



Financial Statements and Independent Auditors' Report

TTK BANKA AD Skopje

31 December 2010

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Independent Auditors' Report

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To the Management and Shareholders of
TTK BANKA AD Skopje

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We have audited the accompanying financial statements of TTK Bank AD Skopje (the “Bank”) which comprise of the Balance sheet as at 31 December 2010, and the Income statement, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 100.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Decision on the Methodology of recording and evaluating accounting entries and on the preparation of financial statements and the Manual on the types and contents of financial statements of the banks, issued by the National Bank of the Republic of Macedonia., and maintaining 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 misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the 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.

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 of 31 December 2010, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the Decision on the Methodology for recording and valuating of accounting items and for the preparation of financial statements and the Manual on the types and content of financial statements of banks, issued by the National Bank of the Republic of Macedonia.

Emphasis of matter

Without qualifying our opinion, we draw attention to the following:

As it is disclosed in Note 27 to these financial statements, as of 31 December 2010 included in foreclosed assets, the Bank has recorded property with carrying value of Denar 40,905 thousand, for which, as of the date of this report the Bank is in no possession of property deeds. According to the data received from the Management this property is located in cadastre regions with incomplete records of property deeds. We were presented with other appropriate ownership documents (ownership certificates, sale and purchase agreements and construction agreements) in accordance with the provisions on Law on Ownership.

As it is further disclosed in Note 1.3.2 to these financial statements, as of 31 December 2010, the Bank is not in compliance with certain provisions from the long – term loan contracts signed with the European Bank for Reconstruction and Development (EBRD) and with the European Fund for Southeast Europe (EFSE).



Grant Thornton
Skopje,
25 February 2011

Financial statements
31 December 2010

Income statement

	Notes	(000 mkd)	
		For the year ending 31 December	
		2010	2009
Interest income		448,155	482,006
Interest expense		(229,634)	(246,987)
Net interest income	6	218,521	235,019
Fee and commission income		117,176	101,394
Fee and commission expense		(21,628)	(22,528)
Net fee and commission income	7	95,548	78,866
Net trading income / (expenses)	8	(1,659)	2,482
Net income from other financial instruments at fair value	9	-	-
Foreign exchange gains / (losses), net	10	13,612	18,235
Other operating income	11	60,667	27,141
Participation in income of associates	25	-	-
Operating income		386,689	361,743
Impairment losses of financial assets, net	12	6,572	(98,552)
Impairment losses of non – financial assets, net	13	(21,167)	(34,838)
Personnel expenses	14	(118,070)	(109,855)
Depreciation and amortization	15	(34,205)	(30,832)
Other operating expenses	16	(170,748)	(150,665)
Participation in losses of associates	25	-	-
Operating (expenses)		(337,618)	(424,742)
Profit / (loss) before taxation		49,071	(62,999)
Income tax	17	(3,422)	(4,825)
Profit / (loss) for the year from continuing operations		45,649	(67,824)
Profit / (loss) from group of assets and liabilities held for sale		-	-
Profit / (loss) for the financial year		45,649	(67,824)
Profit / (loss) for the period, attributable to:			
shareholders of the Bank		45,649	(67,824)
minority interest		-	-
		45,649	(67,824)
Earnings per share			
Basic earnings / (losses) per share (in Denar)	41	50	(75)
Diluted earnings / (losses) per share (in Denar)	41	-	-

See accompanying Notes to the financial statements

Financial statements
31 December 2010

Balance Sheet

	Notes	2010	(000 mkd) 31 December 2009
Assets			
Cash and cash equivalents	18	1,043,371	1,221,339
Assets held for trading	19	8,460	9,649
Financial assets at fair value through profit and loss at its/ their initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Loans and advances to banks	22.1	29,700	-
Loans and advances to customers	22.2	3,539,950	3,683,441
Investments in securities	23	778,855	762,052
Investments in associates (recorded according to "equity method")	24	-	-
Current income tax receivables	30.1	1,299	-
Other receivables	25	32,187	89,861
Assets pledged as collateral	26	-	-
Foreclosed assets	27	278,985	234,127
Intangible assets	28	21,573	10,728
Property and equipment	29	303,172	308,130
Deferred tax assets	30.2	-	-
Non – current assets held for sale and disposal group	31	-	-
Total assets		6,037,552	6,319,327
Liabilities			
Trading liabilities	32	-	-
Financial assets at fair value through profit and loss at its/ their initial recognition	33	-	-
Derivatives held for risk management	21	-	-
Due to banks	34.1	120,648	128,554
Due to customers	34.2	4,461,405	4,672,596
Debt instruments issued	35	-	-
Borrowings	36	439,328	548,766
Subordinated liabilities	37	-	-
Special reserve and provisions	38	5,035	5,616
Current income tax liabilities	30.1	413	2,716
Deferred tax liabilities	30.2	-	-
Other liabilities	39	51,151	47,156
Liabilities related to disposal group	31	-	-
Total liabilities		5,077,980	5,405,404

See accompanying Notes to the financial statements

Financial statements
31 December 2010

TTK BANKA AD Skopje

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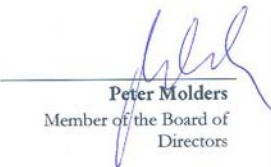
Financial statements
31 December 2010

Balance sheet (continued)

	Notes	2010	(000 mkd) 31 December 2009
Equity			
Subscribed capital	40	907,888	907,543
Share premium		-	-
Treasury shares		-	345
Capital component of hybrid financial instruments		-	-
Other equity instruments		-	-
Revaluation reserves		-	-
Other reserves		6,035	8,872
Retained earnings /(Accumulated losses)		45,649	(2,837)
Total equity and reserves attributable to the shareholders of the Bank		959,572	913,923
Minority interest		-	-
Total equity and reserves		959,572	913,923
Total liabilities and equity and reserves		6,037,552	6,319,327
Commitment and contingencies	42	650,278	534,100
Contingent assets	42	-	-

The financial statements have been approved by the Supervisory Board on 31 January 2011 and signed on its behalf by the Board of Directors by:


Dragoljub Arsovski
 President of the Board of
 Directors


Peter Molders
 Member of the Board of
 Directors

See accompanying Notes to the financial statements

Financial statements
31 December 2010

Statement of changes in equity

	Equity			Other reserves		Revaluation reserve			Retained earnings			Total equity and reserves attributable to the Bank		Minority interest	Total equity		
	Subscribed capital	Share premium	(Treas. shares)	Capital com. of hyb. fin. Instrum	Other finan. instr	Statutory reserve	Other reserves	Reval. reserve	Risk Reserve	Forex reserve	Other reser.	Attribut. to sharehol.	Limited for distrib. to sharehol			Accum. loss	
At 01 January 2009	907,888	-	-	-	-	8,872	-	-	-	-	-	-	194,791	(129,804)	981,747	-	981,747
Opening balance adjustments																	
At 01 January 2009 adjusted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of assets available – for – sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of risk protection of cash flows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of risk protection of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange differences recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax (assets) / liabilities recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized profit / (loss) recognized in equity	907,888	-	-	-	-	8,872	-	-	-	-	-	-	194,791	(129,804)	981,747	-	981,747

See accompanying Notes to the financial statements

Financial statements
31 December 2010

Statement of changes in equity (continued)

