9	-5.8%
Total Income	62.0	55.7	-10.2%
Operating expenses	-34.4	-33.1	-4.0%
Personnel Expenses	-12.3	-11.9	-3.6%
Net Operating Income	27.6	22.6	-18.0%
Impairment losses (net)	-14.5	-12.1	-16.5%
Pre Tax Profit	13.1	10.5	-19.7%
Net Profit	13.1	10.2	-21.5%

Balance Sheet indicators	**2010**	**2011**	**% change**
Total Assets	1,106.4	1,140.7	3.1%
Equity	134.9	145.2	7.6%
Regulatory capital	168.3	170.2	1.2%
Loans to customers (net)	686.5	719.1	4.7%
Total loans (gross)	752.3	788.4	4.8%
Retail loans	438.9	462.4	5.4%
Corporate Loans	313.5	326.1	4.0%
Provisions	65.9	69.4	5.3%
Total Deposits	870.0	921.9	6.0%
Retail deposits	684.3	735.5	7.5%
Corporate Deposits	185.7	186.4	0.4%

Financial ratios	**2010**	**2011**	**change**
Net Interest Margin	4.0%	3.4%	-61bp
Cost income ratio	55.5%	59.4%	387bp
ROA	1.2%	0.9%	-27bp
ROE	10.2%	7.5%	-266bp
Loans to Deposits ratio (gross)	86.5%	85.5%	-96bp
Capital Adequacy ratio	17.81%	17.64%	-17bp

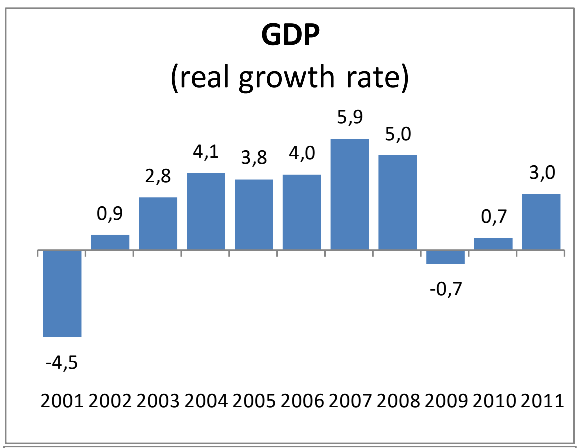
Operational Indicators			
Number of Units	66	64	-2
Number of Personnel (eop)	1067	1021	-46

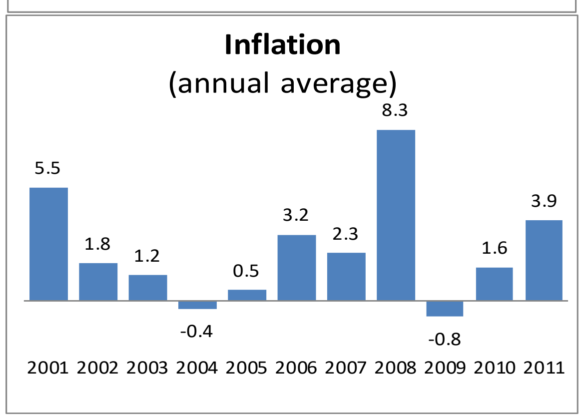
Economic Environment

Strong export driven growth underpinned a robust macroeconomic performance in H1 2011. However, the escalation of the European debt crisis during H2 decreased the export demand and undermined the growth of the domestic economy. Nevertheless, the inflows from private transfers remained strong which maintained low current account deficit. This, coupled with growing capital inflows bolstered the Central bank's F/X reserves to the highest historical level, significantly decreasing the external vulnerability of the country. Such macroeconomic setup enabled the monetary policy to remain loosened throughout the year and banking sector to maintain low risk profile, healthy liquidity position and strong capital adequacy.

In the first half of 2011, the global economy continued to recover, led by the intensive growth of the fast growing and developing economies. The growth in the Eurozone was higher than expected, primarily as a result of the private investments, against the still anemic recovery of the private consumption. However, the escalation of the European debt crisis in the second half of 2011 threatened the global recovery by intensifying the strains and fragilities in the euro area. Consequently, the global financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated. The wave of downgrading the government debt of certain European states intensified the concerns about banking sector losses and consequently resulted in downgrading of the banks with significant exposure toward the distressed assets. The strong recessionary momentum was further amplified by the increased uncertainty and the additional austerity measures in some EU countries.

The recovery of the domestic economy continued during 2011. The strong external demand in the beginning of the year, especially in the key export segments, and the government stimulus, provided through public investments, accelerated the growth of the domestic economy in H1 to 5.1%. However, the escalation of the European debt crisis, during the second half of 2011, decelerated the export growth and consequently brought down the overall growth rate of the domestic economy to 3.0% by the end of the year.

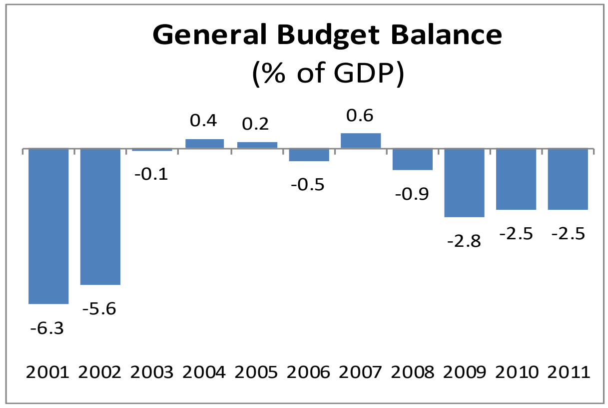




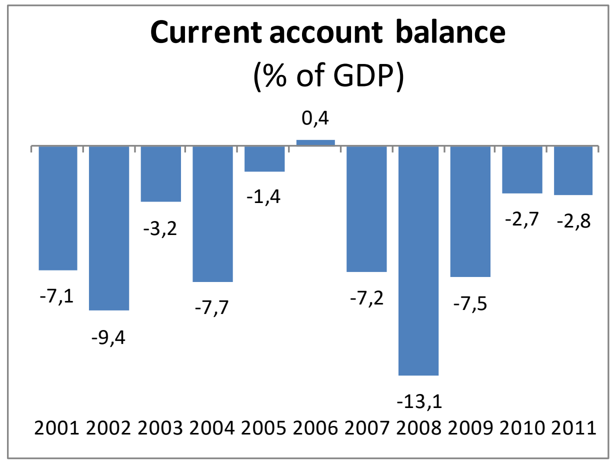
The increased economic activity and the rebound of the international commodity prices in the beginning of 2011 increased the inflation rates both globally and domestically. However, as the European debt crisis broadened and deepened, concerns about recession in EU escalated, leading to a decline in commodity prices and easing the inflationary pressures. Consequently, at the end of 2011, the annual inflation rate fell down to 2.8%, while the average inflation reached the level of

3.9%.

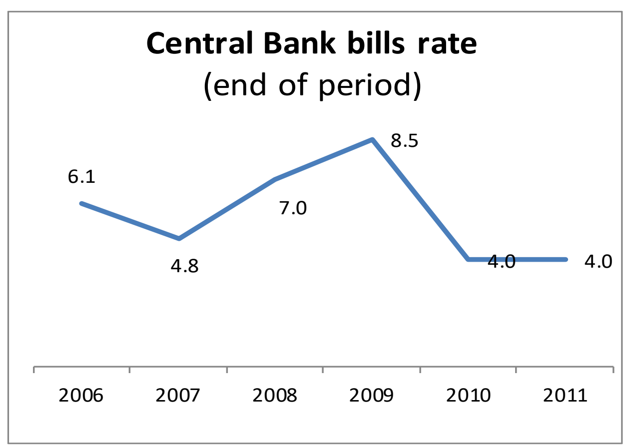
In contrast to most other countries in Europe, the public finances in the country managed to maintain an appropriate balance between supporting the economic recovery and preserving low public debt. Consequently, in 2011 the fiscal deficit stood at 2.5% of GDP, same as the previous year, while the public debt remained below 30% (28.2%).



