Financial Statements and Independent Auditors' Report

Universal Investment Bank AD, Skopje

31 December 2012

Contents

Grant Thornton

Independent Auditors' Report

Grant Thornton DOO
M.H.Jasmin 52 v-1/7
1000 Skopje
Macedonia

T +389 (2) 3214 700
F +389 (2) 3214 710
www.grant-thornton.com.mk

To the Shareholders of

Universal Investment Bank AD, Skopje

We have audited the accompanying financial statements of Universal Investment Bank AD, Skopje (the "Bank") which comprise of the Statement of financial position as at 31 December 2012 and the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 57.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 misstatements. 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 Bank'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 Bank'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.

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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 the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank as of and for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 23 April 2012.

Grant Thornton

Grant Thornton,

Skopje,
8 March 2013

Statement of comprehensive income

	Notes	2012	2011
			(In 000 MKD) For the year ending 31 December
Interest income		791,864	795,295
Interest (expense)		(363,208)	(398,003)
Net interest income	5	**428,656**	**397,292**
Fee and commission income		230,686	215,609
Fee and commission (expense)		(105,604)	(87,627)
Net fee and commission income	6	**125,082**	**127,982**
Net foreign exchange gains		26,195	27,802
Other operating income	7	49,113	17,776
Operating income		**629,046**	**570,852**
Release of impairment provision/ Impairment (losses) on financial assets, net	8	4,602	(26,104)
Personnel expenses	9	(216,325)	(207,845)
Amortization and depreciation	18,19	(54,176)	(37,074)
Other operating expenses	10	(268,916)	(251,174)
Operating (expenses)		**(534,815)**	**(522,197)**
Profit before tax		**94,231**	**48,655**
Income tax (expense)	11	(897)	(1,296)
Net profit for the year		**93,334**	**47,359**
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**93,334**	**47,359**
Earnings per share			
Basic and diluted earnings per share (in Denars)	12	176	89

Statement of financial position

(In 000 MKD)

	Notes	As at 31 December 2012	2011
Assets			
Cash and cash equivalents	13	1,916,273	1,741,041
Loans and advances to banks	14	639,967	396,337
Loans and advances to customers	15	6,612,123	6,291,937
Investment securities	16	1,020,564	1,291,341
Foreclosed assets	17	245,828	69,526
Intangible assets	18	147,045	133,554
Property and equipment	19	524,400	536,659
Other receivables	20	84,853	89,850
Total assets		**11,191,053**	**10,550,245**
Liabilities			
Due to banks	21	227,041	147,361
Due to customers	22	9,249,189	8,880,836
Borrowings	23	282,941	188,804
Subordinated liabilities	24	272,420	272,442
Provisions and special reserve	25	1,830	2,874
Other liabilities	26	78,232	71,653
Total liabilities		**10,111,653**	**9,563,970**
Equity and reserves			
Share capital	27	545,987	545,987
Share premium		510,387	510,387
Reserves		57,553	57,553
Accumulated (losses)		(34,527)	(127,652)
Total equity and reserves		**1,079,400**	**986,275**
Total liabilities, equity and reserves		**11,191,053**	**10,550,245**
Commitments and contingencies	28	343,953	349,738

These financial statements have been authorized by the Bank's Supervisory Board on 8 March 2013.

Signed on behalf of Board of Directors by:

UNIVERZALNA INVESTICIONA BANKA AD SKOPJE

Kosta Mitrovski	**Svetozar Popov**	**Delco Krstev**
Chairman of the Managing Board, Executive Director	Member of the Managing Board, Executive Director	Member of the Managing Board, Executive Director

Statement of changes in equity

(In 000 MKD)	Share capital	Share premium	Revaluation reserves	Other reserves	Retained earnings	Total equity
At 01 January 2011	**545,987**	**510,387**	**(2,615)**	**60,168**	**(175,011)**	**938,916**
Transactions with owners	-	-	-	-	-	-
Profit for the year	-	-	-	-	47,359	47,359
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	47,359	47,359
At 31 December 2011	**545,987**	**510,387**	**(2,615)**	**60,168**	**(127,652)**	**986,275**
At 01 January 2012	**545,987**	**510,387**	**(2,615)**	**60,168**	**(127,652)**	**986,275**
Correction (Note 20)	-	-	-	-	(209)	(209)
At 01 January 2012 restated	**545,987**	**510,387**	**(2,615)**	**60,168**	**(127,861)**	**986,066**
Transactions with owners	-	-	-	-	-	-
Profit for the year	-	-	-	-	93,334	93,334
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	93,334	93,334
At 31 December 2012	**545,987**	**510,387**	**(2,615)**	**60,168**	**(34,527)**	**1,079,400**

Statement of cash flows

	Notes	2012	2011
		(In 000 MKD)	
		Year ended 31 December	
	Notes	2012	2011
Operating activities			
Profit before taxation		94,231	48,655
Adjustment for:			
Amortization and depreciation		54,176	37,074
Release of impairment provision/ Impairment (losses) on financial assets, net		(4,602)	26,104
Impairment losses on foreclosed assets		1,604	-
Release of impairment provision and special reserve, net		(1,044)	(3,059)
Dividend income		(2,083)	(362)
(Gains) from property and equipment sold		-	(268)
(Gain) from foreclosed assets sold		(551)	-
Loss from intangible assets sold		-	279
Interest income		(791,864)	(795,295)
Interest expense		363,208	398,003
Other corrections		22	(21)
(Loss) before changes in operating assets and liabilities		(286,903)	(288,890)
Changes in operating assets and liabilities			
Loans and advances to banks		(242,997)	51,245
Obligatory reserves in foreign currency		30,686	(14,521)
Loans and advances to customers		(314,801)	(477,147)
Foreclosed assets		(177,355)	(25,449)
Other receivables		(49,778)	(5,610)
Due to banks		77,369	2,949
Due to customers		342,885	438,845
Other liabilities		6,579	685
(Loss) after changes in operating assets and liabilities		(614,315)	(317,893)
Proceeds from interest		749,620	755,765
Interests (paid)		(335,314)	(332,123)
Income tax (paid)		(3,265)	(1,446)
		(203,274)	**104,303**
Investment activities			
(Purchase) of property, plant and equipment and intangible assets, net		(55,408)	(304,372)
(Purchase) / Sale of investment securities, net		314,109	(378,041)
Other inflows from investment activities		1,283	362
		259,984	**(682,051)**
Financial activities			
Proceeds from loans		170,003	294,660
(Repayment of) loans		(75,981)	(236,863)
		94,022	**57,797**
Net change in cash and cash equivalents		**150,732**	**(519,951)**
Cash and cash equivalents, beginning of the year		1,281,920	1,801,871
Cash and cash equivalents, end of the year	**13**	**1,432,652**	**1,281,920**

Notes to the Financial Statements

1 General information

Universal Investment Bank, Skopje (hereinafter "the Bank") is a Shareholding Company incorporated in the Republic of Macedonia. The address of its registered head office is:

St. Maksim Gorki 6, 1000 Skopje, Republic of Macedonia.

The Bank is licensed to perform all banking activities in accordance with the law. The main activities include commercial lending, receiving of deposits, payment operation services in the country and abroad, foreign exchange deals, trust activities and other services.

The Bank's shares are quoted at Macedonian Stock Exchange, at the regular market for companies with special reporting obligations. The quotation code is the following:

Code of shares	ISIN
UNI (ordinary share)	MKBLBA101011
UNI (preference shares)	MKBLBA120011

The total number of employees in the Bank as at 31 December 2012 and 2011 is 392 employees, and 377 employees, respectively.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

2.1 Basis for preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) that were issued by the International Accounting Standards Board (IASB). Financial statements have been prepared in accordance with the concept of historical cost convention except for securities available for sale that are measured at fair value. Bases for measuring each kind of asset, liability, income and expense are disclosed further within this Note.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank's management to exercise judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The financial statements have been prepared as at and for the years ended 31 December 2012 and 2011. The financial statements are presented in Macedonian Denar ("MKD"), which is the Bank's functional currency Current and comparative data stated in these financial statements are expressed in Denar thousands. Where necessary, comparative figures have been adjusted to conform to the changes in presentation for the current year.

2.2 Changes in accounting policies and disclosures

a) Adoption of 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1)

The Bank has adopted 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1). The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to group items presented in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met. The existing option to present items of OCI either before tax or net of tax remains unchanged; however, if the items are presented before tax, then the Amendments to IAS 1 require the tax related to each of the two groups of OCI to be shown separately.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Bank's management has yet to assess the impact of this new standard on the Bank's consolidated financial statements. However, Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of new consolidation standards is effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. Management has not yet completed its assessment of the impact of these new and revised standards on the Bank's consolidated financial statements.

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation – Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Bank's investees are considered to be subsidiaries and therefore change the scope of consolidation. However, the requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Bank's existing investees at 31 December 2012.

Changes in accounting policies and disclosures (continued)

IFRS 11 'Joint Arrangements' (IFRS 11)

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Transition guidance for IFRS 10, 11, 12

Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The new guidance is also effective for annual periods on or after 1 January 2013.

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)

IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank's consolidated financial statements.