(000 mkd)	Equity			Other reserves		Revaluation reserve			Retained earnings			Total equity and reserves attributable to the shareho. of the Bank	Minority interest	Total equity			
	Subs-cribed capital	Share premium	(Treas. shares)	Capital com. of hyb. fin. Instrum	Other final. instr.	Statutory reserve	Other reserves	Reval. reserve	Risk Reserve	Forex reserve	Other reser.				Attribut. to sharehol.	Limited for distrib. to sharehol	Accum. loss
Shares issued during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Profit / loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	(67,824)	(67,824)	(67,824)	
Distribution to statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Distribution to other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Own shares acquired through court procedure	(345)	-	345	-	-	-	-	-	-	-	-	-	-	-	-	-	
Covering losses	-	-	-	-	-	-	-	-	-	-	-	(129,804)	129,804	-	-	-	
At 31 December 2009 / 01 January 2010	907,543	-	345	-	-	8,872	-	-	-	-	-	-	64,987	(67,824)	913,923	-	913,923
Changes in fair value of assets available – for – sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in fair value of protection against risk of cash flows	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in fair value of protection against risk of net investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Foreign exchange differences recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Deferred tax (assets) / liabilities recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total unrealized gains / (losses) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

See accompanying Notes to the financial statements

Financial statements
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Statement of changes in equity (continued)

	Equity			Other reserves			Revaluation reserve			Retained earnings			Accum. loss	Total equity and reserves attributable to the shareho. of the Bank	Mino- rity inter- rest	Total equity	
	Subs- cribed capital	Share prem- ium	(Treas. shares)	Capital com. of hyb. Instrum.	Fin. instr.	Statutory reserve	Other reserves	Reval. reserve	Risk Reserve	Forex reserve	Other reser.	Attribut. to sharehol.					Limited for distrib. to sharehol.
(000 mkd)																	
Shares issued during the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit / (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	45,649	-	-	45,649	-	45,649
Distribution to statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution to other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares acquired through court procedure	345	-	(345)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covering losses	-	-	-	-	-	(2,837)	-	-	-	-	-	-	(64,987)	67,824	-	-	-
At 31 December 2010	907,888	-	-	-	-	6,035	-	-	-	-	-	45,649	-	-	959,572	-	959,572

Financial statements
31 December 2010

Statement of Cash Flows

	Notes	(000 mkd) For the year ended 31 December 2009
	2010	2009
Operating activities		
Profit / (Loss) before taxation	49,071	(62,999)
<i>Adjustment for:</i>		
Minority interest, included in consolidated income statement	-	-
<i>Amortization and depreciation of:</i>		
Intangible assets	4,217	3,157
Property and equipment	29,988	27,675
<i>Capital gain from:</i>		
Sale of intangible assets	-	-
Sale of property and equipment	(125)	(462)
Sale of foreclosed assets	(13,016)	(11,350)
<i>Capital loss from:</i>		
Sale of intangible assets	-	-
Sale of property, plant and equipment	-	-
Sale of foreclosed assets	-	-
Interest, fee and commission income	(565,331)	(583,400)
Interest, fee and commission expense	251,262	269,515
Net trading (income)/ expenses	2,352	(2,399)
<i>Impairment losses of financial assets, net</i>		
additional impairment losses	610,771	528,594
release of impairment losses	(617,343)	(430,042)
<i>Impairment losses of non – financial assets, net</i>		
additional impairment losses	21,167	34,838
release of impairment losses	-	-
<i>Special reserve</i>		
additional provisions	8,131	6,005
release of provisions	(8,737)	(5,499)
Dividend income	(4,753)	(12,165)
Participation of profit / (loss) of associates	-	-
Other adjustments	-	-
Received interest and fee and commission	578,381	580,632
Paid interest and fee and commission	(245,181)	(264,426)
Profit / (Loss) from operations before changes in operating assets	100,854	77,674
<i>(Increase) / decrease of operating assets:</i>		
Trading assets	(1,163)	(4,710)
Derivatives held for risk management	-	-
Loans and advances to banks	(28,790)	103,579
Loans and advances to customers	(100,164)	32,608
Assets pledged as collateral	-	-
Foreclosed assets	44,328	44,161
Obligatory deposit in foreign currency	38,591	(78,735)

See accompanying Notes to the financial statements

Financial statements
31 December 2010

Statement of cash flows (continued)	2010	(000 mkd) For the year ended 31 December 2009
Obligatory deposit held with NBRM according to special regulations	-	-
Other receivables	196,914	(9,021)
Deferred tax assets	-	-
Non – current assets held for sale and disposal group	-	-
<i>Increase / (decrease) in operating liabilities:</i>		
Trading liabilities	-	-
Derivative liabilities held for risk management	-	-
Due from banks	(8,332)	(11,954)
Due from customers	(217,796)	332,507
Other liabilities	3,995	(10,338)
Liabilities related to group or assets for disposal	-	-
Net cash flow from operating activities before taxation	28,437	475,771
(Paid) / received income tax	(7,024)	11,651
Net cash flow from operating activities	21,413	487,422
Cash flow from investment activity		
(Investments in securities)		
Inflows from sale of investment in securities	-	-
(Outflows from investment in subsidiaries and associates)	(16,879)	(379,184)
Inflows from disposal of investment in subsidiaries and associates	-	-
(Purchase of intangible assets)	(15,062)	(7,998)
Inflows from sale of intangible assets	-	-
(Purchase of property, plant and equipment)	(23,913)	(12,866)
Inflows from sale of property, plant and equipment	-	-
(Outflows from non - current assets held for sale)	-	-
Inflows from non - current assets held for sale	-	-
(Other outflows from investing activity)	-	-
Other inflows from investing activity	4,753	12,165
Net cash flow from investing activity	(51,101)	(387,883)
Cash flow from financing activity		
(Repayment of debt securities issued)	-	-
Issued debt securities	-	-
(Repayment of borrowings)	(108,488)	(85,387)
Increase of borrowings	-	-
(Repayment of issued subordinated debts)	-	-
Issued subordinated debts	-	-
Inflows from issued shares / equity instruments during the period	-	-
(Purchase of treasury shares)	-	-
Selling of treasury shares	-	-
(Dividends paid)	-	-
(Other outflows from financing)	-	-
Other inflows from financing	-	-
Net cash flow from financing activity	(108,488)	(85,387)
Effect from allowance for impairment of cash and cash equivalents	38	69
Effect from foreign exchange differences of cash and cash equivalents	(29)	-
Net increase / (decrease) of cash and cash equivalents	(138,167)	14,221
Cash and cash equivalents as of 01 January	990,629	976,408
Cash and cash equivalents as of 31 December	852,462	990,629

See accompanying Notes to the financial statements

Notes to the financial statements

1 General

TTK BANKA AD Skopje (“the Bank”) is a Shareholding Company incorporated in the Republic of Macedonia. The Bank’s registered head office is located at “Naroden Front” 19a Skopje, Republic of Macedonia.

The Bank is licensed by the National Bank of the Republic of Macedonia for conducting, credit and deposit services and payment transfers on the territory of the Republic of Macedonia and abroad. On 31 December 2010 and 2009, the Bank performed its business activities with 249 and 231 employees, respectively.

1.1 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. The determination of the Bank’s accounting policies is based on acknowledged, familiar and practical experiences, of the provisions of the Decision on the Methodology of recording and evaluating accounting entries and on the preparation of financial statements, Rulebook for accounting and the Instructions on the types and contents of financial statements of banks, issued by the National Bank of the Republic of Macedonia and other legal regulation. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1.1 Basis of preparation of financial statements

Financial statements of TTK BANKA AD Skopje are prepared in accordance with the Law on Banks and bylaws prescribed by the National Bank of the Republic of Macedonia effective as of 31 December 2010, the Companies Law (Official Gazette of RM No. 28/04; 84/05; 25/07; 87/08; 42/10; 48/10) and Rulebook on Accounting (Official Gazette of RM No.159 dated 29 December 2009).

Financial statements of the Bank are presented in accordance with the format and content of balance schemes published in the Guidelines on the types and content of financial statements of banks, published in the Official Gazette of RM No.118/07; 80/09; 157/09, which is based on the Methodology for recording and valuation of accounting items and preparation of financial statements, published in Official Gazette of RM No. 118/07.