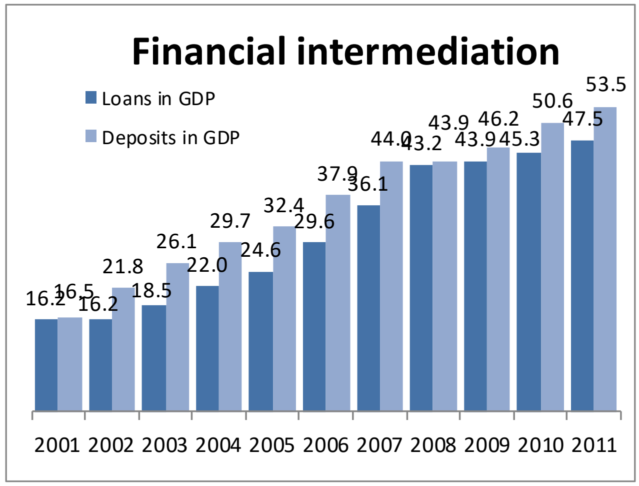
Despite the volatile international business climate, the external sector of the domestic economy reported low current account deficit, 2.8% of GDP, for 2011. In environment of deteriorated external terms of trade, which resulted in deepening of the trade deficit, the low current account gap reflected the continuously strong f/x inflow from private transfers, which in 2011 reached 20.3% of GDP. On the capital and financial account side, the most significant capital inflows in 2011 were related to the government borrowing and foreign direct investments. Namely, the inflows from the disbursement of EUR 220 million under the IMF Precautionary Credit Line in March 2011 and the disbursement of EUR 130 million from a 5-year loan from Deutsche Bank and Citibank in December covered 182% of the current account deficit. In addition, the strong inflows from foreign direct investments, which in 2011 witnessed a record annual growth of 91%, enabled further accumulation of official F/X reserves, and thus, significantly decreased the external vulnerability of the country.



In 2011, the favorable macroeconomic landscape for implementation of the monetary policy enabled the Central Bank to keep its nominal policy interest rate loosened at the level of 4%. The relatively stable foreign exchange market, mirrored by outstanding inflows from private transfers and strong capital inflows, enabled foreign reserves to reach the historically highest level of EUR 2,069 million, maintaining sufficient import coverage.



Despite the negative global trends in the financial services industry, the domestic banking sector remained well-capitalized, deposit-funded and consequently maintained low risk profile. Namely, during 2011 the growth of the deposit base remained relatively strong, 9.2% on annual basis, on the backdrop of the stable macroeconomic setup, favorable external sector developments and stabilized risk perceptions of the economic agents. Underlying the strong confidence in the domestic currency, such growth of the deposit base (75%) was mainly attributed to the local currency-denominated deposits, which recorded an annual growth of 14.7%. This contributed to modest ease in the level of euroization of the deposit base from 53.2% in December 2010 to 50.8 in December 2011. In such environment, the lending activity of the banking sector accelerated the growth to 8.5% in 2011 compared to 7.1% in the previous year. Consequently, the loans to deposits ratio dropped to 89.0%.

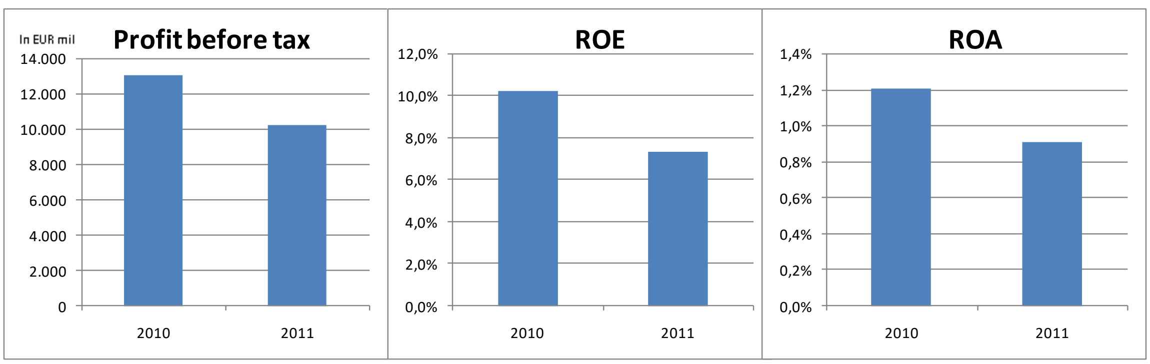


Review of 2011 Activities

Financial Performance

The prudent risk management secured the stability and soundness of the Bank, while the balanced growth of the loan portfolio accompanied by the enhanced operational efficiency ensured stable return for our shareholders.

Despite the continued recovery of the domestic economy, it was still too early to speak of a return to market sustainability. On that note, during 2011, SB dedicated its efforts to maintaining the strong liquidity and capital base, safeguarding the loan portfolio quality and containment of the operating costs. Thus, SB remained well-capitalized, deposit-funded and highly liquid, and continued delivering high quality services to its customers. At the end of the year, the Bank recorded profit before taxes of EUR 10.5 million, while the Bank total assets reached EUR 1,140.7 million thereby exceeding the corresponding 2010 figure by 3.1%. Consequently, ROA stood at 0.9%, while ROE equaled 7.5%, indicating stable returns for shareholders. With the highest capital strength in the industry, which ensured capital adequacy of 17.6%, SB remained the most solid and trustworthy financial partner in the country. These results were also acknowledged by the Finance Central Europe magazine when it declared Stopanska Banka AD-Skopje “The best bank in the country by assets size and capital strength”.



Interest income

Despite the growth of lending balances in 2011, the pressure from the legal framework for lowering the lending interest rates resulted in lower interest income. Namely, during the reporting year, the Bank generated EUR 73.1 million interest income, or 8.1% less than in 2010. Herein, the income related to retail loans totaled EUR 42.5 million and kept the dominant position within the total interest income (58.2%). At the same time, the interest income earned on corporate loan book equaled EUR 19.7 million.

Interest income

in EUR million

	2010	2011	% change
Interest income	**79.5**	**73.1**	**-8.1%**
Retail loans	46.4	42.5	-8.3%
Corporate loans	20.7	19.7	-4.5%
Other	12.4	10.8	-12.9%

Interest expenses

Loosened monetary policy throughout the year and stabilized risk perceptions of the economic agents pushed down banks' deposits interest rates in 2011. Consequently, despite the higher deposits balances and larger volumes of more expensive deposits, such as deposits with long-term maturity and local currency savings of citizens, the Bank interest expense went down by 3.5% in 2011. Herein, the interest expenses related to retail deposits registered an annual decline of 4.2% and kept the dominant position within the total interest income with a level of EUR 29.8 million. Interest expenses related to corporate deposits dropped by 8.2% reaching EUR 4.3 million.

Interest expenses

in EUR million

	2010	2011	% change
Interest expenses	**38.8**	**37.4**	**-3.5%**
Retail deposits	31.1	29.8	-4.2%
Corporate deposits	4.7	4.3	-8.2%
Due to other banks	0.1	0.2	91.5%
Other liabilities	2.9	3.2	8.6%

Fee and Commission Income

In environment of growing competition, the Bank generated net fee and commission income in the amount of EUR 13.9 million, which indicates an annual decline of 5.8%. Within this, the most significant contribution came from lending activities counting nearly for half of the Bank's total fee income, or EUR 6.6 million. The second largest fee and commission income item, representing 25.6% of the total fee and commission income, relates to the income from transfer of funds, which at the end of 2011 totaled EUR 3.6 million. Due to larger volumes of consumer deposits in the course of 2011, net fees and commissions related to these activities marked increase of 16.8%.