Amendments to IAS 19 'Employee Benefits' (IAS 19 Amendments)

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognize all actuarial gains and losses arising in the reporting period
- changes the measurement and presentation of certain components of defined benefit cost
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The IAS 19 Amendments are effective for annual periods beginning on or after 1 January 2013 and will apply retrospectively.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

Changes in accounting policies and disclosures (continued)

The Amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the Bank's consolidated financial statements from these Amendments.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognized financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the Bank's consolidated financial statements from these Amendments.

Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the Bank are summarized below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

Tax effect of distribution to holders of equity instruments:

- addresses a perceived inconsistency between IAS 12 'Income Taxes' (IAS 12) and IAS 32 'Financial Instruments: Presentation' (IAS 32) with regards to recognizing the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the Bank's consolidated financial statements from these Amendments.

2.3 Foreign currency transactions

Transactions in foreign currencies are translated to Macedonian Denars at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian Denars at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in Macedonian Denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Macedonian Denars at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss.

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD).The exchange rates used for translation at 31 December 2012 and 2011 were as follows:

	2012 MKD	2011 MKD
1 EUR	61,5000	61,5050
1 USD	46,6510	47,5346

2.4 Off-setting

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

2.5 Interest income and expenses

Interest income and expense are recognized in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, (transaction costs, and discounts or premiums) that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and liabilities at amortized cost on an effective interest rate basis;
- interest on available-for-sale investment securities calculated on an effective interest rate basis.

2.6 Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, guarantees, letters of credit, domestic and foreign payment operations and other services, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized as an income at the moment of payment.

Other fees and commission expenses relate mainly to financial service fees, which are expensed as the services are received.

2.7 Dividends

Dividend income is recognized when the right to receive income is established. Dividends are reflected as a component of net trading income, or dividend income based on the underlying classification of the equity instrument.

2.8 Lease payments made

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

2.9 Current and deferred income tax

Income tax at 10% rate is paid to non – deductible items for tax purposes adjusted for tax credit, less recognized income, as well as on the distributed income for dividends to legal entities – nonresidents and to individuals. Undistributed profit (retained earnings) is exempt of taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Bank has not recognized any deferred tax assets or liability as at 31 December 2012 and 2011, as there are no temporary differences existing at those dates.

2.10 Financial assets and liabilities

Recognition

The Bank initially recognizes loans and advances, deposits and borrowings on the date at which they are originated at cost. Regular way purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Classification

The Bank classifies its financial assets into the following categories: loans and receivables, held to maturity and available for sale (see accounting policies 2.12, 2.13 and 2.14).

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Financial assets and liabilities (continued)

Fair value measurement

Fair value can be assessed differently, depending on whether or not the asset or liability is traded in an active market.

Active market: Fair value

A financial asset is considered to be traded in an active market if the published prices are readily and regularly available from the Stock Exchange, dealers, brokers, over the counter, industry groups or regulatory agencies and those prices represent the current and regular market transactions on normal, commercial basis. The appropriate quoted market price for an asset held or a liability that is to be issued is usually the current market (buying) price; for an asset that is about to be acquired or a liability held it is the current selling price.

Absence of an active market: Valuation techniques

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique in the following order:

- Application of information on negotiated prices for recent (from the past 6 months), normal commercial transactions for the same financial instrument between informed, willing parties
- If the previous valuation technique cannot be applied (there is no information available on the negotiated prices for recent transactions concerning the same financial instrument) then to determine the fair value the current market price of another, basically same, instrument should be used (in regards to the currency or the same or similar maturity date);
- If the information for fair value of the previous two techniques is inappropriate or cannot be applied, the fair value of the financial instrument is determined through analysis of the discounted cash flows or other alternative models for price determination.

The analysis of discounted cash flows is an important and frequently applied technique for determining the fair value of many assets and liabilities. One of the most important factors in the application of this technique is the determination of an appropriate discount rate.

Discount rate should include:
- Uncertainties and risks from cash flow assessment, related to certain asset or liability, due to the fact that those risks and uncertainties will change
- The measurement purpose

If the fair value of equity instruments not traded in an active market and the derivatives related to them which have to be settled with unquoted equity instruments cannot be reliably measured, those instruments should be assessed at their cost.

2.11 Impairment of financial assets

The Bank assesses, on a quarterly basis, whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably

The Bank analyses impairment evidence on loans, receivables and securities on individual and collective basis. All individually significant loans and receivables are analyses on an individual basis.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for Management's judgment as to whether current economic and credit conditions are such that actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognized through the unwinding of the discount. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income

2.12 Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid financial assets with original maturities of three months or less, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term liabilities.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.13 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near future.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

2.14 Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit and loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method. If the Bank buys debt securities classified as held-to-maturity, with discount or premium, the amount of the obtained discount or premium will be recorded on the discount or premium accounts within the appropriate group of accounts for investments in held-to-maturity securities. Other commissions and fees that are integral part of the effective interest rate, as well as transaction costs directly related to the transaction, are recorded on the accumulated amortization accounts within the appropriate group of investing accounts for held-to-maturity debt securities.

A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

Investment securities (continued)

Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

2.15 Repo agreements

In repo agreements, the seller retains all the risks and benefits that arise from ownership of the asset and the seller recognizes the assets subject to the repo contract in the statement of financial position, in their original position, and estimates the financial instruments in accordance with the accounting policy for the related asset. On the liabilities side, the seller recognizes liability for the amount received from the buyer. The securities that are the subject of the repo contract are treated as collateral for the contract.

Borrowed securities (Securities lending agreement)

In securities lending agreement, the borrower of the securities does not retain all the risks and benefits arising from the ownership of the asset as there is obligation to return the same class of financial instruments to the lender of the securities on a pre-arranged date. As a result of the lending arrangement, the risks (i.e. the borrower's credit risk) and the rights (right for registration, dividends) also remain with the lender of the securities. Consequently, the borrowed securities remain in the lender's statement of financial position. The borrower does not recognize the securities in the statement of financial position.

2.16 Foreclosed assets

Foreclosed assets are recognized upon completed legal procedure to foreclose and to entitle asset with the ownership. Foreclosed assets are stated at the lower of carrying amount and fair value less costs to sell. At the moment of recognition of the foreclosed asset, the receivable is derecognized from the Statement of financial position. At least once in a year the Bank is required to provide appraisal of the value of already foreclosed assets and recognize impairment loss in the profit or loss.

Before 31 December 2011, the impairment loss for already foreclosed assets is assessed as a difference between fair value less costs to sell and carrying amount. When the fair value less costs to sell is lower than its carrying amount, impairment loss is recognized in profit or loss.

After June 2012 the Bank recognized the impairment loss for the already foreclosed asset in the income statement equal at least to the higher amount of:

- the difference between the appraised value, reduced by the selling costs and the initial accounting value, reduced by the total amount of impairment loss

-20% of the initial accounting value reduced by the total amount of impairment loss.

Foreclosed assets (continued)

By exception to items above, for the assets foreclosed after 1 January 2010, the deadline and the requirement for impairment loss recognition shall start from 1 July 2014, while the Bank shall be required to make the first recognition of the impairment loss for these assets until 1 January 2015 at the latest.

Until 1 July 2014, for these assets the Bank shall be required to recognize impairment loss in the income statement equal to the difference between the appraised value, reduced by the selling costs and the initial accounting value, reduced by the total amount of impairment loss.

If the Bank fails to sell the foreclosed assets within five years it shall be required at the end of the fifth year to reduce the value of the already foreclosed asset to zero.

Foreclosed assets are derecognized upon sale of the asset, termination of use of the asset and after the expiration of the fifth year. Realized gain from sale of the asset is recognized in the profit or loss at the moment of sale.

2.17 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Depreciation rates, based on the estimated useful lives for the current and comparative period are as follows:

	%	
	2012	2011
Buildings	2,5	2,5
Equipment	14,3-25	14,3-25

Depreciation methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.

2.18 Intangible assets

Recognition and measurement

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in profit and loss as incurred.

Amortisation

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible assets. The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

		%
	2012	**2011**
Software	10	10
Rights and licenses	10	10

2.19 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that continually generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses are recognized in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a proportional basis.

The recoverable amount of an asset or a cash generating unit (CGU) is the greater amount of its fair value less costs to sell and its value in use. In assessing value in use , the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2.20 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and, except for the leased assets, they are not recognized in the Bank's statement of financial position.

2.21 Deposits, borrowings, debt securities issued and subordinated liabilities

Deposits, borrowings, debt securities issued and subordinated liabilities are the Bank's sources of debt funding. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

2.22 Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

2.23 Employee benefits

Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably

Other long-term employee benefits

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement and jubilee awards. The employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement.

2.24 Share capital and reserves

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of equity instruments are recognized as a deduction from equity.

Repurchase of share capital

Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold subsequently the amount received is recognized as an increase on equity, and the resulting surplus or deficit of the transaction is transferred to/from share premium.

Reserves

Reserves are generated throughout the period, based on distribution of profit in accordance with legal regulation and the Decisions made by the Bank's Assembly

Dividends

Dividends are recognized as a liability in the period in which they are declared.