The preparation of financial statements in accordance with accounting standards applicable in the Republic of Macedonia and requires use of estimates and assumptions that affect the presented assets and liabilities, potential assets and liabilities at the date of financial statements and the presented amounts of revenues and expenses during the reporting period. These estimates are based on management's best knowledge of the

Notes to the financial statement (continued)
Accounting policies (continued)

current events and activities and are disclosed in Note 1.2: Critical accounting estimates.

Basis of preparation of financial statements (continued)

The financial statements have been prepared as of and for the years ended 31 December 2010 and 2009 and represent individual unconsolidated financial statements.

Current and comparative data stated in these financial statements are expressed in Denar thousand. The reporting and functional currency of the Bank is Macedonian Denar ("MKD" or "Denar"). Where necessary, the presentation of comparative data is adjusted according to changes in presentation in the current year.

1.1.2 Foreign currency translation

Transactions denominated in foreign currencies have been translated into Denar at rates set by the National Bank of the Republic of Macedonia ruling at the dates of the transactions.

Foreign currency translation is transaction which follows a foreign currency or may be converted into foreign currency.

Assets and liabilities denominated in foreign currencies are translated at the balance sheet date using official rates of exchange prevailing on that date, and any foreign exchange gains or losses, resulting from foreign currency translation, are included in the income statement in the period in which they arose. The middle exchange rates used for conversion of the balance sheet items denominated in foreign currencies are as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
1 EUR	61.5050 Denars	61.1732 Denars
1 USD	46.3140 Denars	42.6651 Denars
1 CHF	49.3026 Denars	41.1165 Denars

1.1.3 Offsetting

Financial assets and liabilities are offset and reported in the Balance sheet on net basis 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.

Notes to the financial statement (continued)
Accounting policies (continued)

1.1.4 Interest income and expenses

Interest income and expense are recognized in the Income statement for all interest bearing financial assets and liabilities using the effective interest method.

1.1.5 Fee and commission income

Fee and commission income is recognized on an accrual basis when the service has been provided. The compensation for loan approval is limited and amortised during the period of the loan, by applying the effective interest rate method.

1.1.6 Foreign exchange income and expense

Net income and expense from foreign exchange differences include realized and unrealized foreign exchange differences that are derived from the reconciliation of transactions made in foreign currency, as well as from asset and liability valuation, which are included in the profit or loss in the period when they occur.

The undertaken and potential liabilities denominated in foreign currency are translated in Denars, by applying the official exchange rates that are valid on the balance sheet date.

1.1.7 Dividend income

Dividends are recognized in the Income statement when the entity's right to receive payment is established.

1.1.8 Financial assets

Financial assets are classified in the following categories: loans and receivables, financial assets at fair value through profit and loss, financial assets available – for – sale and financial assets held to maturity. Management classifies its investments at initial recognition.

Loans and receivables

Loans and receivables are non – derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include all receivables arising from the transactions with customers and banks, and are recognized when the cash is advanced.

Financial assets at fair value through profit or loss

This category of financial assets consists of securities held for trading and securities at fair value through profits and losses classified as it at initial recognition. A financial asset is classified as asset held for trading if it is acquired or incurred principally for the purpose of generating profit through short – term fluctuations in the price or if it is included in the portfolio for which a short – term actual form of profit gain exists.

Financial assets available – for – sale

Financial assets available – for – sale are non – derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets available – for – sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices.

Notes to the financial statement (continued)
Accounting policies (continued)

Financial assets (continued)

Financial assets held to maturity

Financial assets held to maturity are non – derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s Management has the positive intention and ability to hold to maturity. If the Bank sells a significant amount of the financial assets held to maturity before they reach the maturity date, then the entire category of these assets will be reclassified in financial assets available – for – sale.

Initial recognition and derecognition

Purchases and sales of financial assets available – for – sale and held to maturity financial assets are recognized on trade – date – the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets cease to be recognized after the rights to receive cash flows from the funds ends or after their transfer, and the Bank transferred substantially all risks and benefits of ownership.

Subsequent measurement

After initial recognition, the Bank measures financial assets carried at fair value through profit or loss, or as available – for – sale, at fair values without any deduction for transaction costs it may incur on their sale.

The fair value of quoted financial assets is their bid prices at the balance sheet date.

If the market on which the financial asset is quoted is not active, the Bank establishes fair values by using a valuation technique. Valuation techniques include the use of recent arm’s length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost.

Investments held to maturity and loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the profit or loss in the period in which they arise.

Net changes in the fair value of financial assets classified as at fair value through profit and loss includes interest income.

Unrealised gains and losses arising from changes in the fair value of financial assets available – for – sale are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss.

When financial assets available – for – sale are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Where

Notes to the financial statement (continued)
Accounting policies (continued)

financial assets available – for – sale are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

1.1.9 Impairment of financial assets

Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Days in arrears for payment of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral;
- Initiation of bankruptcy proceedings;
- Activating the collateral.

The Bank assesses the existence of objective evidence for impairment on individual basis for individually significant financial assets.

The amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses based on the loan) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance for impairment and the amount of the impairment loss is recognized in the current Income statement.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment and are recognized as income in the current period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

Assets recognized at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Significant or prolonged decline in the fair value of the security below its cost is considered as objective evidence in determining whether the assets are impaired. If any such evidence exists for available – for – sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value is recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available – for – sale increases and the

Notes to the financial statement (continued)
Accounting policies (continued)

increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

Notes to the financial statement (continued)
Accounting policies (continued)

1.1.10 Foreclosed assets

Foreclosed assets consist of buildings and equipment acquired in settlement of liabilities with an intention for its further sale. They are not used by the Bank for its core operations. These assets are measured at the lower of carrying amount and fair value less costs to sell. The Bank plans to dispose the collected collateral within five years of forced acquisition.

For the purposes of subsequent measurement of foreclosed assets in cases where the estimated value of foreclosed asset is less than the carrying value, the Bank in the amount of their difference recognizes an impairment loss in the Income statement.

1.1.11 Intangible assets

Computer software

Costs associated with development or maintaining computer software programs are recognized as an expense as incurred. Costs directly associated with identifiable and unique software products controlled by the Bank that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Computer software development costs recognized as assets are amortized using the straight – line method over a period of five years.

Other intangible assets

Costs to acquire rights and licenses are capitalized and amortized using the straight – line method over a period of five years.

Notes to the financial statement (continued)
Accounting policies (continued)

1.1.12 Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation. Historical cost includes all expenses directly attributable to purchase of assets.

Depreciation is charged on a straight - line basis at prescribed rates in order to allocate the acquisition cost of property, building, plant and equipment over their useful lives. The following are approximations of estimated useful life applied to significant items of property, plant and equipment:

Buildings	40 years
Transportation assets	4 years
Furniture and office equipment	4-10 years
Other equipment	4 -10 years

Subsequent purchases are included in the asset's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1.1.13 Impairment of non – financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use.

1.1.14 Cash and cash equivalents

For the purposes of the Statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with National Bank of the Republic of Macedonia.

1.1.15 Provisions

A provision is recognized when there is a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is material, the amount of provision represents the present value of the expenditures expected to be required to settle the obligation.

Notes to the financial statement (continued)
Accounting policies (continued)

1.1.16 Employee benefits

The Bank contributes to its employees as prescribed by the local social security legislation. Contributions, based on salaries, are made to the national Pension Fund and the obligatory private pension funds. There is no additional liability regarding these pension schemes. In addition, all employers in the Republic of Macedonia are obligated to pay to the employees a separate minimum amount regulated by law. The Bank has not made provisions for the employees' minimum amount on retirement, as this amount would not have a material effect on the financial statements.

The Bank does not operate any pension scheme or retirement benefit plans and consequentially, has no liability for pensions. The Bank is not obliged to provide additional benefits for its current or previous employees.