Net fees and commissions income

in EUR million

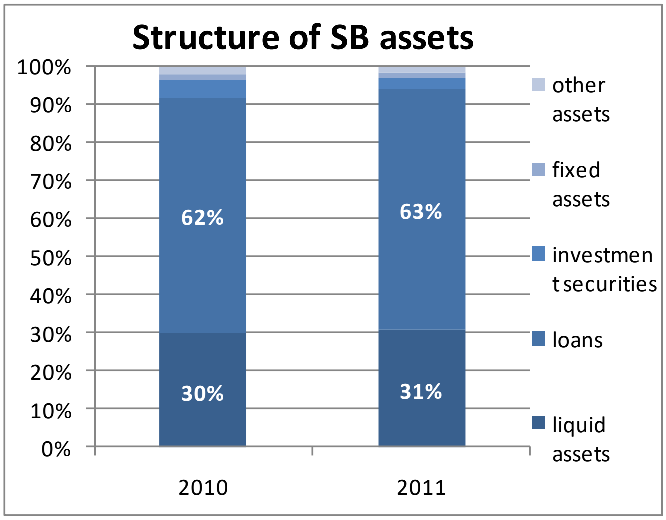
	2010	2011	% change
Net fees and commissions income	**14.7**	**13.9**	**-5.8%**
brokerage	0.1	0.1	-11.7%
loans	7.3	6.6	-9.9%
letters of guarantee	1.1	1.1	-1.7%
transfer of funds	3.7	3.6	-3.6%
deposits	1.3	1.6	16.8%
others	1.2	1.0	-15.8%

Operating expenses

Despite the organic growth in 2011, with its effective cost containment policy in place, the Bank continued to enhance its operational efficiency through reducing the total operating expenses by 4.0% and thus maintaining the cost to income ratio of 59.4%.

Assets and Liabilities

Assets

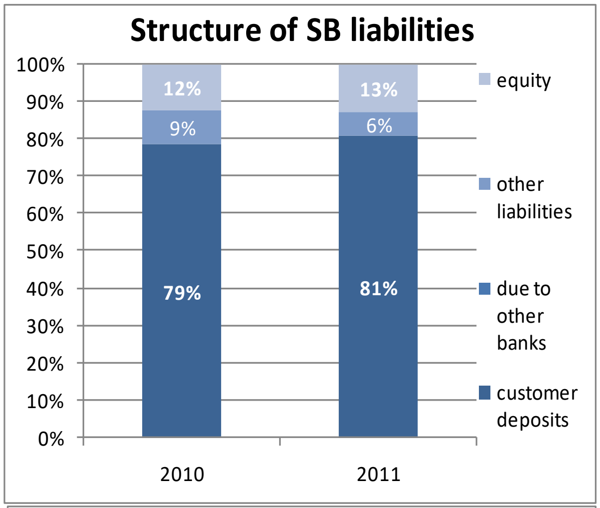


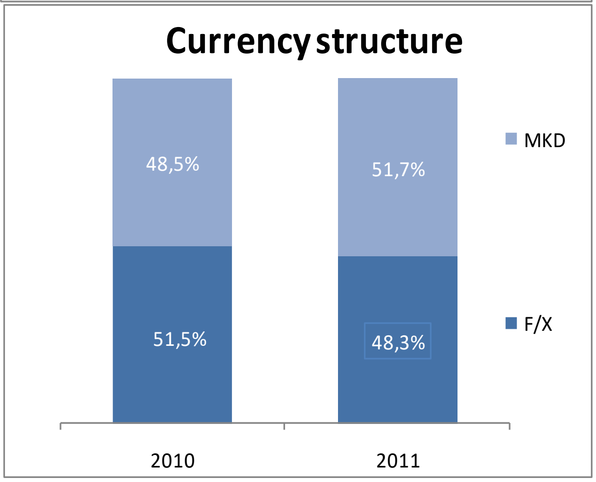
The Bank's total assets at the end of 2011 reached EUR 1,140.7 million, which is EUR 34.3 million or 3.1% more than the year before. Amid the high risks and uncertainties in 2011, the Bank continued rearranging its asset mix in favor of more liquid assets, pushing their share up to 31% of the total assets. Credit activity in 2011 was adjusted to provide an adequate level of loan support to our clients, but at the same time to safeguard the loan portfolio quality. Consequently, by the end of 2011 the total loan portfolio reached EUR 788.4 million, out of which EUR 326.1 million were extended to corporate customers, while retail exposures amounted to EUR 462.4 million. In parallel with this, the Bank's focus during 2011 on keeping high assets quality maintained the overall NPL ratio below the market average. Moreover, it is worth noting that the rigorous risk management controls implemented during 2011 in the retail segment resulted in NPL ratio lower by 215 b.p. when compared with the sector average. In line with such developments, at the end of year the loans to deposits ratio dropped to 85.5% on gross basis, indicating strong credit potential for 2012.

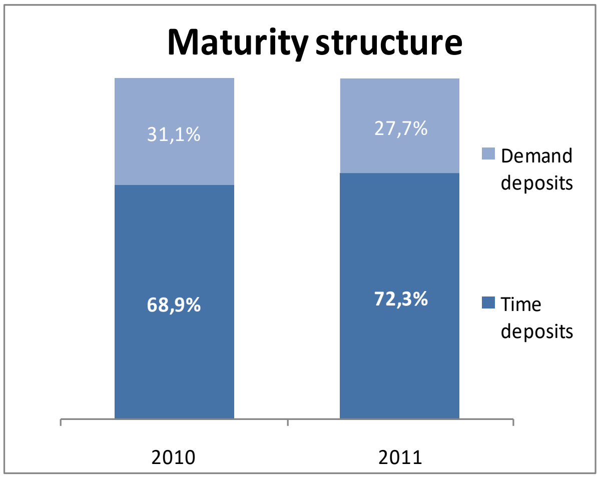
Deposits and equity

At the end of 2011, the Bank's total borrowing (deposit and non-deposit) reached EUR 995.5 million, thus recording nominal annual growth of 2.5% entirely as a result of the continued development of the Bank's client deposit base. Evidently, customer deposits continued to be the main driving force of the enhanced financial potential of the Bank in 2011, with annual growth rate of 6.0% and EUR 51.9 million absolute increase against 2010 year-end. Herein, the household deposits registered the most intensive increase with an annual rate of 7.5%, thus strengthening the dominant position in the total deposits with a share of 79.1%. The currency structure of deposit base indicates significant increase in the share of local currency denominated deposits to 51.7%, up from 48.5% in 2010, mainly reflecting the improved confidence of the general public in the stability of the local currency. Regarding maturity structure, the dominant contribution in the deposit base expansion belongs to time deposits, with annual growth of EUR 69.2 million or 11.6%. Sustained positive trend in the deposit base growth towards longer-term maturities contributed to better balance sheet financing, hence indicating stable sources of funds for the Bank's continuous credit expansion.

The Bank equity increased by 7.6% y/y resulting mostly from EUR 10.2 million accumulated in the reserves and retained earnings accounts. Hence, the total capital strength in the amount of EUR 181 million at the end of 2011 ensured sufficient capital adequacy and quality source of long-term funding.







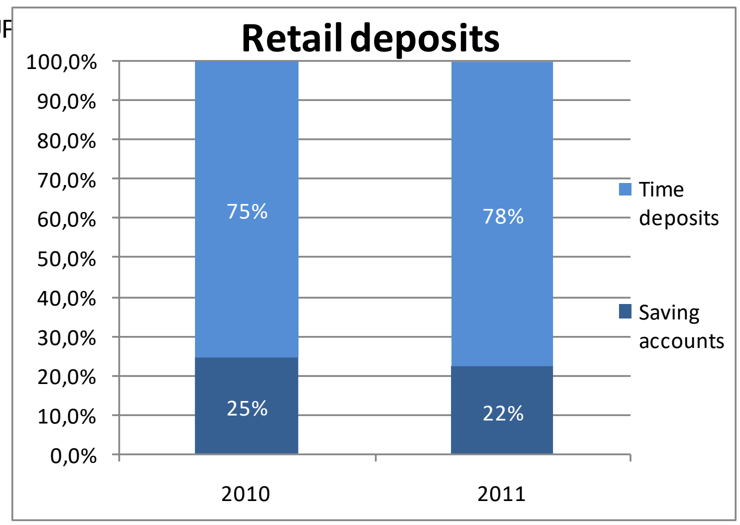
Retail Banking

SB successfully met the expectations of its clients in retail banking by offering a wide product range with enhanced characteristics and alternative selling channels. This contributed to further strengthening of its leadership in retail lending.

During 2011, SB continued to dominate the domestic retail market with its wide product range and variety of unique selling channels. By focusing on retail banking model, which takes into account both the expectations of our clients and the prudent risk management policies, SB maintained high quality of the lending portfolio and stabile growth of the deposit base. This model supported by the efficient product development strategy enabled the Bank to maintain its high market share both in deposits 27.8% and in lending 37.5%.