2.25 Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.26 Segment reporting

A segment is a component of the Bank that can be distinguished and engaged in either the provision of products or services (operating/business segment) or the provision of products and services for certain economic areas (geographic segment) and is subjected to risks and rewards different from other segments. The Bank reports by primary operating segments.

2.27 Events after the reporting date

Events after the reporting period that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3 Financial risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Managing Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Managing Board has established the Asset and Liability Committee ("ALCO"), Credit Committee and the Supervisory Board has established Risk Management Committee which is responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees report regularly to the Managing Board and Supervisory Board respectively.

The Bank's risk management policies are established to identify and analyses the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank's Risk Management Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank and the Bank`s compliance with the requirements of the NBRM related to the risk management. The Bank's Risk Management Committee is assisted in these functions by the Internal Audit. The Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, issued guarantees and letters of credits and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual debtor's default risk, country and sector's risk).

Credit risk (continued)

Management of credit risk

The Managing Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures up to EUR 500 thousand. All credit exposures over EUR 500 thousand must be approved by the Supervisory Board. Separate Bank's Credit departments (Department for Corporate Loans, Department for Retail loans and Credit Card Department) in close cooperation with Risk Management Department are responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies,* covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Reviewing and assessing credit risk.* Credit departments assess all credit exposures in excess of designated limits, prior to facilities being committed to customers.

- *Limiting concentrations of exposure* to geographies and industries (for loans and advances), and by issuer, credit rating assessment by respective institutions, market liquidity and country (for investment securities).

- *Banks's credit risk grading* in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of six grades reflecting various degrees of risk of default and the availability of collateral.

- *Reviewing compliance* with agreed exposure limits, including those for industries, country risk and product types. Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Risk Management Committee, and appropriate corrective action is taken.

Credit departments are required to implement credit policies and procedures and in assistance with the Risk Management Department are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of Credit departments' processes are performed by the Internal Audit.

Credit risk (continued)

Analysis of maximum exposure to credit risk

in Denar thousand	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Securities available for sale		Securities held to maturity		Other receivables		Commitments and contingencies		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Individually impaired																
Risk category A	-	-	-	-	5,023,901	3,315,659	10,985	14,751	-	-	7,849	74,645	326,745	336,778	5,369,480	3,741,833
Risk category B	-	-	-	-	358,057	318,768	-	-	-	-	4,120	792	398	9,140	362,575	328,700
Risk category V	-	-	-	-	147,336	237,134	-	-	-	-	569	1,405	4,305	2,848	152,210	241,387
Risk category G	-	-	-	-	51,982	30,871	-	-	-	-	1,336	1,013	-	-	53,318	31,884
Risk category D	-	-	-	-	236,921	198,992	2,378	-	-	-	13,165	11,152	-	-	252,464	210,144
Net carrying value before provision for impairment	-	-	-	-	5,818,197	4,101,424	13,363	14,751	-	-	27,039	89,007	331,448	348,766	6,190,047	4,553,948
(Provision for impairment)	-	-	-	-	(352,664)	(354,379)	(1,372)	(1,372)	-	-	(14,286)	(7,834)	(1,830)	(2,871)	(370,152)	(366,456)
Net carrying value less provision for impairment	**-**	**-**	**-**	**-**	**5,465,533**	**3,747,045**	**11,991**	**13,379**	**-**	**-**	**12,753**	**81,173**	**329,618**	**345,895**	**5,819,895**	**4,187,492**
Collectively impaired																
Individually insignificant exposures (small loans portfolio)	-	-	-	-	810,603	846,741	-	-	-	-	2,127	3,701	-	-	812,730	850,442
Separately significant exposures that are not individually impaired	-	-	-	-	-	1,455,645	-	-	-	-	-	445	-	1,257	-	1,457,347
(Provision for impairment loss and a special reserve on a collective bases)	-	-	-	-	(9,048)	(13,683)	-	-	-	-	(14)	-	-	(3)	(9,062)	(13,686)
Net carrying value less provision for impairment	**-**	**-**	**-**	**-**	**801,555**	**2,288,703**	**-**	**-**	**-**	**-**	**2,113**	**4,146**	**-**	**1,254**	**803,668**	**2,294,103**
Neither, past due nor impaired																
Risk category A	553,603	1,741,041	639,967	396,337	343,802	253,423	59,348	-	949,225	1,277,962	27,107	99	14,335	2,589	2,587,387	3,671,451
Net carrying value	**553,603**	**1,741,041**	**639,967**	**396,337**	**343,802**	**253,423**	**59,348**	**-**	**949,225**	**1,277,962**	**27,107**	**99**	**14,335**	**2,589**	**2,587,387**	**3,671,451**
															-	-
Past due, but not impaired															-	-
Risk category A	-	-	-	-	1,233	2,766	-	-	-	-	-	-	-	-	1,233	2,766
Net carrying value	**-**	**-**	**-**	**-**	**1,233**	**2,766**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,233**	**2,766**
Net carrying value	**553,603**	**1,741,041**	**639,967**	**396,337**	**6,612,123**	**6,291,937**	**71,339**	**13,379**	**949,225**	**1,277,962**	**41,973**	**85,418**	**343,953**	**349,738**	**9,212,183**	**10,155,812**

Credit risk (continued)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system.

Past due, but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The Bank calculates impairment, and makes a special reserve within the following limits:

- From 0% to 10% of the credit risk exposure classified in risk category "A".
- Over 10% to 25% of the credit risk exposure classified in risk category "B".
- Over 25% to 50% of the exposure of credit risk classified in risk category "C".
- Over 50% to 75% of the exposure of credit risk classified in risk category "D".
- Over 75% to 100% of the exposure of credit risk classified in risk category "E".

Write-off policy

The Bank writes off a loan/ investment debt security balance (and any related allowances for impairment) when the Supervisory Board determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Bank can also write off a loan/security balance (and any related allowances for impairment) on the base of a court decision when all other means for collection had expired.

Credit risk (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk category:

in Denar thousand

2012	Loans and receivables from customers	
	Gross	Impairment provision
Risk category A	5,023,901	(24,282)
Risk category B	358,057	(37,508)
Risk category V	147,336	(47,357)
Risk category G	51,982	(28,387)
Risk category D	236,921	(215,130)
	5,818,197	**(352,664)**
2011		
Risk category A	3,315,659	(24,625)
Risk category B	318,768	(35,133)
Risk category V	237,134	(96,982)
Risk category G	30,871	(17,279)
Risk category D	198,992	(180,360)
	4,101,424	**(354,379)**

The Bank holds collateral against loans and advances to customers in the form of mortgage, movable property, and other registered securities over assets, cash deposits, lien over shares, guarantees, administrative blockage and other forms of collateral. Estimates of fair value are based on the value of collateral assessed at the time of lending.

According the Credit policy, depending on pledged collateral the Bank has the following types of loans:

- Mortgage loans;
- Loans with lien of movable property;
- Lombard loans with pledged shares;
- Loans with pledged shares;
- Loans with guaranties from third parties;
- Loans with administrative blockage;
- Loans covered by cash deposit;
- Other types of loans, including rights of tangible and intangible assets with determined price.

Credit risk (continued)

Value of collateral (fair value) estimated for the purposes of protection against credit risk

in Denar thousand 2012	Loans and receivables from customers	Cash and cash equivalents	Other receivables	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment					
First-class security instruments					
- cash deposits (in a depot and/or limited to bank account)	316,026	5	22	94,954	411,007
-bank guarantees	-	-	-	15,621	15,621
-corporate guarantees	-	-	96	151,792	151,888
Property and equipment under pledge	11,731,097	92	1,732	1,021,674	12,754,595
Other types of security	5,251,754	131	555	893,530	6,145,970
	17,298,877	**228**	**2,405**	**2,177,571**	**19,479,081**
Value of collateral for credit risk exposures subject to collective impairment					
First-class security instruments					
- cash deposits (in a depot and/or limited to bank account)	2,704	-	96	135	2,935
-corporate guarantees	4	-	-	111	115
Guarantees from individuals	90,445	-	-	-	90,445
Other types of security	4,450	-	-	1,722	6,172
	97,603	**-**	**96**	**1,968**	**99,667**

in Denar thousand 2011	Loans and receivables from banks	Loans and receivables from customers	Other receivables	Commitments and contingencies	Total
Value of collateral for credit risk exposures subject to individual impairment					
First-class security instruments					
-cash deposits (in a depot and/or limited to bank account)		582,698	43,097	3,454	629,249
-state securities	315,948		-	-	315,948
-bank guarantees		-	3,690	-	3,690
-guarantees from insurance companies		3,375	8	-	3,383
-corporate guarantees		480,407	28,604	-	509,011
Property and equipment under pledge		9,767,721	1,717,150	27,772	11,512,643
Other types of security		5,029,956	296,595	15,887	5,342,438
	315,948	**15,864,157**	**2,089,144**	**47,113**	**18,316,362**
Value of collateral for credit risk exposures subject to collective impairment					
First-class security instruments					
- cash deposits (in a depot and/or limited to bank account)		20,128	61,043	33	81,204
-corporate guarantees		59,894	6	-	59,900
Property and equipment under pledge		1,003,210	77,862	-	1,081,072
		1,083,232	**138,911**	**33**	**1,222,176**

Credit risk (continued)

Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as at 31 December 2012 and 2011.

in Denar thousand	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Securities available for sale		Securities held to maturity		Other receivables		Commitments and contingencies		Total assets	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Republic of Macedonia	163,121	1,314,099	-	80,001	6,282,489	6,210,785	71,339	11,191	949,225	1,277,962	41,642	73,725	326,672	346,048	7,834,488	9,313,811
EU members	390,482	330,292	639,967	316,336	329,634	12,359	-	-	-	-	244	3,698	17,281	3,690	1,377,608	666,375
OECD member countries (without European countries members od OECD)	-	63,734	-	-	-	-	-	-	-	-	87	337	-	-	87	64,071
Other European countries	-	8,787	-	-	-	68,793	-	2,188	-	-	-	2,381	-	-	-	82,149
Other countries	-	24,129	-	-	-	-	-	-	-	-	-	5,277	-	-	-	29,406
	553,603	**1,741,041**	**639,967**	**396,337**	**6,612,123**	**6,291,937**	**71,339**	**13,379**	**949,225**	**1,277,962**	**41,973**	**85,418**	**343,953**	**349,738**	**9,212,183**	**10,155,812**

Credit risk (continued)

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as at 31 December 2012 and 2011.