1.1.17 Current and deferred income tax

In accordance with the amendments of the legal regulations referring to the income tax which are effective as of 01 January 2009, income tax at 10% rate is paid to non – deductible items for tax purposes adjusted for tax credit, and as well as on the distributed profit for dividends to legal entities – non residents 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. The tax rates that are currently valid are used in determination of deferred income tax. Deferred income tax is charged or credited in the profits and losses except when it relates to items charged or credited directly to the equity, in which case the deferred tax is also dealt within the 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 liability or asset as of 31 December 2010 and 31 December 2009, as there are no temporary differences existing at those dates.

1.1.18 Borrowings

Borrowings are initially recognized at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently carried at amortized cost.

Notes to the financial statement (continued)
Accounting policies (continued)

1.1.19 Equity

(a) Shareholders' capital

Share capital represents the nominal value of shares that have been issued.

(b) Share issue costs

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(c) Treasury shares

Where the Bank purchases equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

(d) Reserves

Reserves, which comprise of revaluation and statutory 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.

(e) Retained earnings/ accumulated (losses)

Retained earnings/ accumulated (losses) comprise the retained earnings and accumulated losses from current and previous periods.

(f) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders.

1.1.20 Fiduciary activities

The Bank usually acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising there on are excluded from these financial statements, as they are not assets of the Bank.

1.1.21 Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Bank as a lessee

Finance leases, which transfers to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased vehicles and equipment or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

The Bank has not classified any assets under this category

Notes to the financial statement (continued)
Accounting policies (continued)

Payments of the operating leasing are recognized as an expense on a straight-line basis over the lease term. Associated cost as maintenance and insurance, are expensed as incurred.

Lease (continued)

Bank as a lessor

Leases where the Bank retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are presented as deferred expenses in the balance sheet and recognised in profit or loss over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned. Prepaid rents are recognized as deferred income. The Bank has not classified any assets under this category.

1.1.22 Segment reporting

The business segment represents a group of assets or activities that are engaged in providing the goods and services that are subject to risks and fees that are different from those in the other business segments. The geographical segment is engaged in providing goods and services in a certain economic environment, which is the subject of risks and fees that are different from those segments that execute the activities in other economic environments.

1.1.23 Commitments and contingencies

The Bank undertakes liabilities in its operating activities arising from loan placements accounted for in the off balance accounts, which primarily include guarantees and letter of credits and unused credit lines. These financial liabilities are accounted for in the balance sheet when become recoverable. Provision for impairment related to off balance commitments and contingencies are recognized as a liability within the Balance sheet.

1.1.24 Events after the reporting date

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

Notes to the financial statements (continued)

1.2 Critical accounting estimates and judgements

The Bank makes estimates and assumptions which affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of loans and advances to customers

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

Impairment of investments in available-for-sale securities

The Bank determines that available – for – sale equity 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.

1.3 Compliance with regulation**1.3.1 Statement of compliance with regulation**

As of 31 December 2010 the Bank is in compliance with the established limits on the Bank's exposure as defined in the Law on Banks and other regulations adopted by the Council of NBRM.

1.3.2 Compliance with the provisions of contracts for long – term loans

As of 31 December 2010 the Bank is not in compliance with certain provisions of the contracts for long-term loans with the European Bank for Reconstruction and Development (EBRD) and the European Fund for Southeast Europe (EFSE) is as follows:

Incompliance with the provisions of the contract with EBRD:

- As of 31 December 2010, the Bank's exposure to single party is in amount of Denar 157,521 thousand or 17.7% of the Bank's own funds. In accordance with the contract with EBRD this ration should not exceed 15%;

Notes to the financial statements (continued)

- As of 31 December 2010, the loans and receivables to customers of the Bank by EBRD credit line with overdue of 60 days (Overall Arrears Ratio) is 13.4% compared to total loans and advances. According to the contract with EBRD, this ratio should not be less than 10%.
- As of 31 December 2010, the loans and advances to customers of the Bank by the EBRD credit line with overdue of 30 days (Local Loans Arrears Ratio) is 7.4% compared to total loans and advances. According to the contract with EBRD, this ratio should not be less than 3%.
- As of and for the year ended 31 December 2010, the operating expenses to operating income are 89%. According to the contract with EBRD, this ratio should not exceed 60%.

Incompliance with the provisions of the contract with EFSE

- As of 31 December 2010, the maximum open credit exposure ratio of the Bank is 26.11%. According to the contract with EFSE, this ration should be less than 15%.
- As of 31 December 2010 the non – performing loans ratio is 15.22%, but the maximum actual ration in accordance with the EFSE contract is 7%.

Notes to the financial statements (continued)

1.4 Disclosure of financial risk management

The Bank establishes an integrated system for management of all tangible and intangible risks, on which is exposed by the nature, size and complexity of the financial activities that are carried out.

Bank in its operations is exposed to the following types of risks:

- Credit risk, including country risk.
- Liquidity risk.
- Currency risk.
- Risk of change in interest rates in the portfolio of banking activities.
- Risk of concentration of the bank exposure.
- Operational risk.
- Strategic risk.
- Legal risk.
- Reputation risk.

Based on the Strategy of taking and managing risks the Bank establishes special policies and procedures for taking and managing all risks to which is exposed in its operations.

Policies to pursue and manage risks include:

- Evaluation of the Bank capacity to take certain risks, and to evaluate its risk profile.
- Organizational structure in managing risks.
- Basic elements of risk management.
- Acceptable instruments to prevent or reduce risks.
- Internal control and main elements of the process of internal assessment and evaluation of the required adequacy of the bank capital.

Also, according the risk management policies Bank to pursue and establish procedures for taking, measurement or assessment, monitoring, controlling or reducing risks that should:

- Provide timely and comprehensive identification of risks (risk mapping) facing the Bank.
- Be based on quantitative and / or qualitative estimates and measurable and non measurable risks.
- Include rules, procedures and ways to reduce diversification, transfer and avoiding risks that are identified, measured and assessed by the Bank.
- Define the frequency and the methods for risk monitoring.

Notes to the financial statements (continued)

Disclosure of financial risk management (continued)

The Bank establishes an organizational structure with clearly defined powers and responsibilities in taking and managing risks, which corresponds to the size, type and complexity of the Bank and the financial activities carried out.

The organization of the system of managing risks is established by the following hierarchy levels:

- Strategic level – risk management function is accomplished by members of the Supervisory Board and Managing Board.
- Macro level – risk management function at the level of business unit or business line is executed by persons with special rights and responsibilities that perform governmental functions and/ or special organizational part responsible for monitoring the management of all or certain risks and takes place at level of the Risk Management Directorate.
- Micro level – risk management activities are carried out by people who take risks in everyday work, in accordance with the work procedures and the internal control systems and takes place at the level of Risk Management Directorate and at the level of business units – sectors.

Credit risk

Credit risk is a risk of financial loss for the Bank if the client or the contractual party of the financial instrument fails to meet its obligation and it is generally derived from loans and advances to clients and other banks, issued guarantees and securities investment. In order to manage the risk, the Bank takes into the group consideration all the elements of credit risk exposure (as individual risk of the failure to meet the liabilities of the debtor, country risk and industrial sector risk).

The Bank defines the acceptable credit exposure in order to achieve:

- Credit risk dispersion;
- Increasing the volume of the credit portfolio;
- Improvement of the portfolio quality;
- Increasing the bank's profitability.

The credit risk management and control is centralized in the Risk Management Directorate, which regularly report the Board for Risk Management and the Board of Directors and through them to the Supervisory Board and Audit Committee.

The Bank manages limits and controls the concentration of credit risk at the time when they are identified - particularly in terms of individual contractual parties or groups, as well as in terms of industrial sectors and countries.