Retail deposits

Attracting new deposits was one of the strategic targets set, and successfully realized, by the Bank in the field of Retail Banking during 2011. The retail deposit balances reached EUR 735.5 million at the end of 2011, exceeding the 2010 figure by EUR 51.2 million or 7.5%. Herein, the most significant contribution came from the increased time deposits, which annual growth rate reached 11.1%. This again confirmed the strength of the Bank and the trustworthiness it has gained among its customers. The currency structure of retail deposits reveals increased share of the local currency denominated deposits, to 44.8% from 41.2% in 2010, mainly reflecting the nation-wide trend in the household saving preferences.

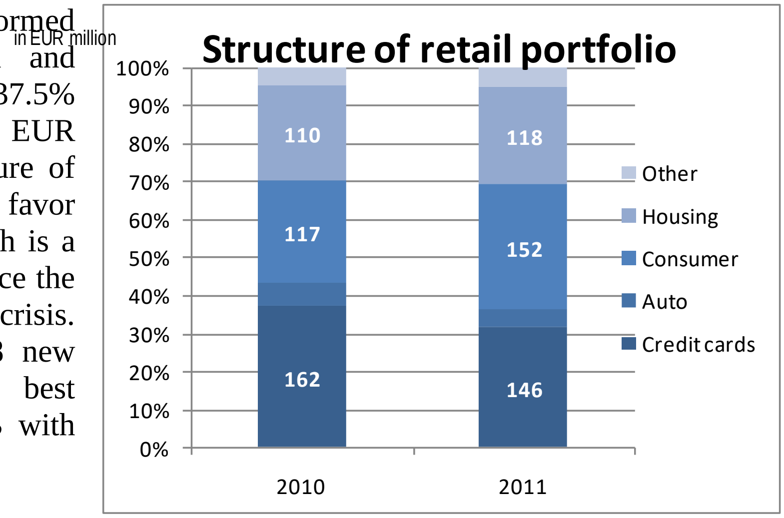


During 2011, following the clients requests, SB launched 2 new deposit products – the nine month term deposit with fixed interest rate and the “My plan” term deposit. The latter offers clients terms of 1, 2, 3, 4 and 5 years during which they can plan their financial future by increasing their deposits whenever they want and by the amount they want.

The nine month fixed interest rate deposit also generated great interest among the clients, especially with the promotional offer. Within just three months a total of 2,531 accounts were opened in both local and foreign currency.

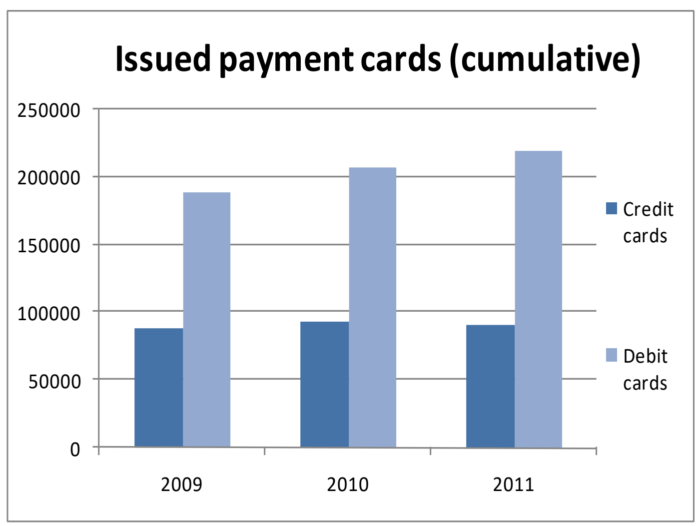
Retail lending

On the retail lending side, SB performed in line with the market trend and maintained its market share of 37.5% with total outstanding balance of EUR 462.4 million. In 2011, the structure of the lending portfolio continued to favor the secured lending products, which is a strategy that SB has maintained since the beginning of the global economic crisis. The Housing loan with over 778 new granted loans remains the best performing lending product of SB with market share of near 40%.



The consumer loan portfolio was enriched during 2011 with the introduction of a new product – unsecured consumer loan up to EUR 10,000 and 7 years repayment period with local or foreign currency clause. The new product attracted 5,041 clients to the portfolio, which ensured the market share of SB in this segment to be 41% at the end of the year.

The card portfolio, performed according to the business plan for 2011, reached the total number of 309,705 cards, a slight increase compared to 2010. However, characteristic for 2011 is the cleansing of the card portfolio – an action that resulted in closing of cards that were inactive and had the objective of purifying the portfolio.



The credit card balances maintained a 41% market share and a total of EUR 41 million. The highest increase among credit card transactions was displayed among the “interest free installments” available at a growing merchant network. The number of transactions grew by 100% compared to 2010.

Alternative channels

The focus of the Bank to provide 24h easy to use alternative channels for clients to use basic banking services continued in 2011 with the introduction of another innovation and novelty in the market – the Phone banking – another addition to the I-bank umbrella of services. In a technologically improving environment, the demand for more communication channels by the clients was supplemented with this new channel through which basic banking services such as bill payment, money transfer, and balance overview are provided. With all alternative channels activated (phone, ATM and e-banking) the clients gained the freedom in choosing where, when and how to use SB banking services – over the phone, at the ATM, or over the internet. These channels have consistent growth in the number of transactions. Namely, compared to 2010, the growth of e-banking transactions for 2011 is almost 70% and their contribution reached 20% of all transactions made in SB, up from 12% in 2010. These numbers confirm that the implemented strategy is accommodating the market requirements and provides SB the necessary competitive advantage to remain the market leader and pioneer in sophisticated banking services.

Corporate Banking

Deepening of the key existing partnerships with top performing companies while maintaining high portfolio quality

In the first half of 2011, the corporate sector in the country witnessed further increase of its capacity utilization on the backdrop of continued recovery of the global demand. However, as the concerns about another recession in EU escalated in the second half of the year, both global and domestic aggregate demand contracted leading to a decline in the income generating capacity of business and increasing the uncertainty regarding their future financial condition. Such market conditions did not prevent SB from continuing its corporate banking operations in line with its long term strategic priorities. Namely, during 2011 SB offered full range of corporate banking services and products, thus providing continual financial support to its customers. Consequently, at the end of the year, the credit portfolio in the corporate segment totaled EUR 326.1 million. However, during a year of contained credit activity and negative risk perceptions, SB was actively focused on maintaining the assets quality and ensuring the reliability of its borrowers, through further improvement of the underwriting, monitoring and collection processes.

In line with its medium-term strategy, during 2011 SB continued to provide active support to Small and Medium-Sized companies. Consequently, with disbursed EUR 123.9 million loans to small and medium size companies during 2011, SB remained one of the main market players in SME finance.

Despite the challenging market conditions in 2011, SB sustained and deepened the existing business relations with the very important segment of creditworthy large businesses. The expert knowledge, advanced IT solutions, capital size and synergies from membership in one of the largest financial groups in Southeast Europe, NBG Group, appeared to be the main drivers of the Bank’s competitive advantage in dealing with big corporate clients. As a result, during 2011 the Bank disbursed EUR 111.9 million large corporate loans.

In total, during 2011, SB approved more than 5,092 corporate loans, while the total volume of newly approved loans reached EUR 232.6 million, exceeding the 2010 figure by 4.1%. In addition to the regular loan activity, in 2011 in the area of trade finance SB issued 1,267 letters of guarantee and letters of credit. Total volume of newly issued trade finance instruments reached EUR 49.3 million in 2011.

Risk Management

Stopanska Banka AD - Skopje continues to pursue a prudent risk policy by promoting a balanced approach to risk and return based on a moderate risk profile. The key objective of risk management of the Bank is to make sure that all risks are managed in the best possible way, thus providing conditions for safe growth and contributing towards effective allocation of Bank capital and greater profitability.

Having in mind the economic crisis in the last three years, the Bank risk management framework was tested in real environment, but as a result of the sound well defined principles and prompt and timely updating of the business strategy required by the changing circumstances, the Bank did not suffer losses.

Risk management is performed at various levels within Stopanska Banka AD - Skopje. At the highest strategic level, the Supervisory Board determines the risk strategy, policy principles and limits, under the recommendation of the Board of Directors and the Risk Management Committee.