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Securities available for sale		Securities held to maturity		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total assets	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Non residents	-	-	-	81,153	-	2,188	-	-	-	426,942	-	14,673	-	-	-	524,956
Agriculture, forestry and fishery	-	-	120,919	32,444	-	-	-	-	-	-	8,583	689	12,378	7,550	141,880	40,683
Mining	-	-	6,098	7,395	-	-	-	-	-	-	50	13	-	337	6,148	7,745
Food industry	-	-	298,146	314,574	-	5,486	-	-	-	-	1,284	921	4,995	7,468	304,425	328,449
Textile industry clothing and footwear manufacturing	-	-	94,601	89,188	-	-	-	-	-	-	175	406	39,557	41,893	134,333	131,487
Chemical industry, production of building materials, production and processing of fuel, pharmaceutical industry	-	-	114,129	66,565	-	-	-	-	-	-	76	215	3,506	9,644	117,711	76,424
Production of metals, machinery, tools and equipment	-	-	137,823	118,393	-	-	-	-	-	-	198	341	15,662	20,981	153,683	139,715
Other manufacturing Industry	-	-	87,379	123,235	-	-	-	-	-	-	428	554	5,560	8,011	93,367	131,800
Supply of electricity, gas, steam and air conditioning	-	-	1,230	26	-	-	-	-	-	-	59	82	-	831	1,289	939
Water supply, waste water disposal, waste management and environment sanitation	-	-	21,699	31,446	-	-	-	-	-	-	51	136	-	2,149	21,750	33,731
Construction	-	-	330,258	243,972	-	-	-	-	-	-	1,180	3,928	59,870	35,626	391,308	283,526

Notes to the financial statements (continued)
Financial risk management (continued)

Credit risk (continued)

In Denar thousand	Loans and advances to banks 2012	Loans and advances to banks 2011	Loans and advances to customers 2012	Loans and advances to customers 2011	Securities available for sale 2012	Securities available for sale 2011	Securities held to maturity 2012	Securities held to maturity 2011	Cash and cash equivalents 2012	Cash and cash equivalents 2011	Other receivables 2012	Other receivables 2011	Commitments and contingencies 2012	Commitments and contingencies 2011	Total assets 2012	Total assets 2011
Wholesale and retail trade, repair of motor vehicles and motor-cycles	-	-	783,102	914,434	-	-	-	-	-	-	4,016	7,558	85,937	56,270	873,055	978,262
Transport and storage	-	-	217,962	301,376	-	-	-	-	-	-	8,768	17,393	85,940	96,681	312,670	415,450
Facilities for lodging and food service activities	-	-	129,390	165,006	-	-	-	-	-	-	420	968	3,912	7,599	133,722	173,573
Information and communication	-	-	76,094	157,688	-	-	-	-	-	-	2,443	2,770	8,756	16,604	87,293	177,062
Financial and insurance activities	639,967	396,337	123,482	84,960	6,505	5,705	949,225	1,277,962	553,603	1,314,099	135	18,117	777	6,778	2,273,694	3,103,958
Activities related to real estate	-	-	129	-	-	-	-	-	-	-	18	185	-	81	147	266
Technical and scientific activities	-	-	23,574	118,069	59,348	-	-	-	-	-	540	1,195	6,593	21,701	90,055	140,965
Administrative and auxiliary service activities	-	-	22,716	44,744	-	-	-	-	-	-	98	452	973	3,359	23,787	48,555
Public administration and defense, compulsory social insurance	-	-	20	7	-	-	-	-	-	-	33	35	-	143	53	185
Education	-	-	1,621	2,446	-	-	-	-	-	-	26	37	-	97	1,647	2,580
Health and social care activities	-	-	22,941	22,039	-	-	-	-	-	-	67	94	-	272	23,008	22,405
Art, entertainment, recreation	-	-	1,903	605	-	-	-	-	-	-	29	89	-	59	1,932	753
Other service activities	-	-	12,257	9,072	-	-	-	-	-	-	133	262	508	664	12,898	9,998
Activities as households as employers, households that produce various goods and services for own uses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities to exterritorial organizations and bodies	-	-	-	12,358	-	-	-	-	-	-	-	150	-	-	-	12,508
Individuals	-	-	3,984,650	3,350,742	5,486	-	-	-	-	-	13,163	14,154	9,029	4,940	4,012,328	3,369,836
Sole traders and individuals that are not regarded as traders	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	1
Total	**639,967**	**396,337**	**6,612,123**	**6,291,937**	**71,339**	**13,379**	**949,225**	**1,277,962**	**553,603**	**1,741,041**	**41,973**	**85,418**	**343,953**	**349,738**	**9,212,183**	**10,155,812**

3.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury and Dealing Department receive information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury and Dealing Department then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted monthly to the NBRM.

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required meeting business goals and targets set in terms of the overall Bank strategy.

In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk represents the risk for the Bank of becoming incapable to provide sufficient funds for settlement of its short-term liabilities when such liabilities fall due, or to provide such funds at much higher costs.

The Bank is exposed on daily withdrawals of funds from its available cash sources of current accounts, matured deposits, approved loans and other withdrawals.

The tables below analyses the Bank's liabilities, grouped according to their maturity based on the remaining period from the reporting date to the contracted maturity date at 31 December 2012 and 2011. The amounts are presented on a gross basis, i.e. not taking into account the amounts of accumulated amortization, impairment provision and allocated special reserve.

Notes to the financial statements (continued)
Financial risk (continued)

Liquidity risk (continued)
in Denar thousand

31 December 2012	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to banks	101,595	-	125,446	-	-	227,041
Due to customers	3,225,261	1,301,947	3,534,349	1,165,713	21,919	9,249,189
Borrowings	34,647	2,604	57,888	169,281	18,521	282,941
Subordinated liabilities	-	-	-	26,420	246,000	272,420
Other liabilities	61,186	918	41	656	14,716	77,517
	3,422,689	**1,305,469**	**3,717,724**	**1,362,070**	**301,156**	**10,109,108**

in Denar thousand

	Less than one month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
31 December 2011						
Due to banks	24,200	-	123,161	-	-	147,361
Due to customers	3,321,369	1,140,484	3,399,858	996,199	22,926	8,880,836
Borrowings	10,868	612	31,685	119,484	26,155	188,804
Subordinated liabilities	-	26,422	-	246,020	-	272,442
Other liabilities	38,432	6,084	7,259	7,335	-	59,110
	3,394,869	**1,173,602**	**3,561,963**	**1,369,038**	**49,081**	**9,548,553**

3.3 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Exposure to interest rate risk – non-trading portfolios

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest.

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is asset sensitive because of the majority of the interest-earning assets and liabilities, the Bank has the right simultaneously to change the interest rates. In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

The table below analyses the Bank's interest rate gap position as at 31 December 2012 and 31 December 2011. The interest earning/bearing assets/ liabilities are grouped according to the remaining period until the next change in interest rates.