The Bank structures the levels of undertaken credit risk by means of setting limits of acceptable risk related to one lender or a group of lenders, to geographical and industrial segments.

Moreover, the exposure to credit risk is managed by regular analysis of the lenders' capability to meet their obligations of interest and principal, as well as through the change of these credit limits, if at all possible.

Notes to the financial statements (continued)**Disclosure of financial risk management (continued)****Credit risk (continued)**

Collateral represents one of the most traditional and frequent way to mitigate the credit risk. The Bank applies instructions related to the acceptability of certain classes of collaterals. The basic types of collateral for credit and advances are the following:

- Housing and business property mortgages;
- Pledge on business assets, such as equipment, inventory and receivables;
- Pledge on financial instruments, such as shares;
- Cash deposit;
- Bills of exchange.

In order to mitigate the credit risk and if the banks assesses, it can request for additional collateral from its customers.

Policies and procedures

After the individual classification of exposure to credit risk has been made, the Bank makes an allowance for impairment of the active balance and off-balance sheet receivables, by determining the net present value of future cash flows that would arise based on those receivables.

The amount of the allowance for impairment for active balance sheet receivables, individually, is determined as the difference between the carrying value of balance sheet receivables and the current value of the assessed recoverable amounts (excluding future losses based on the credit). The net present value of the active balances receivables is calculated by discounting expected future cash flows for those receivables with the use of the effective interest rate based on the contract.

Notes to the financial statements (continued)

Disclosure of financial risk management (continued)

Credit risk (continued)

The effective interest rate is the interest rate which equals, the net present value of all future cash flows to the net present value of all future cash outflows. When calculating the effective interest rate, the Bank:

- Takes into consideration all future cash flows (inflows and outflows) which are expected to arise in accordance with the agreed conditions;
- Takes into consideration all paid and/or collected commissions and fees which represent an integral part of the effective interest rate of the receivable;
- Does not take into consideration the fees and commissions for investment of deposit, as a collateral for the receivable;
- Does not take into consideration future losses due to credit risk of the receivable.

For the purposes of discounting the expected future cash flows, the effective interest rate on annual basis is used.

If due to the financial difficulties of the client, the Bank approves a change of crediting conditions in terms of change of interest rate and the period of repayment of the client's receivables, the effective interest rate used for discounting the expected future cash flows, is the one that was valid before the changes of the crediting conditions.

For discounting the expected future cash flows of the receivables with a variable interest rate, the Bank applies the effective interest rate, in accordance with the contract, valid on the day on which the net present value of expected cash flows is determined.

In these situations, the effective interest rate is calculated for the entire period of the contract's validity (not just the remaining maturity period), by applying the interest rate, valid on the day on which the net present value of expected cash flows is determined. If the interest rate on the date on which the net present value is determined, is changed by less than 10% in terms of the last interest rate used to execute the discounting of future cash flows, the Bank can apply the previous interest rate that was used to determine the net present value of expected future cash flows.

The Bank allows 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".

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from current accounts, matured deposits, disbursed loans and other cash calls.

The table 2.2 analyses assets and liabilities of the Bank into relevant maturity based on the remaining period at balance sheet date to the contractual maturity date.

Notes to the financial statements (continued)**Disclosure of financial risk management (continued)****Market risks**

The Bank is exposed to market risks. Market risks arise from the open position of the Bank to the effect of fluctuation in the prevailing level of market interest rates, as well as from the effect of fluctuation in the foreign exchange rates. The Bank's management sets limits of the value of risk that may be accepted, which is mainly based on a day – by – day monitoring.

a) Interest rate risk

The Bank is exposed to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table 2.3.1 analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date as of 31 December 2010 and 31 December 2009.

b) Foreign currency risk

The Bank is exposed to effects on fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table 2.3.2 summarizes the net foreign currency risk position of the Bank at 31 December 2010 and 2009.

Notes to the financial statement (continued)

2 Financial risk management**2.1 Credit risk****A. Analysis of maximum credit risk exposure**

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off-balance sheet exposure		Total		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
Carrying value of exposure with an allowance for impairment/special reserve on individual basis																			
Carrying value of individually significant exposures, before the allowance for impairment and the special reserve, on individual basis																			
risk category A	30,000	-	3,089,826	3,268,297	779,593	762,717	-	2	302,674	505,033	2,027	2,221	7,911	21,375	637,202	475,973	4,849,233	5,035,618	
risk category B	-	-	225,176	207,936	-	-	-	-	-	-	192	459	195	624	635	23,511	226,198	232,530	
risk category C	-	-	269,222	162,338	-	-	-	-	1,151	1,981	123	306	1,416	488	8,090	2,188	280,002	167,301	
risk category D	-	-	62,470	219,959	156	156	-	-	-	-	208	228	2,343	1,207	-	361	65,177	221,911	
risk category E	-	-	319,401	133,545	75,787	75,787	-	-	-	-	1,917	1,869	68,504	263,322	29	372	465,638	474,895	
	30,000	-	3,966,095	3,992,075	855,536	838,660	-	2	303,825	507,014	4,467	5,083	80,369	287,016	645,956	502,405	5,886,248	6,132,255	
(Allowance for impairment and special reserve, on individual basis)	(300)	-	(426,145)	(308,634)	(76,681)	(76,610)	-	-	(1,110)	(1,119)	(2,070)	(1,866)	(64,334)	(213,933)	(5,035)	(5,616)	(575,675)	(607,778)	
Carrying value of individually significant exposures, less the allowance for impairment and the special reserve, on individual basis	29,700	-	3,539,950	3,683,441	778,855	762,050	-	2	302,715	505,895	2,397	3,217	16,035	73,083	640,921	496,789	5,310,573	5,524,477	

Carrying value of exposures that are assessed on group basis, before allowance for impairment and the special reserve on group basis

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

Credit risk (continued)

Analysis of maximum credit risk exposure (continued)

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off – balance sheet exposure		2010	Total 2009
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
Individually insignificant exposures (portfolio of small loans)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individually significant exposures that are not impaired on individual basis (Allowance for impairment and special reserve, group basis)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying value of exposures that are assessed on group basis, less the allowance for impairment and the special reserve, group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying value of exposure for which no allowance for impairment/special reserve is allocated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Matured receivables																		
<i>Aging structure of matured receivables for which no allowance for impairment is allocated</i>																		
up to 30 days	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Carrying value of matured receivables for which there is no allowance for impairment</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non – matured receivables																		
Restructured receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	740,656	715,444	-	-	13,755	13,561	9,357	37,311	763,769	766,316

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

Credit risk (continued)

Analysis of maximum credit risk exposure (continued)

In Denar thousand	Loans and advances from banks		Loans and advances from customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off – balance sheet exposure		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<i>Carrying value of non-matured receivables for which there no allowance for impairment /special reserve is allocated</i>	-	-	-	-	-	-	-	-	740,656	715,444	-	-	13,755	13,561	9,357	37,311	763,769	766,316
Total carrying value of the credit risk receivables before the allowance for impairment and special reserve	30,000	-	3,966,095	3,992,075	855,536	838,660	-	2	1,044,481	1,222,458	4,467	5,083	94,124	300,577	655,313	539,716	6,650,016	6,898,571
(Total allowance for impairment and special reserve)	(300)	-	(426,145)	(308,634)	(76,681)	(76,610)	-	-	(1,110)	(1,119)	(2,070)	(1,866)	(64,334)	(213,933)	(5,035)	(5,616)	(575,675)	(607,778)
Total carrying value of the credit risk receivables less the allowance for impairment and special reserve	29,700	-	3,539,950	3,683,441	778,855	762,050	-	2	1,043,371	1,221,339	2,397	3,217	29,790	86,644	650,278	534,100	6,074,341	6,290,793

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

Credit risk (continued)