At a tactical level, the Risk Management Division of SB formulates the policies and procedure for managing specific risks, and establishes adequate systems and controls to ensure that the overall risk and reward relation remains within acceptable levels. And, finally, the risks are managed at the point where they are actually created (operational level) by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by the management.

The Bank risk management organizational structure ensures existence of clear lines of responsibility, efficient segregation of duties, and prevention of conflicts of interest at all levels. The Chief Risk Officer is also a member of the Board of Directors, indicating the involvement and importance of the risk management function in overall operations of the Bank, both in strategic and tactical decision making. Furthermore, the Risk Management Committee, which members are appointed by the Supervisory Board, convenes with weekly frequency, in order to review market developments and assess the level of various risks undertaken by the Bank in general and by its individual business units in particular.

Credit Risk Management

The banking business inevitably entails credit risk. Credit risk is perceived as very significant source of risk to the banking business and its effective assessment and management is essential for the long-term success. Credit risk is defined as the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or otherwise fail to perform as agreed.

SB exposure to credit risk mainly originates from approved loans to corporate and retail clients.

SB credit policy of prudent lending emphasizes a detailed risk assessment prior to any credit decision and common set of minimum standards for credit limit evaluation, approval, renewal and monitoring of credit exposures. Considering the adverse macroeconomic circumstances and worsened financial position of the economic agents, during 2011 the Bank initiated more rigorous monitoring of the creditworthiness of its corporate clients by more frequent review of the approved credit facilities.

In this regard, with an aim to undertake measures and management strategies in the early stage of the client delinquency, the Bank fully implemented Early warning system and Internal classification system that identify early signals of deterioration of the clients creditworthiness and included action plans when necessary.

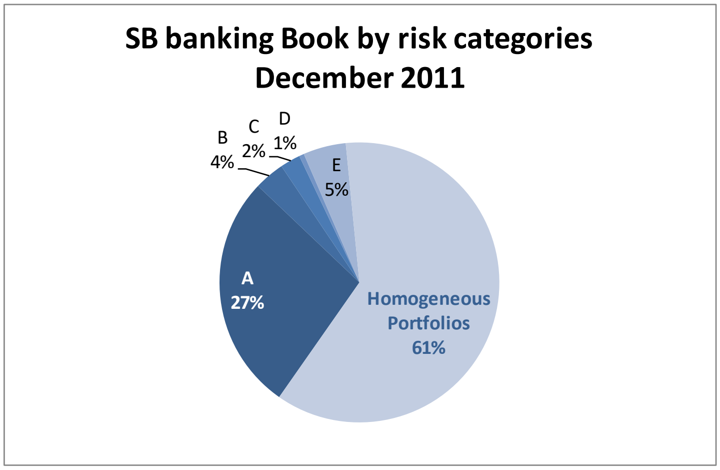
In line with the international best practices and following the enhanced impairment methodology and process, by using a software tool, the Bank provided an adequate level of provision for potential credit losses.

Stopanska Banka AD - Skopje regularly updates its credit risk management framework regarding the process of timely identification, monitoring, measurement and optimization of the credit risk. In addition, the Bank further improved the procedures and practices as to provide a regulated, continuous and consistent manner of reporting within the area of credit risk management both in the corporate and retail domain of the Bank, for the needs of various internal and external stakeholders.

Quality of credit portfolio

During 2011, despite the still going on economic crisis , the Bank maintained a prudent credit risk management process with intensive assessment and enhanced risk mitigation activities, as well as an efficiently organized collection function and overall contributing to keep high quality level of the credit portfolio. That contributed to maintain the NPL ratio at relatively low level of 7.7% (on the new portfolio since 2001). At the same time, the Bank allocated adequate level of provisions for potential loan losses and the provision coverage at the end of year was 86.4%.

According to the Central Bank Methodology, each credit risk exposure is classified in one of the five risk categories (A, B, C, D and E) or in homogeneous groups for the regular exposures that can be grouped on the basis of similar risk characteristics. The Bank maintained 92% of the clients within the low credit risk categories i.e. homogenous portfolio, A and B credit risk categories, while high risk debt classified in D and E compose only 6% of the Bank loan portfolio.

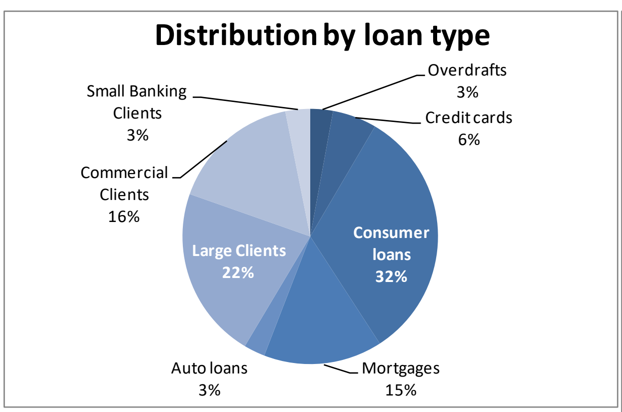


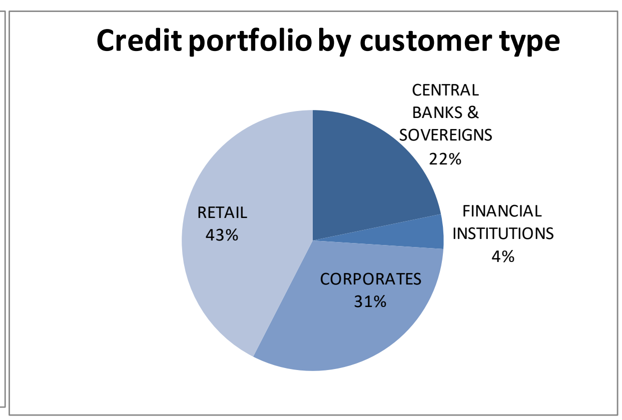
Concentration risks

Concentration risk is the current or prospective risk to earnings and capital arising from excessive exposure placed with one counterparty or group of related counterparties whose likelihood of default is driven by common underlying factors, e.g. economic sector, industry, geographical location, instrument type.

The loan portfolio of SB remains widely dispersed across different types of borrowers, asset categories and number of industries, thus preventing excessive concentration risks. Set of limits that control the exposure of the Bank towards different types of borrowers, industry sectors, type of collateral are in place and are at least annually reviewed as a part of the credit risk policies and procedures. The credit risk exposure limits are monitored on regular basis and all conclusions are supported by adequate actions from the appropriate level of the Bank.

Liquidity risk management





The Bank's primary objective in managing liquidity is to maintain sufficient liquidity in order to meet its legal and transactional obligations. SB continuously tracks its liquidity position and asset and liability profile. This involves monitoring of its contractual and behavioral maturity profiles, projecting and modeling its liquidity exposures under various scenarios and monitoring its funding capacity.
The responsibility for liquidity risk management is within Treasury Division and Risk Management Division. Treasury Division manages the liquidity risk on daily basis at operational level, and Risk Management Division validates the risk management system and ensures that limits and other rules are respected.

The Bank considers the liquidity risk management as essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue generating revenue, even under adverse circumstances. The Framework for managing liquidity risk encompasses:

- Operating standards related to SB liquidity risk, including appropriate policies, procedures and resources for controlling and limiting the liquidity risk
- Maintenance of a stock of liquid assets appropriate for the cash flow profile of SB, 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
- Management information and other systems which identify, measure, monitor, and control liquidity risk
- Contingency plans of SB 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 of liquidity risk limits and ratios taking into account SB risk appetite and profile, as well as regulatory requirements for the minimum level of liquidity.

Interest rate risk

Taking into consideration that the trading portfolio of the Bank is insignificant relative to the total assets and it relates mainly to the government securities, the interest rate risk is assessed for exposures arising from the banking book activities.

Interest rate risk in the banking book (IRRBB) is defined as the current or prospective risk to earnings (Net Interest Income) and/or capital arising from adverse movements in interest rates affecting the banking book positions.

The Bank has a framework for managing this risk in order to minimize the effects of adverse changes in future interest rates and to ensure timely identification, measurement, monitoring and mitigation of the interest rate risk in banking book. The framework encompasses risk factors and their estimation, measurement methodologies, stress testing methodology, IRRBB metrics and limits as to ensure that this risk is appropriately measured, monitored and managed by establishing and monitoring appropriate limits and utilizing techniques to measure the exposure to risk from changes in interest rates in the banking book.