Notes to the financial statements (continued)
Financial risk (continued)

Market risks (continued)
Interest rate risk (continued)

Analysis of interest rate gap position (excluding portfolio held for trading and derivatives, if any)

in Denar thousand

As at 31 December 2012	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	1,678,332	-	-	-	-	1,678,332
Loans and advances o banks	638,945	-	-	-	-	638,945
Loans and advances to customers	352,661	428,598	2,058,723	3,696,334	120,233	6,656,549
Investment securities	949,225	-	59,348	-	-	1,008,573
Other receivables	-	-	-	-	-	-
	3,619,163	**428,598**	**2,118,071**	**3,696,334**	**120,233**	**9,982,399**
Liabilities						
Due to banks	100,825	-	123,000	750	-	224,575
Due to customers	2,131,703	-	5,644,537	1,320,200	-	9,096,440
Borrowings	33,863	2,604	57,887	169,282	18,521	282,157
Subordinated liabilities	-	-	-	246,000	-	246,000
Other liabilities	-	-	-	-	-	-
	2,266,391	**2,604**	**5,825,424**	**1,736,232**	**18,521**	**9,849,172**
Net interest rate gap position	**1,352,772**	**425,994**	**(3,707,353)**	**1,960,102**	**101,712**	**133,227**
As at 31 December 2011						
Assets						
Cash and cash equivalents	1,026,196	-	-	-	-	1,026,196
Loans and advances to customers	395,948		-	-	-	395,948
Loans and advances to banks	253,118	250,369	2,510,465	3,169,261	26,152	6,209,365
Investment securities	1,277,962	-	-	-	-	1,277,962
Other receivables	-	-	-	-	-	-
	2,953,224	**250,369**	**2,510,465**	**3,169,261**	**26,152**	**8,909,471**
Liabilities						
Due to banks	13,167	-	123,010	-	-	136,177
Due to customers	2,070,449	-	4,785,431	1,877,940	-	8,733,820
Borrowings	5,714	5,102	31,686	119,485	26,155	188,142
Subordinated liabilities	-	-	-	246,020	-	246,020
Other liabilities	-	-	-	-	-	-
	2,089,330	**5,102**	**4,940,127**	**2,243,445**	**26,155**	**9,304,159**
Net interest rate gap position	**863,894**	**245,267**	**(2,429,662)**	**925,816**	**(3)**	**(394,688)**

Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2012, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2012 would respectively decrease/increase by approximately Denar 2,665 thousand (2011: Denar 7,894 thousand).

The other equity components would respectively increase/decrease by Denar 1,187 thousand (2011: nil).

Market risks (continued)

Foreign currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. The Denar is pegged to the Euro and the monetary projections envisage stability of the exchange rate of the Denar against Euro.

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2012 and 2011:

in Denar thousand	MKD	EUR	USD	Other currencies	Total
As at 31 December 2012					
Assets					
Cash and cash equivalents	1,007,057	687,466	62,875	158,875	1,916,273
Loans and advances to banks and customers	2,754,770	4,196,641	300,679	-	7,252,090
Investment securities	1,020,564	-	-	-	1,020,564
Other receivables	30,746	6,924	4,288	15	41,973
Total Assets	**4,813,137**	**4,891,031**	**367,842**	**158,890**	**10,230,900**
Liabilities					
Due to banks	1,371	209,205	16,465	-	227,041
Due to customers	4,613,846	4,142,735	352,027	140,581	9,249,189
Borrowings	-	282,941	-	-	282,941
Subordinated liabilities	-	272,420	-	-	272,420
Other liabilities	48,655	21,461	1,613	5,788	77,517
Total Liabilities	**4,663,872**	**4,928,762**	**370,105**	**146,369**	**10,109,108**
Net foreign currency position	**149,265**	**(37,731)**	**(2,263)**	**12,521**	**121,792**
As at 31 December 2011					
Total Assets	**4,864,108**	**4,439,838**	**434,150**	**137,504**	**9,875,600**
Total Liabilities	**4,511,588**	**4,487,986**	**433,756**	**127,766**	**9,561,096**
Net foreign currency position	**352,520**	**(48,148)**	**394**	**9,738**	**314,504**

The following table shows the sensitivity of the Bank of an increase of the Denar compared to foreign currency. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or the other equity which appears in case the Denar increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousands).

in Denar thousand	Change in 2012	Change in 2011	2012	2011
			Effect over profit or loss	
EUR	37,731	48,148	377	481
USD	2,263	394	113	20
Other currencies	12,521	9,738	626	487

3.4 Operating risk

Operational risk is present in all activities, processes and organizational structures that are part of the business activities of the Bank.

An active management with operational risk requires identification of all operational risks on which the Bank is exposed and taking of adequate measures for their optimization. The Bank's departments and branches in cooperation with the Risk Management Department prepare lists with operational activities on a monthly base.

All the operational activities are subject to registration in the centralized Register for the operational activities.

The Bank's operations are constantly subject to other risks which are defined as operating risks. These risks relate to deficiencies or errors in the operation of internal processes, systems or to human errors or are due to external events.

3.5 Segment reporting

Operating segments

The Bank has two operational segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services and are managed separately based on the Bank's management structure. Supervisory Board reviews at least monthly Management report that obtains information regarding the business. The following summary describes the operations in the Bank's reportable segments:

- Corporate Banking (legal entities) – Includes the following: different loans' products for corporate clients, issuing business credit cards, payment operations in the country and abroad for residential and non-residential legal entities, operations on foreign exchange market, inter-banking borrowings, brokerage services, trade with securities issued by the State etc.

- Retail Banking (individuals) – Includes the following activities: different types of loans for individuals, issuing debit and credit cards, payment operations in the country and abroad for residential and non-residential individuals, brokerage services, safe renting, operations on foreign exchange market etc.

Also, the Bank has activities regarding services of POS terminal network and ATMs that were not specified in the above mentioned activities.

Notes to the financial statements (continued)
Financial risk management (continued)

Segment reporting (continued)
Operating segments (continued)

in Denar thousand	Retail banking		Corporate banking		Non-allocated		Total	
	2012	2011	2012	2011	2012	2011	2012	201
Income and expenses								
Net interest income/(expenses)	99,701	76,266	328,955	321,026	-	-	428,656	397,29
Net fee and commission income	52,716	65,448	72,366	62,534	-	-	125,082	127,98
Other operating income	2,691	11,927	40,129	23,480	32,488	10,171	75,308	45,57
Release of imp.prov. /Impairment (losses), net	7,438	19,216	(2,836)	(45,320)	-	-	4,602	(26,104
Depreciation and amortization	-	-	-	-	(54,176)	(37,074)	(54,176)	(37,074
Impairment losses on non-financial assets, net	-	-	-	-	(1,604)	-	(1,604)	
Investment costs for property and equipment	-	-	-	(22,273)	(26,155)	-	(26,155)	(22,273
Other expenses	(340,295)	(321,054)	(116,205)	(108,774)	(982)	(6,918)	(457,482)	(436,746
Profit before tax per segment	**(177,749)**	**(148,197)**	**322,409**	**230,673**	**(50,429)**	**(33,821)**	**94,231**	**48,65**
Income tax							(897)	(1,296
Profit for the year							93,334	47,35
Total assets per segment	3,740,386	3,622,513	5,660,612	6,245,056		-	9,400,998	9,867,56
Non-allocated assets per segment	-	-		-	1,790,055	682,676	1,790,055	682,67
Total assets	**3,740,386**	**3,622,513**	**5,660,612**	**6,245,056**	**1,790,055**	**682,676**	**11,191,053**	**10,550,24**
Total liabilities per segment	7,890,228	6,629,891	1,903,225	2,934,079	-	-	9,793,453	9,563,97
Non-allocated liabilities per segment	-	-	-	-	318,200	-	318,200	
Total liabilities	**7,890,228**	**6,629,891**	**1,903,225**	**2,934,079**	**318,200**	-	**10,111,653**	**9,563,97**

Geographic segments

in Denar thousand	Republic of Macedonia	EU member countries	Other countries	Non-allocated	Total
2012					
Total income	542,433	85,087	(620)	2,146	**629,046**
Total assets	9,924,685	1,131,437	117,368	17,563	**11,191,053**
2011					
Total income	568,107	(37,678)	(5,155)	45,578	**570,852**
Total assets	9,041,245	659,562	166,489	682,949	**10,550,245**

3.6 Fair value estimation

Fair value represents the amount at which an asset could be replaced or a liability settled on an arm's length basis. Fair values have been based on Management assumptions according to the asset and liability type.

Financial instruments measured at fair value

According to IFRS 7, assets and liabilities are grouped into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

31 December 2012	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale	71,339	-	-	71,339

31 December 2011	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale	13,379	-	-	13,379

Financial instruments not measured at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented in the Statement of Financial Position at their fair value.

	31 December 2012		31 December 2011	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	1,916,273	1,916,273	1,741,041	1,741,041
Loans and advances to banks	639,967	639,967	396,337	396,337
Loans and advances to customers	6,612,123	6,612,123	6,291,937	6,291,937
Investment securities	949,225	949,225	1,277,962	1,277,962
Other receivables	41,973	41,973	85,418	85,418
Financial liabilities				
Due to banks	227,041	227,041	147,361	147,361
Due to customers	9,249,189	9,249,189	8,880,836	8,880,836
Borrowings	282,941	282,941	188,804	188,804
Other liabilities	77,517	77,517	59,110	59,110

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value, considering that they include cash, bank accounts and bank deposits with short - term maturity.

Loans and advances to customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating interest rates and their fair value is determined by discounting of future cash flows using the market interest rate. The fair value approximates their carrying value.

Investment securities

Investment securities include short term interest earning assets held to maturity. Their fair value approximates their carrying value.

Other financial assets

The fair value of other financial assets is considered to approximate their respective carrying values by definition and due to their short-term nature.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The fair value of the term deposits with variable interest rates approximates their carrying values as at the Statement of Financial Position date.

Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

Other liabilities

Carrying value of other liabilities approximates their fair value with relation to their short-term maturity.