B. Value of collateral (fair value) for mitigating of credit risk (in Denar thousand)

	Loans and advances from banks		Loans and advances from customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Other receivables		Off – balance sheet exposure		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
<i>Value of collateral of the credit exposure which is assessed for impairment on individual basis</i>																
First class collateral instruments:																
cash deposits (in depot and/or limited on bank accounts)	-	-	135,110	160,024	-	-	-	-	-	-	3,547	21,042	21,212	16,301	159,869	197,367
Government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Government unconditional guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporative guarantees (except for banks and insurance companies)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees from individuals	-	-	3,234,169	2,424,708	-	-	-	-	-	-	38,630	34,494	248,282	77,940	3,521,081	2,537,142
Property pledge																
Property for own use (flats, houses)	-	-	1,908,687	623,900	-	-	-	-	-	-	103,715	1,121	155,911	1,305	2,168,313	626,326
Business property	-	-	4,054,353	5,535,737	-	-	-	-	-	-	180,726	181,284	418,563	461,979	4,653,642	6,179,000
Moveable property pledge	-	-	1,360,212	1,513,778	-	-	-	-	-	-	33,171	49,157	56,658	80,284	1,450,041	1,643,219
Other types of guarantee	-	-	312,878	477,851	-	-	-	-	-	-	9,808	58,732	39,335	44,871	362,021	581,454
Unsecured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total value of collateral of credit exposure which is assessed for allowance for impairment on individual basis	-	-	11,005,409	10,735,998	-	-	-	-	-	-	369,597	345,830	939,961	682,680	12,314,967	11,764,508

Notes to the financial statement (continued)

Financial risk management (continued)

Credit risk (continued)

C. Concentration of credit risk by geographical location and industrial sectors

Industrial sectors

The following table depicts a review of the Bank's exposure to credit risk according to the carrying amounts, categorized according to the industrial sectors as of 31 December 2010 and 2009 (in Denar thousand):

	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off – balance sheet exposure		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Industrial sectors																		
Non-resident	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	493,180
Agriculture, hunting and forestry	-	-	121,589	210,332	-	-	-	-	-	-	4	23	44	108	12,024	2,930	133,661	213,393
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mining	-	-	23,783	19,384	-	-	-	-	-	-	1	10	42	215	-	-	23,826	19,609
Processing industry	-	-	649,102	803,756	21,357	21,357	-	-	-	-	385	305	6,119	49,776	78,994	95,485	755,957	970,679
Electricity, gas and water supply	-	-	297	-	-	-	-	-	-	-	-	-	-	-	5	-	302	-
Construction	-	-	262,568	178,197	-	-	-	-	-	-	94	320	195	6,659	92,475	37,500	355,332	222,676
Wholesale and retail; repair of automobiles, motorcycles and subject to personal use and for households	-	-	857,488	826,158	76	76	-	-	-	-	246	246	386	3,328	102,036	62,567	960,232	892,375
Hotel and restaurants	-	-	26,621	33,719	-	-	-	-	-	-	9	2	23	67	1,997	8,003	28,650	41,791
Traffic, storage and communication	-	-	238,963	223,029	-	-	-	-	-	-	71	169	129	59	182,985	127,988	422,148	351,245
Financial mediation	29,700	-	2,145	11	698,082	659,763	-	2	1,043,371	1,221,339	384	265	21,818	22,063	9,630	37,493	1,805,130	1,940,936
Activities related to property, renting and business activities	-	-	82,517	105,514	-	-	-	-	-	-	5	23	260	158	2,417	1,497	85,199	107,192
Public management and defence; mandatory social protection	-	-	-	-	59,340	80,854	-	-	-	-	24	24	-	-	-	-	59,364	80,878

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

Credit risk (continued)
Industrial sectors (continued)

	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available – for – sale		Investment in financial assets held to maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off – balance exposure		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Education	-	-	6,734	10,549	-	-	-	-	-	-	1	2	-	6	3,631	591	10,366	11,148
Health and social sphere	-	-	85,648	94,068	-	-	-	-	-	-	1	21	57	59	6,020	363	91,726	94,511
Other utilities, cultural, general and personal service activities	-	-	57,622	24,250	-	-	-	-	-	-	554	151	27	60	30,264	25,166	88,467	49,627
Private households that employ people	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exterritorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	-	-	1,113,197	1,140,814	-	-	-	-	-	-	613	1,653	679	3,951	126,491	133,827	1,240,980	1,280,245
Sole traders and individuals that are not considered as traders	-	-	11,676	13,660	-	-	-	-	-	-	5	3	11	134	1,309	690	13,001	14,487
Total	29,700	-	3,539,950	3,683,441	778,855	762,050	-	2	1,043,371	1,221,339	2,397	3,217	29,790	86,644	650,278	534,100	6,074,341	6,290,793

Geographical location

	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available – for – sale		Investment in financial assets held – to – maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Off – balance sheet exposure		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Geographical location																		
Republic of Macedonia	29,700	-	3,539,950	3,683,441	778,855	762,050	-	2	767,982	728,160	2,397	3,217	29,790	86,643	650,278	534,100	5,798,952	5,797,613
EU member countries	-	-	-	-	-	-	-	-	160,490	379,515	-	-	-	1	-	-	160,490	379,516
Europe (other)	-	-	-	-	-	-	-	-	99,722	106,227	-	-	-	-	-	-	99,722	106,227
OECD member countries (without the European member-countries of OECD)	-	-	-	-	-	-	-	-	15,177	7,437	-	-	-	-	-	-	15,177	7,437
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	29,700	-	3,539,950	3,683,441	778,855	762,050	-	2	1,043,371	1,221,339	2,397	3,217	29,790	86,644	650,278	534,100	6,074,341	6,290,793

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

2.2 Liquidity risk

In Denar thousand

31 December 2010

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial Assets							
Cash and cash equivalents	853,385	-	-	189,986	-	-	1,043,371
Trading assets	8,460	-	-	-	-	-	8,460
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	29,700	-	-	-	-	-	29,700
Loans and advances to customers	347,374	282,892	1,564,480	476,143	669,760	199,301	3,539,950
Investment in securities	638,790	29,980	29,360	80,725	-	-	778,855
Investment in associates	-	-	-	-	-	-	-
Current income tax receivables	1,299	-	-	-	-	-	1,299
Other receivables	24,121	-	8,066	-	-	-	32,187
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	1,903,129	312,872	1,601,906	746,854	669,760	199,301	5,433,822
Financial liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due from banks	24,871	92,777	3,000	-	-	-	120,648
Due from customers	2,138,749	623,479	1,341,144	205,242	152,791	-	4,461,405
Issued debt securities	-	-	-	-	-	-	-
Borrowings	51,549	39,275	115,842	78,465	124,387	29,810	439,328
Subordinated liabilities	-	-	-	-	-	-	-
Current income tax liabilities	413	-	-	-	-	-	413
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	51,151	-	-	-	-	-	51,151
Total financial liabilities	2,266,733	755,531	1,459,986	283,707	277,178	29,810	5,072,945
Net liquidity gap	(433,653)	(461,312)	(81,174)	762,488	398,691	175,837	360,877

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

Liquidity risk (continued)