With respect to the fulfillment of regulatory requirements, as of 31.12.2011, the ratio of total net weighted position to the regulatory capital showed a value of 0.70%, which is well below the regulatory maximum of 20%.

Foreign exchange risk

The system for identifying, measuring, monitoring and controlling the currency risk or f/x risk encompasses all activities and transactions of the Bank which include on-balance and off-balance positions, registered in foreign currencies and in denars indexed with f/x clause. SB balance sheet structure consists of assets and liabilities in different currencies, but dominantly in MKD and EUR currency.

SB manages the currency risk by managing and monitoring the open currency position on a daily basis, ensuring compliance with the regulatory and internal limits of exposure in main currencies individually, as well as on aggregate level.

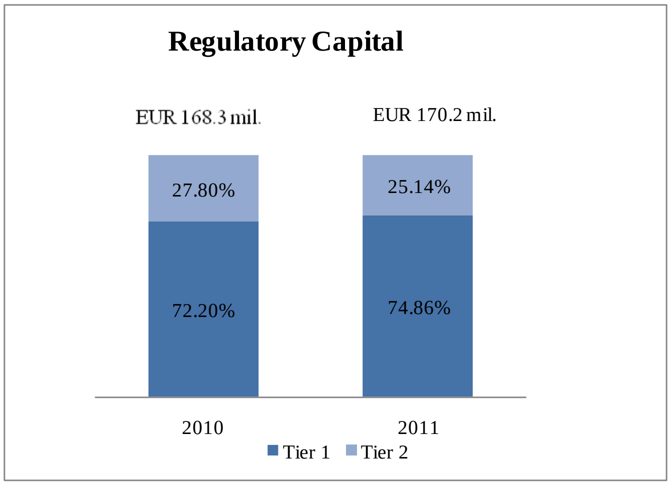
Operational risk management

Operational risk is defined as risk of loss resulting from inadequate or failed internal processes and systems, human factor or external events.

The operational risk management framework of SB is based upon the OR Strategy and OR Policy and Methodologies, documents the adequacy and effectiveness of which are reviewed at least annually, that provide the tools necessary to examine the quantitative and qualitative aspects of the operational risk. Based on these tools, primarily the Risk Control Self-Assessment (RCSA) Process, Loss Data Collection, Key Risk Indicators and Action Plans, the Bank identifies and measures the potential loss events, as well as undertakes corrective actions in order to mitigate or avoid the negative effect on the financial results and capital position.

In 2011, SB successfully finished the forth cycle of RCSA process and further improved the Loss Data Collection process. As ORM governance is based on 3-line defense model, whereas the operational risk correspondents and Business Division Managers are the first line defense, during RCSA process they revised the Bank’s internal processes and the associated potential loss events, and gathered losses that occurred during the year. Also, in accordance with the Bank operational risk profile, few action plans were initiated due to identified high exposure towards certain potential loss events, and due to materialized losses that were above the risk threshold defined in ORM Framework. The second line of defense, Risk Management Division facilitated and controlled this process and based on the Group methodology further improved the ORM framework by introducing the third level of internal risk category as well as standardized list of contributory factors, which gives greater perspective when identifying the cause of a specific event. The third line of defense is the Internal Audit, which is responsible for independently ensuring that the ORM Framework is effective, appropriate and implemented with integrity.

In addition, SB implemented a software solution for operational risk management (AlgoOpVar), which is also implemented at the Group level. This software enables more efficient management of the operational risk, greater overview of the Bank's OR exposure, much better monitoring and recording process of the realized losses, and action plan initiation and follow-up.



Capital adequacy

SB remains on the leading position by capital size, providing opportunities for further development of its business and creating broader base for fulfillment of legal limits.

The Bank objectives when managing capital 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.

As at 31.12.2011, SB regulatory capital was at the level of EUR 170.2 million, out of which EUR 127.4 relates to Tier 1 and EUR 42.8 to Tier 2. The total annual increase is EUR 1.9 million, but the structure is toward better quality of the capital.
SB capital adequacy ratio of 17.64% as at 31.12.2011 remained almost at the same level as at the end of the previous year and was well above the legally prescribed limit of 8%.

Following the established framework for Internal Capital Adequacy Assessment Process (ICAAP), the Bank calculated the internal capital requirement. The Bank has adequate level and quality of capital to cover all material risks to which it is exposed. In addition, we estimate that the identified excess of capital is more than sufficient to cover all other risks that cannot be adequately quantified, but to which the Bank is exposed to in the regular business activities.

Stress test

Stress test exercises are integral part of the risk management framework providing estimates of the size of financial losses and of the impact on capital adequacy. During 2011, the Bank conducted various stress tests in order to analyze its sensitivity to a predetermined set of extreme but plausible shocks. The stress tests included effects from various scenarios regarding credit risk, interest rate risk in the banking book, liquidity risk, currency risk, equity risk and operational risk, as well as scenarios that encompassed combination of the risks.
The stress test results proved the Bank's resilience even under very pessimistic assumptions. Such resilience mainly reflects the prudent risk management, strong capital base, as well as the high liquidity position of the Bank.

Compliance, Anti-Money Laundering and Combating Terrorist Financing activities

In the course of 2011, the activities for implementation of novelties in the domestic and international regulations related to banking operations were closely and continuously monitored and adequately realized in Stopanska Banka AD – Skopje (SB). Moreover, SB Compliance Department adequately conducted additional activities and undertook relevant measures in order to comply with the amendments to regulations related to banking operations:

- continuous implementation of efficient system for controlling SB activities that are in compliance with the applicable domestic and international regulations;
- establishing efficient internal procedures and organizational structures for facing with and managing the possible risks related to SB's compliance with current regulations;
- continuous cooperation with relevant external institutions in accordance with the Banking Law;
- regular, at least monthly and quarterly, reporting to the Board of Directors and Supervisory Board;
- active participation in the operation of AML and Compliance Committee, as well as in the Legal Committee organized within the Banking Association at the Chamber of Commerce;
- ensuring good reputation and credibility of SB before NBG Group, before its shareholders, clients, investors, regulatory and supervisory authorities and other relevant institutions;
- developing Compliance Culture among SB employees as a model of corporate conduct and basis for strengthening the corporate identity, etc.

Considering Anti-Money Laundering (AML) and Combating Terrorist Financing (CTF), it is important to note that, during last year, SB utilized the sophisticated MANTAS AML/CTF Software as a part of NBG Group permanent commitment to prevent money laundering and terrorist financing. Moreover, during 2011, entire AML and CTF IT platform was additionally upgraded and its functionality improved.

According to the Annual Compliance Plan for 2011, the following main projects and activities were also realized in the Compliance Department:

- Adoption and update of several internal acts (Policies and Procedures) related to Compliance and AML/CTF activities;
- Staff trainings related to Compliance and AML/CTF.

During 2012, as it was the case with previous years, SB Compliance Department shall continue to carry out the above activities in order to achieve overall compliance of SB operations with the relevant regulations as its main objective.

CORPORATE GOVERNANCE REPORT 2011

In accordance with the Central Bank regulation regarding Corporate Governance Report, the Shareholders are hereby informed about the following:

1. Bank Bodies

1.1. Supervisory Board

The Statute of Stopanska Banka AD – Skopje stipulates that the Supervisory Board shall be consisted of 8 members, out of which 2 independent ones. The term of office of the members is determined on four years since the day the members receive approval on their appointment by the Governor of the Central Bank. Members of the Supervisory Board are the following:

- Agis Leopoulos, **Chairman of the Supervisory Board of SB,** General Manager of International Activities Division, National Bank of Greece S.A. Athens;

- Dimitrios Frangetis, **Member of the Supervisory Board of SB**, Chief Credit Officer at National Bank of Greece S.A. Athens;

- Konstantinos Bratos, **Member of the Supervisory Board of SB**, Executive Manager for Corporate and Business Banking at United Bulgarian Bank, a member of National Bank of Greece Group, Sofia;
  (The member submitted his resignation from the position Supervisory Board member in July 2011)

- Antonios Karras, **Member of the Supervisory Board of SB,** Deputy Manager of International Activities Division, National Bank of Greece S.A. Athens;
  (The member submitted his resignation from the position Supervisory Board member in July 2011)

- Ioannis Kyriakopoulos[1], **Member of the Supervisory Board of SB,** Deputy General Manager of International, National Bank of Greece S.A. Athens;
  (On 23.09.2011, the Governor of the Central Bank issued prior consent for his appointment as a member of the Supervisory Board)

- Panagiotis Karandreas, **Member of the Supervisory Board of SB,** Head of Sector "B" of International Activities Division, National Bank of Greece S.A. Athens;
  (On 23.09.2011 the Governor of the Central Bank issued prior consent for his appointment as a member of the Supervisory Board)

- Anastasios Lizos, **Member of the Supervisory Board of SB,** Head of Section "A" of International Activities Division, National Bank of Greece S.A. Athens;

- Vladimir Kandikjan, **Independent member of the Supervisory Board of SB,** Professor, Faculty of Law "Justinianus Primus" - University "Cyril and Methodius" Skopje;

- Blagoja Nanevski, **Independent member of the Supervisory Board of SB,** Professor, Integrated Business Faculty - Skopje;

[1] The member submitted his resignation from the position Supervisory Board member in the beginning of 2012.