3.7 Financial instruments by categories

Net carrying amounts of the financial assets and liabilities of the Bank recognized at the date of the Statement of financial position for the presented periods are classified as follows:

31 December 2012
Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	1,916,273	-	-	1,916,273
Loans and advances to banks	-	639,967	-	-	639,967
Loans and advances to customers	-	6,612,123	-	-	6,612,123
Investment securities	949,225	-	71,339	-	1,020,564
Other receivables	-	41,973	-	-	41,973
	949,225	**9,210,336**	**71,339**	**-**	**10,230,900**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	227,041	227,041
Due to customers	9,249,189	9,249,189
Borrowings	282,941	282,941
Other liabilities	77,517	77,517
	9,836,688	**9,836,688**

31 December 2011
Financial assets

	Assets held to maturity	Loans and receivables	Available for sale assets	Assets at fair value through profit or loss	Total
Cash and cash equivalents	-	1,741,041	-	-	1,741,041
Loans and advances to banks	-	396,337	-	-	396,337
Loans and advances to customers	-	6,291,937	-	-	6,291,937
Investment securities	1,277,962	-	13,379	-	1,291,341
Other receivables	-	85,418	-	-	85,418
	1,277,962	**8,514,733**	**13,379**	**-**	**9,806,074**

Financial liabilities

	Other financial liabilities at amortized cost	Total
Due to banks	147,361	147,361
Due to customers	8,880,836	8,880,836
Borrowings	188,804	188,804
Other liabilities	59,110	59,110
	9,276,111	**9,276,111**

3.8 Capital management

Regulatory capital

The Bank's lead regulator NBRM sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by the local regulators.

In implementing capital adequacy requirements, the Bank maintains a prescribed ratio of 15% of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets , sum of capital requirements for currency risk and sum of capital requirements for operating risk.

Bank's own funds are a sum of core capital, supplementary capital, less deductions, as follows:

- Core capital, which includes ordinary and non-cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the statement of financial position and confirmed by a Decision of the Bank's Shareholders' Assembly or accumulated loss from previous year, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.

- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.

- The total of core capital and supplementary capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

When determining the amount of own funds, the Bank shall observe the following restrictions:

- The amount of the supplementary capital cannot exceed the amount of the core capital.

- The sum of the nominal value of subscribed and paid-in ordinary shares, the share premium of such shares and the amount of reserves and the retained earnings, less the deductions from the core capital and supplementary capital previously described, should exceed the sum of other positions which are part of the Bank's core capital.

The amount of subordinated instruments which are part of the supplementary capital shall not exceed 50% of the amount of core capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital management (continued)

As at 30 September 2012 new Decision for methodology for calculation capital adequacy was enacted and the Bank has complied with the new changes that the Bank has successfully implemented.

Major changes with the new Decision are following:

- Change in calculation of risk-weighted assets for currency risk which until the change for positions in V, G and D were calculated on gross basis and now are calculated on net basis;

- Introducing a new ponders of risk for certain positions (35% placements with house collateral, 75% for portfolio for small loans with certain criteria to be filled etc.);

- Terminating of risk ponders (125% to used limit on credit cards and overdrafts and 50% for loans secured with house collateral only for individuals);

- Introducing new parameters in calculation of risk weighted assets (RWA), which is capital against operating risk.

The Bank has complied with all externally imposed capital requirements throughout the period. There were no significant changes in the Bank's approach to capital management during the year.

As at 31 December 2012 and 2011 the Bank capital adequacy ratio is 15.81 % (2011: 15.92%) which is in compliance with the prescribed ratio.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory own funds. The process of allocating capital to specific operations and activities is monitored independently of those responsible for the operation, by the Supervisory Board.

4 Critical accounting estimates and judgments

The most important areas in need of estimates and judgments include:

Allowance for impairment for loans and receivables

Assets carried at amortized costs are evaluated for impairment losses as disclosed in Note 2.11.

The Bank reviews its loan portfolios to assess impairment at least on a 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 group, or national or local economic conditions that correlate with defaults on assets in the group. 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.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors, In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic condition. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Allowance for impairment of available-for-sale equity investments

The Bank determines that available for sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investor, industry and sector performance, changes in technology, and operational and financing cash flows.

Critical accounting estimates and judgements (continued)

Determining fair value

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2.10. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Impairment of non-financial assets

Impairment losses are recognized in the amount for which the carrying value of an asset or cash-generating unit exceeds its recoverable amount. In determining the recoverable amount, Management estimates expected prices, cash flows from each cash generating unit and determines the appropriate interest rate for calculating the present value of those cash flows.

5 Net interest income

Structure of interest income and expenses according to type of financial instruments

	2012	2011
Interest income		
Cash and cash equivalents	8,070	10,855
Loans and advances to banks	19,258	36,750
Loans and advances to customers	721,818	706,511
Investment securities	42,718	41,179
	791,864	**795,295**
Interest expense		
Due to customers	319,117	304,547
Due to banks	5,597	55,028
Borrowings	3,939	3,969
Subordinated liabilities	34,555	34,459
	363,208	**398,003**
Net interest income	**428,656**	**397,292**

6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities

	2012	2011
Fee and commission income		
Loans and credit cards	87,519	55,478
Payment operations		
- Domestic	85,721	93,829
- International	25,925	29,449
Letters of credit and guarantees	4,770	13,185
Other	26,751	23,668
	230,686	**215,609**
Fee and commission expenses		
Credit cards	80,545	63,265
Payment operations		
- Domestic	14,839	14,129
- International	9,949	9,287
Brokerage	47	60
Other	224	886
	105,604	**87,627**
Net fee and commission income	**125,082**	**127,982**

7 Other operating income

	2012	2011
Gains from equity instruments sold	31,369	-
Rent income	2,522	2,328
Dividends received	2,083	362
Release of impairment provisions and special reserve, net (note 25)	1,044	3,059
Gains from foreclosed assets sold	551	-
Gains form equipment sold	-	268
Other	11,544	11,759
	49,113	**17,776**

During 2012, the Bank sold foreign equity investments, shares, for the amount of 33,512 Denar thousand for which the carrying amount was 2,143 Denar thousand. The Bank realized gain from this transaction recognized in current profit or loss in the amount of 31,369 Denar thousand.

8 Release of impairment provision/impairment (losses) on financial assets, net

	2012	2011
(Charge) / recovery for:		
Loans and advances to customers (Note 15)	6,350	(25,455)
Other receivables (Note 20)	(1,748)	(649)
	4,602	**(26,104)**

9 Personnel expenses

	2012	2011
Net salaries and contributions	143,004	137,664
Social and health contributions	64,541	61,093
Other employee benefits	8,780	9,088
	216,325	**207,845**

10 Other operating expenses

	2012	2011
Materials and services	107,256	95,916
Rent expenses	68,687	65,387
Deposit insurance premiums	49,499	43,568
Administrative and marketing expenses	15,479	18,642
Litigation expenses	2,543	1,934
Software license expenses	10,679	8,929
Property and employee insurance premiums	4,020	3,706
Impairment losses on foreclosed assets (Note 17)	1,604	-
Other expenses	9,149	13,092
	268,916	**251,174**

11 Income tax expense

	2012	2011
Current income tax expense	897	1,296
	897	**1,296**

Reconciliation of the income tax expense as per the Statement of comprehensive income for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Non – deductible expenses for tax purposes 10% (2011:10%)	897	1,296
Non – taxable income for tax purposes	-	-
Tax losses carried forward	-	-
	897	**1,296**

12 Earnings per share

The basic and diluted earnings per share are computed when the net profits for the year (belonging to the common shareholders) is divided with the weighted average number of shares during the year.

	2012	2011
Net-profit attributable to shareholders	93,334	47,359
Net-profit attributable to holders of ordinary shares	93,334	47,359
Issued ordinary shares at 1 January	530,445	530,445
Effect from change of ordinary shares during the year	-	-
Weighted average number of shares	530,445	530,445
Basic and diluted earnings per share (in Denars)	**176**	**89**

13 Cash and cash equivalents

	2012	2011
Account and balances with the NBRM, except for obligatory foreign currency reserves	702,867	543,771
Current accounts and deposits with foreign banks	390,482	420,791
Cash in hand	237,519	273,834
Placement with banks with maturity up to 3 months	100,422	30,130
Current accounts and deposits with domestic banks	1,362	13,394
Included in cash and cash equivalents for the purpose of the Statement of cash flows	**1,432,652**	**1,281,920**
Obligatory foreign currency reserves	422,284	452,970
Restricted deposits	61,337	6,151
	1,916,273	**1,741,041**

According to the Decision on obligatory reserve, Bank's reserve prescribed ratio equals 10% for liabilities in domestic currency, 20% for liabilities in domestic currency with FX clause and 13% for liabilities in foreign currency. The basis for the reserve requirement is determined as an average of the Bank's liabilities for each calendar day of the preceding month. The reserve requirement maintenance period is from 11th in the current month until 10th in the following month.

Bank's reserve requirement in foreign currency is allocated on special foreign currency accounts of the NBRM abroad, and it is fulfilled in Euro at a fixed level.

The interest rate on the obligatory reserve in Denars during 2012 and 2011 amounted to 1% per annum (2011: 2% per annum). The interest rate on the obligatory reserve in foreign currency during 2012 and 2011 amounted to 0.1% per annum.