In Denar thousand

31 December 2009

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Total
Financial assets							
Cash and cash equivalents	992,762	-	-	228,577	-	-	1,221,339
Trading assets	2,924	6,725	-	-	-	-	9,649
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	392,946	371,677	917,497	997,305	805,874	198,142	3,683,441
Investment in securities	608,451	-	79,941	73,660	-	-	762,052
Investment in associates	-	-	-	-	-	-	-
Current income tax receivables	-	-	-	-	-	-	-
Other receivables	41,487	-	-	48,374	-	-	89,861
Assets pledged as collateral	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	2,038,570	378,402	997,438	1,347,916	805,874	198,142	5,766,342
Financial liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due from banks	36,794	91,760	-	-	-	-	128,554
Due from customers	2,085,880	897,857	1,353,285	228,232	107,342	-	4,672,596
Issued debt securities	-	-	-	-	-	-	-
Borrowings	20,336	16,733	107,139	131,264	223,533	49,761	548,766
Subordinated liabilities	-	-	-	-	-	-	-
Current income tax liabilities	2,716	-	-	-	-	-	2,716
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	47,156	-	-	-	-	-	47,156
Total financial liabilities	2,192,882	1,006,350	1,460,424	359,496	330,875	49,761	5,399,788
Net liquidity gap	(154,312)	(627,948)	(462,986)	988,420	474,999	148,381	366,554

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

2.3 Market risks

2.3.1 Interest risk

		In Denar thousand								
		Instruments with fixed interest rate, including those with a variable interest rate, subject to decisions								
31 December 2010										
	Effective interest rate (in %)	Instruments with variable interest rate	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 5 years	Over 5 years	Non-interest bearing	Total
Financial assets										
Cash and cash equivalents	1.26%	-	738,664	-	-	-	-	-	304,707	1,043,371
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	2.00%	-	29,700	-	-	-	-	-	-	29,700
Loans and advances to customers	11.30%	99,620	344,380	2,657,580	46,214	52,016	103,077	25,142	211,921	3,539,950
Investments in securities	4.03%	-	638,791	29,762	29,578	-	-	-	80,724	778,855
Investments in associates	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	32,187	32,187
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	-
		99,620	1,751,535	2,687,342	75,792	52,016	103,077	25,142	629,539	5,424,064
Financial liabilities										
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	-	-	-
Due from banks	4.06%	-	24,602	92,258	3,000	-	-	-	788	120,648
Due from customers	4.07%	-	2,013,442	2,301,267	-	-	-	-	146,696	4,461,405
Debt instruments issued	-	-	-	-	-	-	-	-	-	-
Borrowings	3.41%	115,322	49,301	-	54,247	63,089	124,387	29,810	3,172	439,328
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	51,151	51,151
		115,322	2,087,345	2,393,525	57,247	63,089	124,387	29,810	201,807	5,072,532
Net interest gap		(15,702)	(335,810)	293,817	18,545	(11,073)	(21,310)	4,668	427,732	351,531

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

Market risk (continued)
Interest risk (continued)

31 December 2009	In Denar thousand									
	Effective interest rate (In %)	Instrumen ts with variable interest rate	Less than 1 month	From 1 to 3 months	From 3 to 12 months	Effective interest rate (In %)	Instrumen ts with variable interest rate	Less than 1 month	From 1 to 3 months	
Financial assets										
Cash and cash equivalents	0.68%	-	720,301	-	-	228,577	-	-	272,461	1,221,339
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	11.73%	199,416	385,250	360,526	915,470	664,105	730,292	196,185	232,197	3,683,441
Investments in securities	8.15%	-	606,030	-	79,940	-	-	-	76,082	762,052
Investments in associates	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	89,861	89,861
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	-
			1,711,581	360,526	995,410	892,682	730,292	196,185	670,601	5,756,693
Financial liabilities										
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	-	-	-
Due from banks	5.40%	-	36,646	91,760	-	-	-	-	148	128,554
Due from customers	5.40%	-	1,942,881	897,857	1,351,831	228,232	107,342	-	144,453	4,672,596
Debt instruments issued	-	-	-	-	-	-	-	-	-	-
Borrowings	4.96%	196,417	19,963	1,896	61,139	70,091	147,067	49,761	2,432	548,766
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	-	47,156	47,156
			1,999,490	991,513	1,412,970	298,323	254,409	49,761	194,189	5,397,072
			(287,909)	(630,987)	(417,560)	594,359	475,883	146,424	476,412	359,621
Net interest gap	-	2,999	9	7	0	594,359	475,883	146,424	476,412	359,621

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

Market risks (continued)

2.3.2 Foreign currency risk

2010	MKD	EUR	USD	CHF	GBP	In Denar thousand		
						Other	Total	
Monetary assets								
Cash and cash equivalents	500,999	332,527	152,803	28,910	2,578	25,554	1,043,371	
Trading assets	8,460	-	-	-	-	-	8,460	
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	
Derivative assets held for risk management	-	-	-	-	-	-	-	
Loans and advances to banks	29,700	-	-	-	-	-	29,700	
Loans and advances to customers	1,707,307	1,832,552	91	-	-	-	3,539,950	
Investments in securities	719,515	59,340	-	-	-	-	778,855	
Investments in associates	-	-	-	-	-	-	-	
Current income tax receivables	1,299	-	-	-	-	-	1,299	
Other receivables	23,887	4,329	3,971	-	-	-	32,187	
Assets pledged as collateral	-	-	-	-	-	-	-	
Deferred tax assets	-	-	-	-	-	-	-	
Total monetary assets	2,991,167	2,228,748	156,865	28,910	2,578	25,554	5,433,822	
Monetary liabilities								
Trading liabilities	-	-	-	-	-	-	-	
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-	
Derivative liabilities held for risk management	-	-	-	-	-	-	-	
Due from banks	3,011	117,637	-	-	-	-	120,648	
Due from customers	2,706,892	1,542,710	156,034	28,821	2,252	24,696	4,461,405	
Debt instruments issued	-	-	-	-	-	-	-	
Borrowings	35,837	403,491	-	-	-	-	439,328	
Subordinated liabilities	-	-	-	-	-	-	-	
Current income tax liabilities	413	-	-	-	-	-	413	
Deferred tax liabilities	-	-	-	-	-	-	-	
Other liabilities	48,285	2,570	283	13	-	-	51,151	
Total monetary liabilities	2,794,438	2,066,408	156,317	28,834	2,252	24,696	5,072,945	
Net foreign currency position	196,729	162,340	548	76	326	858	360,877	

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

Market risk (continued)
Foreign currency risk (continued)

2009	MKD	EUR	USD	CHF	GBP	In Denar thousand	
						Other	Total
Monetary assets							
Cash and cash equivalents	438,819	594,997	127,014	28,158	5,441	26,910	1,221,339
Trading assets	9,649	-	-	-	-	-	9,649
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,801,843	1,881,514	84	-	-	-	3,683,441
Investments in associates	681,198	80,854	-	-	-	-	762,052
Current income tax receivables	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Assets pledged as collateral	84,225	2,984	2,652	-	-	-	89,861
Deferred tax assets	-	-	-	-	-	-	-
Total monetary assets	-	-	-	-	-	-	-
Derivative assets held for risk management	3,015,734	2,560,349	129,750	28,158	5,441	26,910	5,766,342
Monetary liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Due from banks	3,014	125,540	-	-	-	-	128,554
Due from customers	2,528,783	1,956,114	129,536	28,808	3,629	25,726	4,672,596
Issued debt securities	-	-	-	-	-	-	-
Borrowings	5,772	542,994	-	-	-	-	548,766
Subordinated liabilities	-	-	-	-	-	-	-
Current income tax liabilities	2,716	-	-	-	-	-	2,716
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	45,711	1,379	66	-	-	-	47,156
Total monetary liabilities	2,585,996	2,626,027	129,602	28,808	3,629	25,726	5,399,788
Net foreign currency position	429,738	(65,678)	148	(650)	1,812	1,184	366,554

3 Capital management

The Bank's objectives regarding capital management are:

- To comply with the capital requirements by the National Bank of the Republic of Macedonia;
- To safeguard the Bank's ability to provide dividends to shareholders;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, using techniques prescribed by national regulatory authority (National Bank of Republic of Macedonia) and it is submitted to regulatory authority on a quarterly basis.

The National Bank of the Republic of Macedonia requires that each bank has to maintain capital adequacy ratio at least 8%.