As stipulated with the laws, the Shareholders Assembly appoints the members of the Supervisory Board. The appropriate qualifications for a Supervisory Board member are:
- university degree, at minimum;
- knowledge of the regulations in banking and/or finance area;
- knowledge in financial industry and environment the bank operates in, experience contributing to stable, safe and efficient management; and
- surveillance of the bank operations.

The member of the Supervisory Board should:
- be honest, competent, and capable of giving independent assessment and have strong personal integrity;
- understand his/her role in the corporate governance and fulfill his/her supervisory role efficiently;
- know the bank's risk profile;
- know the regulations and take care of establishing and maintaining professional relations with the Central Bank and other competent supervisory and regulatory institutions;
- demonstrate loyalty and care for the bank;
- avoid conflict of interest, or possible conflict of interest;
- devote enough time for active fulfillment of his/her obligations;
- estimate the functioning of the Bank's Board of Directors at least once a year, with the Bank's business policy and operating plans being the initial basis.
- assess the efficiency of own operating, identify the weaknesses in the Supervisory Board activities and propose amendments on a periodical basis;
- hold regular meetings with the Board of Directors, Risk Management Committee, Audit Committee and the bank's Internal Audit Department.;
- give proposals for good corporate governance;
- take no participation in everyday management of the Bank

Appropriate criteria for independency, apart from the ones prescribed by Law, shall mean:
- not being an executive or managing director of the Bank or an associated company, and not having been at such position for the previous three years;
- not being an employee of the Bank or an associated company, and not having been at such position for the previous three years;
- not receiving, or having received, significant additional remuneration from the Bank or an associated company apart from a fee received as independent member;
- not being a controlling shareholder or a shareholder with a shareholding of more than 5%, or a director or executive officer of such a shareholder;
- not having, or having had within the last year, a significant business relationship with the Bank or an associated company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship;
- not being or having been within the last three years, a partner or employee of the current or former external auditor of the Bank or an associated company;
- not having served on the Board as a non-executive director for more than five terms; and
- not being a close family member of an executive or managing director or of persons in the situations described above.

When appointing members of the Board of Directors and other Bank bodies, the relevant nominating authorities shall consider, apart from the legal requirements, that the proposed member has appropriate qualifications, personal characteristics, experience and integrity to contribute in the best possible manner to successful operations of the Board of Directors and relevant body.

The responsibilities of the Supervisory Board are the following:
1. approves SB business policy and development plan,
2. appoints and dismisses members of SB Board of Directors,
3. appoints and dismisses members of SB Risk Management Committee,
4. approves SB financial plan/ Budget,
5. approves the establishment and organization of the internal control system,
6. organizes the Internal Audit Division and appoints and dismisses the employees of this Division,
7. approves the annual plan of the Internal Audit Division,
8. approves the information security policy,
9. approves SB risk management policies,
10. approves SB plans and programs of activities, and general acts, other than acts adopted by the Shareholders Assembly,
11. reviews the reports on activities of SB Board of Directors,
12. reviews the reports of SB Risk Management Committee,
13. reviews the reports of the Audit Committee,
14. reviews the reports of the Compliance Officer/Department,
15. approves the annual balance sheet and the financial statements of SB,
16. approves the list of net debtors of SB,
17. approves the exposure to individual entity exceeding 10% of SB own funds,
18. approves the transactions with persons related to SB exceeding MKD 1,000,000,
19. approves the acquiring equity holdings and purchase of securities higher than 5% of SB own funds, other than purchase of securities issued by the Central Bank,
20. approves the proposal of the Audit Committee for appointment of audit company and is responsible for ensuring that an appropriate audit is conducted,
21. approves the internal audit policy and procedures, supervises the appropriateness of procedures and the efficiency of operations of the Internal Audit Division and reviews its reports,
22. reviews the supervisory reports, other reports submitted by the Central Bank, the Public Revenue Office and other competent bodies and proposes, i.e. undertakes measures and activities for addressing the identified non-compliances and weaknesses in SB operations,
23. approves the annual report on SB operations and submits written opinion thereon to SB Shareholders Assembly,
24. reviews the report of the audit company and submits written opinion thereon to the Shareholders Assembly,
25. provides written opinion on the annual report of the Internal Audit Division to the Shareholders Assembly of SB,
26. approves SB Code of ethics, and
27. approves the Rules and Procedures for operations of the Audit Committee.

None of the Supervisory Board members reported any conflict of interest.

1.2. Audit Committee

SB Audit Committee consists of five members, where majority are members of the Supervisory Board.

The Audit Committee members are:

- Zorica Bozinovska Lazarevska;
- Antonio Veljanov;
  - Dimitrios Frangetis, member of the Audit Committee until 23.09.2011
  - Anastasios Lizos, member of the Audit Committee until 23.09.2011
- Ioannis Kyriakopoulos[2]
- Panagiotis Karandreas
- Vladimir Kandikjan.

At its 27th meeting held on 27.07.2011, the Shareholders Assembly appointed Mr. Ioannis Kyriakopoulos and Mr. Panagiotis Karandreas as new members of the Audit Committee of SB and determined the termination of the term of office to the members of the Audit Committee Mr. Dimitrios Frangetis and Mr. Anastasios Lizos. In accordance with the Banking Law, their appointment entered into force after the date the appointed members received relevant approvals from the Governor of the Central Bank on their appointment as Supervisory Board members.

The Audit Committee responsibilities are as follows:
1. to review the financial statements of SB and make sure that the disclosed financial information on SB operations is accurate and transparent as specified by the accounting regulations and international accounting standards,
2. to review and make assessment of the internal control systems,
3. to monitor the operations and assess the efficiency of the Internal Audit Division,
4. to monitor SB audit process and assess the work of the audit company,
5. to adopt SB accounting policies,
6. to monitor the compliance of SB operations with the regulations related to the accounting standards and financial statements,
7. to hold meetings with the Board of Directors, the Internal Audit Division and the audit company as to the identified non-compliances with the regulations and weaknesses in the Bank operations,
8. to review the reports of the Risk Management Committee,
9. to propose an audit company, and
10. to report to SB Supervisory Board on its operations at least once quarterly.

[2] The member submitted his resignation from the position Supervisory Board and Audit Committee member in the beginning of 2012.

1.2. Board of Directors

In accordance with the Statute of SB, the Board of Directors of SB consists of five members (Chairman of the Board of Directors and four deputies) namely, Chief Executive Officer/Chairman of the Board of Directors, Chief Corporate Officer, Chief Retail Officer, Chief Risk Officer and Chief Finance and Operations Officer. As of 31 December 2011, the Board of Directors members were:

1. Gligor Bishev, Chief Executive Officer and Chairman of the Board of Directors;

2. Konstantina Panagiotopoulou[3], Chief Retail Officer and member of the Board of Directors;

3. Toni Stojanovski, Chief Risk Officer and member of the Board of Directors

4. Diomidis Nikoletopoulos, Chief Finance and Operations Officer and member of the Board of Directors, and

5. Theodoulos Skordis, Chief Corporate Officer and member of the Board of Directors

The Board of Directors responsibilities are the following:
1. to manage SB,
2. to represent SB,
3. to enforce the decisions of the Shareholders Assembly and the Supervisory Board of SB, i.e. make sure that they are implemented,
4. to take initiatives and give proposals for promotion of SB operations,
5. to appoint and dismiss the persons with special rights and responsibilities pursuant to the provisions under the Banking Law and SB Statute,
6. to prepare SB business policy and development plan,
7. to prepare SB financial plan / Budget;
8. to compile a list of net debtors,
9. to prepare SB information security policy,
10. to prepare an annual report on SB operations and submit it to the Supervisory Board,
11. to prepare a Code of Ethic of the Bank, and
12. to perform other activities, in accordance with Law, SB Statute and acts.