14 Loans and advances to banks

		2012		2011
	Short-term	Long-term	Short-term	Long-term
Loans to banks	639,967	-	396,337	-
	639,967	-	**396,337**	-

Loans and advance to banks in the amount of MKD 639,967 thousand (2011: MKD 396,337 thousand) are repo transactions with First Investment Bank Sofia, with securities as collateral.

15 Loans and advances to customers

	2012	2011
Loans and advances to customers at amortized cost	6,612,123	6,291,937
	6,612,123	**6,291,937**

The structure of loans and advances to customers by type of debtor is as follows:

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Corporate customers:				
Principal	807,013	1,769,708	881,465	2,207,031
Interest	16,122	-	21,049	-
Public sector:				
Principal	5	3,509	-	9,079
Interest	9	-	27	-
Other:				
Principal	-	1,386	-	1,935
Interest	10	-	-	-
Financial institution other than banks:				
Principal	32,099	81,913	-	-
Interest	350	-	-	-
Retail customers:				
Principal				
Housing	20,468	563,496	506	356,073
Consumer	86,205	1,763,508	29,026	1,599,372
Vehicle	585	12,413	331	18,307
Credit cards	317,353	-	317,333	307
Other	259,488	859,825	200,760	915,206
Interest	21,391	-	21,039	-
Nonresident customers:				
Principal	79,645	274,066	81,153	-
Interest	3,268	-	-	-
	1,644,011	5,329,824	1,552,689	5,107,310
Current maturity	1,117,744	(1,117,744)	1,505,645	(1,505,645)
	2,761,755	4,212,080	3,058,334	3,601,665
Less: provision for impairment	(273,137)	(88,575)	(319,845)	(48,217)
	2,488,618	**4,123,505**	**2,738,489**	**3,553,448**

At 31 December 2012 non-performing loans amounted to Denar 325,955 thousand (2011: Denar 448,575 thousands). Unrecognized interest relating to such loans amounted to Denar 56,075 thousand (2011: Denar 63,915 thousand).

As at 31 December 2012 loans and advances to customers in amount of Denar 20,060 thousand are mortgaged as collateral for borrowings from MBDP (Note 23).

	2012	2011
Movements of specific provision for impairment		
Balance at 01 January	354,379	329,377
Additional provision for impairment / (Release) of provision for impairment, net (Note 8)	(1,715)	25,002
Balance as at 31 December	**352,664**	**354,379**

	2012	2011
Movements of group provision for impairment		
Balance at 01 January	13,683	13,230
Additional provision for impairment / (Release) of provision for impairment, net (Note 8)	(4,635)	453
Balance as at 31 December	**9,048**	**13,683**
Total provision for impairment	**361,712**	**368,062**

16 Investment securities

	2012	2011
Held-to-maturity investment securities	949,225	1,277,962
Available-for-sale investment securities	71,339	13,379
	1,020,564	**1,291,341**

Held-to-maturity investment securities with fixed interest rate

	2012	2011
Treasury Bills	949,225	1,277,962
	949,225	**1,277,962**

Available-for-sale investment securities

	2012	2011
Government bills	59,348	-
Equity securities	11,991	13,379
	71,339	**13,379**

The movement of the impairment provision for investment securities is as follows:

	2012	2011
Movements of provision for impairment		
Balance at 01 January	1,372	1,372
Balance at 31 December	**1,372**	**1,372**

Government bills issued by the Ministry of Finance of RM as at 31 December 2012 mature from 3-6 months and bear interest from 4% p.a.

As at 31 December 2012, treasury bills issued by the National Bank of the Republic of Macedonia mature within 28 days (2011: 28 days) and bear interest from 3.65 %and 3.75% p.a. (2011: from 4.00% p.a.).

Notes to the financial statements (continued)
As at and for the year ended 31 December 2012
(All amounts expressed in Denar thousand, unless otherwise stated)

17 Foreclosed assets

	Land	Buildings	Equipment	Residential facilities and apartments	Other	Total
Cost						
At 01 January 2011	573	45,718	1,938	26,388	79,619	154,236
Additions	-	12,054	-	13,395		25,449
At 31 December 2011/01 January 2012	**573**	**57,772**	**1,938**	**39,783**	**79,619**	**179,685**
Additions during the year	202	145,524	31,124	7,271	-	184,121
(Disposals)	-	-	-	(6,215)	-	(6,215)
At 31 December 2012	**775**	**203,296**	**33,062**	**40,839**	**79,619**	**357,591**
Impairment provision						
At 01 January 2011	-	19,934	1,137	13,466	75,622	110,159
At 31 December 2011/01 January 2012	**-**	**19,934**	**1,137**	**13,466**	**75,622**	**110,159**
Impairment loss during the year (Note 10)	-	-	-	804	800	1,604
At 31 December 2012	**-**	**19,934**	**1,137**	**14,270**	**76,422**	**111,763**
Net carrying value						
At 01 January 2011	**573**	**25,784**	**801**	**12,922**	**3,997**	**44,077**
At 31 December 2011	**573**	**37,838**	**801**	**26,317**	**3,997**	**69,526**
At 31 December 2012	**775**	**183,362**	**31,925**	**26,569**	**3,197**	**245,828**

As at 31 December 2012, the net carrying value of Bank's foreclosed assets amount to Denar 245,828 thousand (2011: 69,526). As at 31 December 2012 their fair value is in the amount of Denar 324,963 thousand (2011: Denar 76,909 thousand).

18 Intangible assets

	Software	Rights and licenses	Assets under development	Total
Cost				
At 01 January 2011	32,901	30,468	-	63,369
Additions during the year	9,270	2,353	96,515	108,138
At 31 December 2011/01 January 2012	**42,171**	**32,821**	**96,515**	**171,507**
Additions during the year	1,414	52	23,469	24,935
Transfers	78,413	29,395	(107,808)	-
At 31 December 2012	**121,998**	**62,268**	**12,176**	**196,442**
Accumulated amortization				
At 01 January 2011	21,092	12,837	-	33,929
Amortization for the year	1,932	2,092	-	4,024
At 31 December 2011/01 January 2012	**23,024**	**14,929**	**-**	**37,953**
Amortization for the year	7,218	4,226		11,444
At 31 December 2012	**30,242**	**19,155**	**-**	**49,397**
Net carrying value				
At 01 January 2011	**11,809**	**17,631**	**-**	**29,440**
At 31 December 2011	**19,147**	**17,892**	**96,515**	**133,554**
At 31 December 2012	**91,756**	**43,113**	**12,176**	**147,045**

19 Property, plant and equipment

	Buildings	Equipment	Construction in progress	Total
Cost				
At 01 January 2011	181,651	236,289	139,193	557,133
Additions during the year	-	17,923	262,060	279,983
Transfer	-	8,262	(91,522)	(83,260)
(Disposals and write offs)	-	(2,917)	-	(2,917)
At 31 December 2011/01 January 2012	**181,651**	**259,557**	**309,731**	**750,939**
Additions during the year	-	21,254	9,219	30,473
Transfers	88	50,321	(50,409)	-
At 31 December 2012	**181,739**	**331,132**	**268,541**	**781,412**
Accumulated depreciation				
At 01 January 2011	38,627	145,024	-	183,651
Depreciation for the year	4,541	28,509	-	33,050
Transfers		(2,421)	-	(2,421)
At 31 December 2011/01 January 2012	**43,168**	**171,112**	-	**214,280**
Depreciation for the year	4,541	38,191	-	42,732
At 31 December 2012	**47,709**	**209,303**	-	**257,012**
Net carrying value				
At 01 January 2011	**143,024**	**91,265**	**139,193**	**373,482**
At 31 December 2011	**138,483**	**88,445**	**309,731**	**536,659**
At 31 December 2012	**134,030**	**121,829**	**268,541**	**524,400**

At 31 December 2012 and 2011, all property, plant and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property, plant and equipment. As at 31 December 2012 the Bank leases under operating lease terms building with net carrying amount of Denar 5,451 thousand. The leases are cancellable and typically run for a shorter period.

There were no capitalized borrowing costs related to the acquisition of property and equipment during the year (2011: nil).

20 Other receivables

	2012	2011
Prepaid expenses	27,612	31,609
Fee and commission receivables	22,467	23,668
Credit card receivables	17,807	11,486
Money transfer	7,597	8,226
Inventories	7,588	6,139
Income tax receivables	6,781	4,432
Employee receivables	39	48
Trade receivables	26	53
Advances for intangible assets and property, plant and equipment	-	6,325
Other	9,236	10,416
	99,153	**102,402**
Less: provision for impairment	(14,300)	(12,552)
	84,853	**89,850**

	2012	2011
Movements of provision for impairment		
Balance at 01 January	12,552	11,903
Additional provision for impairment / (Release) of provision for impairment, net (Note 8)	1,748	649
Balance at 31 December	**14,300**	**12,552**

The major part of the prepaid expenses in the amount of Denar 14,547 thousand (2011: Denar 16,728 thousand) relate to the lease of the business premises for the Bank's branches in Strumica. The total rent according the lease agreement was paid in advance in 2000, covering lease period of 20 years.

During December 2012, the Bank has received a Report from the Public Revenue Office requesting corrections of the tax return form for 2011 in the amount of Denar 190 thousand for paid penalty interest due to delayed payment for withheld tax. The Bank acted according to the Report and recorded corrections on the accumulated loss in the amount of Denar 209 thousand and correction in the amount of Denar 190 thousand on opening balance for Other receivables and Denar 19 thousand for Income tax receivables for the year ended 2011. The corrections were appropriately stated in the Statement of changes in equity and in the Statement of cash flows.

21 Due to banks

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Current accounts of domestic banks	696	-	3,077	-
Current accounts of foreign banks	7,257	-	7,202	-
Term deposits of domestic banks	79,970	-	-	-
Term deposits of foreign banks	125,446	-	123,160	-
Restricted deposits of domestic banks	750	-	750	-
Other deposits	12,922	-	13,172	-
	227,041	**-**	**147,361**	-

22 Due to customers

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Current accounts	785,666	-	801,976	-
Term deposits	389,619	1,144	428,896	651
Restricted deposits	23,801	18,307	155,224	62,930
Other deposits	19,490	-	13,467	-
	1,218,576	19,451	1,399,563	63,581
State				
Current accounts	932	-	1,367	-
Demand deposits	399	-	399	-
	1,331	-	1,766	-
Not-for-profit institutions				
Current accounts	48,441	-	34,371	-
Term deposits	6,233	-	3,863	-
Restricted deposits	48	1,300	4,043	-
Other deposits	75	-	164	-
	54,797	1,300	42,441	-
Financial institutions, other than banks				
Current accounts	24,310	-	9,846	-
Term deposits	285,736	44,975	508,535	99,500
Restricted deposits	10,308	15,465	12,266	15,376
	320,354	60,440	530,647	114,876
Citizens				
Current accounts	1,122,846	-	1,070,661	
Demand deposits	48	-	108	
Term deposits	4,519,668	1,277,034	4,354,723	684,167
Restricted deposits	131,530	281,207	131,506	270,788
Other deposits	8,834	-	6,821	-
	5,782,926	1,558,241	5,563,819	954,955
Nonresidents				
Current accounts	114,440	-	81,191	-
Term deposits	104,529	6,734	120,068	1,443
Restricted deposits	-	108	-	108
Other deposits	5,962	-	6,378	-
	224,931	6,842	207,637	1,551
Current maturity	458,642	(458,642)	115,838	(115,838)
	8,061,557	**1,187,632**	**7,861,711**	**1,019,125**

23 Borrowings

Structure of borrowings by type of borrowing and creditor's sector

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Banks	16,584	253,763	650	175,136
State	996	11,598	17	13,001
Current maturity	77,559	(77,559)	42,498	(42,498)
	95,139	**187,802**	**43,165**	**145,639**

Borrowings by creditors

	2012		2011	
	Short-term	Long-term	Short-term	Long-term
Domestic sources:				
Macedonian Bank for Development Promotion in domestic currency	16,584	26,317	540	51,695
Ministry of Finance of RM	996	11,598	17	13,001
Macedonian Bank for Development Promotion in foreign currency	-	227,446	110	123,441
	17,580	**265,361**	**667**	**188,137**
Current maturity	77,559	(77,559)	42,498	(42,498)
	95,139	**187,802**	**43,165**	**145,639**

During 2012, based on already signed Frame contracts with Macedonian Bank for Development Promotion AD, Skopje ("MBDP"), the Bank has withdrawn funds from the credit line for small and medium enterprises with year of maturity 2013-2014 and interest rate 5- 5.5% per annum. Collateral for these Bank's borrowings are bills of exchange with statements and loans and advances from the end user of mortgages funds on behalf of MBDP (Note 15).

In addition, at 31 December 2012, the Bank has borrowings in the amount of Denar 12,594 thousand (2011: 13,018) based on signed borrowing agreement with the Ministry of Finance of the Republic of Macedonia with a year of maturity 2013-2014 and interest rate of 4-5% per annum.

24 Subordinated liabilities

	2012	2011
Subordinated loan	272,420	272,442
	272,420	**272,442**

The Subordinated loan from First Investment Bank Sofia was granted with an interest rate of 14%, and maturity of 7 years up to March 2016. The above liabilities will, in the event of winding-up of the Bank, be subordinated to the Bank's shareholders, holders of hybrid instruments and other creditors.

25 Provision and special reserve

	Commitments and contingencies
Balance at 01 January 2011	5,933
Additional provision for impairment / (Release) of provision for impairment, net (Note 7)	(3,059)
Balance at 31 December 2011 (Note 28)	**2,874**
Balance at 01 January 2012	2,874
Additional provision for impairment / (Release) of provision for impairment, net (Note 7)	(1,044)
Balance at 31 December 2012 (Note 28)	**1,830**

26 Other liabilities

	2012	2011
Accrued expenses	35,605	28,917
Trade payables	11,151	15,802
Liabilities related to trust activities	7,263	7,263
Fee and commission	3,743	3,385
Deferred income	702	12,451
Other taxes and contributions	13	92
Other	19,755	3,743
	78,232	**71,653**

27 Share capital

At 31 December 2012 the authorized share capital comprised 530,445 ordinary shares (2011: 530,445). Ordinary shares have a par value of MKD 1,000 (2011: MKD 1,000). All issued shares are fully paid.

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 shareholders' meetings of the Bank. (2011: one vote per share). All shares rank equally with regard to the Bank's residual assets.

The preference shares are non-voting but have a priority over, a certain percentage of the par value of the shares (dividends) and have a priority of collection in the case of the Bank's liquidation.

	In Denars Nominal value per share		*Number of issued shares* ordinary shares		cumulative preference shares		Total subscribed capital	
	ordinary shares	preference shares not for sale	2012	2011	2012	2011	2012	2011
At 1 January – fully paid	1,000	1,000	530,445	530,445	15,542	15,542	545,987	545,987
At 31 December – fully paid	**1,000**	**1,000**	**530,445**	**530,445**	**15,542**	**15,542**	**545,987**	**545,987**

Share capital (continued)

At 31 December 2012 and 2011, the following shareholders have ownership exceeding 5% of the total issued shares with a voting right:

	Share capital in Denar thousand		Voting right	
	2012	2011	2012	2011
Ivaylo Moutaftchiev, Republic of Bulgaria	198,994	198,994	37.51	37.51
Tzeko Minev, Republic of Bulgaria	198,994	198,994	37.51	37.51
	397,988	**397,988**	**75.02**	**75.02**

28 Commitments and contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category:

	2012	2011
Guarantees		
in MKD	223,589	258,800
in foreign currency	91,493	78,637
Letters of credit in foreign currency	30,701	15,175
	345,783	**352,612**
Provision for impairment (Note 25)	(1,830)	(2,874)
	343,953	**349,738**

Litigations

At 31 December 2012, legal proceedings raised against the Bank amount in total Denar 650 thousand. As at the Statement of financial position date, the Bank did not recognize provision, since professional legal advice show that there is no possibility of significant losses. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Bank believes that no material liabilities are likely to result.

Taxation

The tax authorities may at any time inspect the books and records up to 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 circumstances, which may give rise to a potential material liability in this respect.

Capital commitments

As at the Statement of financial position date, there are no capital commitments that have not been recognized in the financial reports.

29 Fiduciary activities

The Bank manages assets for the benefit of third parties mainly intended for concluding loan agreements with legal entities. These assets are not owned by the Bank and have not been recognized in the Statement of financial position. The Bank is not exposed to credit risk from these placements. As at 31 December 2012, these assets amount to Denar 526,370 thousand (2011: Denar 523,843 thousand).

30 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as at 31 December 2012 and 2011. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as at 31 December 2012 and 2011.

31 Related party transactions

According to the Banking Law, related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares), affiliates and entities under common ownership, control and management with the Bank, or whose activities the Bank has an ability to control.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

As at 31 December 2012 and 2011, the balances and volume of transactions with related entities and Key management personnel are as follows:

	Other related parties		Key management personnel		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current accounts	39,515	32,813	-	-	39,515	32,813
Other assets	189	35	38	13	227	48
Loans and other receivables	639,967	327,880	21,361	17,390	661,328	345,270
	679,671	360,728	21,399	17,403	701,070	378,131
Liabilities						
Deposits	196,535	179,791	76,261	43,754	272,796	223,545
Subordinated liabilities	272,420	272,442	-	-	272,420	272,442
Other liabilities	3,698	2,208	-	-	3,698	2,208
	472,653	454,441	76,261	43,754	548,914	498,195
Income						
Interest income	19,284	38,559	2,280	1,760	21,564	40,319
Fee and commission income	587	723	86	47	673	770
Other income	313	-	237	485	550	485
	20,184	39,282	2,603	2,292	22,787	41,574
Expenses						
Interest expenses	40,737	81,817	6,291	3,560	47,028	85,377
Fee and commission expenses	27,344	26,973	-	-	27,344	26,973
Other expenses	290	-	18,159	18,112	18,449	18,112
Employee benefits	-	-	48,021	44,290	48,021	44,290
	68,371	108,790	72,471	65,962	140,842	174,752

32 Events after the reporting period

After 31 December 2012 – the reporting date until the approval of these financial statements, there are no adjusting events reflected in the financial statements or events that are materially significant for disclosure in these financial statements.

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