1.3. Risk Management Committee

As at 31 December 2011, SB Risk Management Committee consisted of 9 members, as follows:

1. Gligor Bishev - CEO and Chairman of the Board of Directors of SB, Chairman;
2. Toni Stojanovski - Chief Risk Officer of SB and member of the Board of Directors of SB, member;

[3] The member resigned from the position member of the Board of Directors and Chief Retail Officer of Stopanska Banka AD – Skopje in Q4 of 2011.

3. Diomidis Nikoletopoulos - Chief Finance and Operations Officer and member of the Board of Directors, member;
4. Konstantina Panagiotopoulou [4]- Chief Retail Officer and member of the Board of Directors, member;
5. Theodoulos Skordis - Chief Corporate Officer of SB and member of the Board of Directors;
6. Vlado Treneski - Manager of Corporate Banking Division;
7. Mirjana Trajanovska - Manager of Treasury Division;
8. Mirko Avramovski - Manager of Collection Division;
9. Manager of Risk Management Division.

The responsibilities of RMC are the following:
1. permanently monitors and assesses the risk level of SB, and identifies the acceptable level of exposure to risks in order to minimize the losses as a result of SB risk exposure,
2. establishes risk management policies and monitors their implementation,
3. follows the regulations of the Central Bank pertaining to the risk management and SB compliance with such regulations,
4. assesses SB risk management systems,
5. determines short-term and long-term strategies for managing certain types of risks SB is exposed to,
6. analyzes the reports on SB risk exposure developed by SB risk assessment units and proposes risk hedging strategies, measures and instruments,
7. monitors the efficiency of the internal control systems in the risk management,
8. analyzes the risk management effects on SB performances,
9. analyzes the effects of the proposed risk management strategies, as well as the proposed risk hedging strategies, measures and instruments,
10. informs, at least once a month, SB Supervisory Board, and at least once every three months, SB Audit Committee, on the changes in SB risk positions, changes in the risk management strategies, the risk management effects on SB performances, as well as the undertaken measures and instruments for hedging the risks and the effects thereof, and
11. reviews the transactions with the persons related to SB on a quarterly basis, and submits report to the Supervisory Board by 15th day in the month following the reporting period.

1.4. Other SB Bodies:

Other SB bodies are the SB Credit Committees, as follows:

1. Executive Corporate Credit Committee (ECCC): it consists of 5 members, decides on credit exposure towards single subject (legal entity or individual) for financing in the amount from EUR 3,000,001 up to EUR 10.000.000. All financing that exceed 10% of SB own funds shall be approved by SB Supervisory Board. ECCC also approves restructuring of claims and regulating of claims in accordance with the applicable credit policies, and performs other activities determined by a decision of SB Supervisory Board;
2. Credit Committee (CC): it consists of 5 members, decides on credit exposure towards a single party (legal entity or individual) in the amount from EUR 500,001 to EUR 3,000,000. CC also

[4] The member resigned from the position member of the Board of Directors and Chief Retail Officer of Stopanska Banka AD – Skopje in Q4 of 2011.

approves restructuring of claims and regulating of claims in accordance with the applicable credit policies, and performs other activities determined by a decision of SB Supervisory Board;
3. Commercial Clients Credit Committee (CCCC): it consists of 4 members, decides on credit exposure towards a single party – legal entity from EUR 100,001 to EUR 500,000 and towards a single party – individual from EUR 100,001 to EUR 500,000. CCCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies, and performs other activities determined by a decision of SB Supervisory Board;
4. Small Banking Business Credit Committee (SBBCC): it consist of 3 members, decides on credit exposure towards a single party – legal entity in amount up to EUR 100,000. SBBCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies, and performs other activities determined with decision of SB Supervisory Board;
5. Retail Credit Committee (RCC): consists of 5 members, decides on credit exposure towards a single party – individual in the amount up to EUR 100,000. RCC also approves restructuring of claims and regulating of claims in accordance with applicable credit policies, and performs other activities determined by a decision of SB Supervisory Board;

2. Organizational Structure

As of 31 December 2011, the Bank was organized in 18 divisions, as follows: Internal Audit Division, Treasury Division, Human Resources Division, Corporate Banking Division, Underwriting Division, Product Management Division, Sales and Branch Network Division, Risk Management Division, Collections Division, Retail Credit Risk Division, Legal Division, Information Technology Division, Accounting Division, Budgeting and Financial Reporting Division, Payment Operations Division, Loan Administration Division, Administrative Support Division, and Business Processes and Organization Division, and independent units directly accountable to the Board of Directors performing the Compliance and Information Security functions. Stopanska Banka branch network was organized in 64 units (branches and sub-branches) in total. SB has no subsidiaries.

3. Shareholders Structure

As of 31 December 2011 the initial capital (basic capital) consisted of 17,460,180 ordinary shares at the nominal value of MKD 201.1 per share and 227,444 preferred shares at the nominal value of MKD 400.00 per share, distributed as follows: National Bank of Greece S.A. – Athens with 94.6%, and 5.4 % of the total number of shares held by other shareholders. One ordinary share bears the right to one vote in the Shareholders Assembly of SB and preferred shares do not bear the right to vote in the Shareholders Assembly. The major shareholder of SB – National Bank of Greece represented by the total of 6 members and other two independent members constitute SB Supervisory Board.

4. Corporate Governance Code

The Corporate Governance Code was prepared in accordance with the Central Bank Decision on the best principles of Corporate Governance in a bank and international practices. The Shareholders Assembly adopted the Code on the 20th meeting held on December 23, 2008 and in accordance with the said Central Bank Decision, reviewed the same at the Shareholders Assembly held on May 27, 2011.

5. Conflict of Interest Policy

The policy for conflict resolution is determined in accordance with the Banking Law and SB Statute and stipulates the following: the persons with special rights and responsibilities shall make a written statement on the existence, if any, of a conflict of their personal interest with the interest of SB, regularly every six months. Personal interest shall also include interests of the related parties connected thereto, as defined by the Banking Law. Conflict between the personal and the Bank's interest shall exist when financial, or any other type of business or family interests of the persons are concerned by the adoption of decisions, concluding agreements or performing other business activities. Realization of financial, business and family interest shall imply generation of monetary or other type of benefit, directly or indirectly, by the persons. The persons shall not attend the discussion and adoption of decisions, conclude agreements, or perform other business activities if their objectivity is questionable due to the existence of a conflict between their personal interest and the interest of SB. Statement on existence of a conflict of interests shall also be given before the meeting for discussing and adopting decisions, concluding agreements, or performing other business activity. The written statement shall be submitted to SB Supervisory Board and Board of Directors, indicating the reason underlying the conflict between the personal and SB interest.
If the person conceals the existence of a conflict of interests, the Central Bank and any other party which has legal interest may require annulment of the legal matter to the competent court in accordance with the law.

6. Remuneration Policy

All Supervisory Board members are entitled to reimbursement for their participation at the Supervisory Board meetings in accordance with the Shareholders Assembly Decision on reimbursement for participation (A.D. No. 21/03.05.2001), i.e. EUR 200 per month. In accordance with NBG Board of Directors Decision passed at the meeting held on 28 September 2006, all officers of NBG SA Athens who participate in the Boards of banks or companies within NBG Group, in this case Greece based members of the Supervisory Board of SB, did not receive any remuneration for their participation as Supervisory Board members.

In 2011, total gross amount of MKD 246,910 thousand was paid to the members of the Board of Directors and to the persons with special rights and responsibilities as remuneration package (salary MKD 246,169 thousand and rewards MKD 753,780). During 2011, the exposure of MKD 518,723 thousand was approved to persons with special rights and responsibilities.