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

- Tier 1 capital that includes: ordinary and non-cumulative priority shares and share premium, statutory reserves and retained earnings or loss, items are result of consolidation, less: intangible assets.
- Tier 2 capital that includes: cumulative preferred shares and share premium, hybrid capital instruments and subordinated instruments.

Investment in other banks or financial institution over 10% and investments in insurance and re-insurance companies and pension fund management companies are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

According to national regulations, the risk weighted assets (on-balance and off-balance) are measured by means of a hierarchy of four risk weights classified according to nature of assets, taking into consideration the collateral or guarantees.

Calculation of capital adequacy ratio includes regulatory capital and total of credit risk-weighted assets and foreign exchange risk-weighted assets.

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2010 and 2009 regarding the regulatory requirements of the National Bank of the Republic of Macedonia. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

Notes to the financial statement (continued)
Capital management (continued)

		In Denar thousand	
No.	Description	31 December 2010	31 December 2009
I	CREDIT RISK WEIGHTED ASSETS		
1	On-balance sheet credit risk weighted assets	4,245,899	4,385,107
2	Off-balance sheet credit risk weighted assets	433,778	395,610
3	Credit risk weighted assets (1+2)	4,679,677	4,780,717
4	Capital necessary to cover credit risk	374,374	382,457
II	FOREX RISK WEIGHTED ASSETS		
5	Aggregate foreign currency position	277,415	27,411
6	Net-position of gold	-	-
7	Capital necessary to cover currency risk	22,193	2,193
8	Foreign exchange risk weighted assets	277,415	27,411
III	OTHER RISK WEIGHTED ASSETS		
9	Capital necessary to cover the risk from price changes of goods	-	-
	Capital necessary to cover market risks		
10	(10.1+10.2+10.3+10.4+10.5+10.6+10.7+10.8)	-	-
	Capital necessary to cover the specific risk from investment in debt		
10.1	instruments	-	-
	Capital necessary to cover the general risk from investment in debt		
10.2	instruments	-	-
	Capital necessary to cover the specific risk from investment in		
10.3	equity securities	-	-
	Capital necessary to cover the general risk from investment in		
10.4	equity securities	-	-
10.5	Capital necessary to cover the settlement risk	-	-
10.6	Capital necessary to cover counterparty risk	-	-
10.7	Capital necessary to cover overdraft of exposure limits	-	-
10.8	Capital necessary to cover market risks from options	-	-
11	Capital necessary to cover the other risks (9+10)	-	-
12	Other risk weighted assets	-	-
IV	RISK WEIGHTED ASSETS (3+8+12)	4,957,092	4,808,128
13	Capital necessary to cover the risks	396,567	384,650
V	REGULATORY CAPITAL	889,026	895,575
VI	ADEQUACY OF CAPITAL (V/IV)	17.93%	18.63%

Notes to the financial statement (continued)
Capital management (continued)

Report on own funds

In Denar thousand

No.	Description	31 December 2010	31 December 2009
	Paid-in and subscribed ordinary and non-cumulative preference shares		
1		907,888	907,888
1.1	Nominal value	907,888	907,888
1.1.1	Nominal value of ordinary shares	907,888	907,888
1.1.2	Nominal value of non-cumulative preference shares	-	-
1.2	Premium	-	-
1.2.1	Premium of ordinary shares	-	-
1.2.2	Premium of non-cumulative preference shares	-	-
2	Reserves and retained earnings and loss	6,035	73,859
2.1	Reserve fund	6,035	8,872
2.2	Retained earnings	-	64,987
2.3	Accumulated loss from previous years	-	-
2.4	Current profit	-	-
2.5	Unrealized loss of securities available – for – sale	-	-
3	Positions arising from consolidation	-	-
3.1	Minority interest	-	-
3.2	Reserves from exchange rate differences	-	-
3.3	Other differences	-	-
4	Deduction	3,200	71,391
4.1	Loss at the year end or current loss	-	67,824
4.2	Treasury shares	-	345
4.3	Intangible assets, including the revalorization surplus realized for these assets	3,200	3,222
4.4	Net-negative revaluation reserves	-	-
4.5	Differences between amounts of the required and recognized impairment/special reserve	-	-
4.6	Amount of unallocated impairment and special reserve as a result of accounting time lag	-	-
5	Ordinary shares, reserves and retained earnings and accumulated loss and deductions	910,723	910,356
6	Amount of other positions that may be included in the core capital	-	-
I	CORE CAPITAL	910,723	910,356
	Additional capital I		
7	Paid-in and subscribed cumulative preference shares and premium on such share	-	-
7.1	Nominal value	-	-
7.2	Premium	-	-
8	Revaluation reserves	-	-
9	Hybrid capital instruments	-	-
10	Subordinated instruments	-	-
11	Amount of subordinated instruments that may be included in the additional capital I	-	-
II	ADDITIONAL CAPITAL I	-	-
	Deduction from core capital and additional capital I		
12	Capital investments in other banks and financial institutions with more than 10% share participation in such institutions (exc. institutions under No.15)	21,697	14,781
13	Investments in subordinated and hybrid capital investments and other instruments of institutions referred to in 12	-	-
14	Aggregate amount of investments in capital, subordinated and hybrid instruments and other instruments exceeding 10% of (I+II)	-	-
15	Direct capital investments in insurance and reinsurance companies and pension fund management undertakings	-	-
16	Investments in financial instruments issued by the insurance and reinsurance companies and pension fund management undertakings	-	-

Notes to the financial statement (continued)
Capital management (continued)

Report on own funds (continued)

No.	DESCRIPTION	In Denar thousand	
		31 December 2010	31 December 2009
	Amounts representing excess of limits of investments in non –		
17	financial institutions	-	-
18	Positions arising from consolidations (negative amounts)	-	-
III	DEDUCTIONS	21,697	14,781
IV	Core capital after deductions	889,026	895,575
V	Additional capital I after deduction	-	-
	Additional capital II		
19	Subordinated instruments of additional capital II		-
20	Additional capital I and II		-
21	Allowed amount of additional capital I and II		-
21.1	Additional capital I		-
21.2	Additional capital II		-
22	Excess core capital	492,459	510,925
22.1	Excess core capital (150%)	738,688	766,387
22.2	Excess core capital (250%)	1,231,147	1,277,312
VI	Allowed amount of additional capital II		
	Own funds		
VII	Core capital	889,026	895,575
VIII	Additional capital I	-	-
IX	Additional capital II	-	-
X	OWN FUNDS	889,026	895,575

Notes to the financial statements (continued)

4 Segment reporting

A. Primary business segments

In Denar thousand	Retail customer s	Corporate banking	Investment banking	Other	Unallocated	Total
2010						
Net interest income /(expense)	18,957	182,910	-	16,654	-	218,521
Net income /(expenses) from fees and commission	35,774	69,729	-	(9,955)	-	95,548
Net income from trading	-	-	-	-	(1,659)	(1,659)
Net income from other financial instruments carried at their fair value	-	-	-	-	-	-
Other operating income	-	-	-	-	74,279	74,279
Income realized between segments	-	-	-	-	-	-
Total income per segment	54,731	252,639	-	6,699	72,620	386,689
Financial performance per segment	54,731	252,639	-	6,699	(264,997)	49,071
Income tax	-	-	-	-	(3,422)	(3,422)
Profit/(loss) for the financial year	54,731	252,639	-	6,699	(268,420)	45,649
Total assets per segment	1,118,736	2,398,514	-	1,066,073	1,454,229	6,037,552
Unallocated assets per segment	-	-	-	-	-	-
Total assets	1,118,736	2,398,514	-	1,066,073	1,454,229	6,037,552
Total liabilities per segment	2,815,783	1,410,571	-	795,026	56,600	5,077,980
Unallocated liabilities per segment	-	-	-	-	-	-
Total liabilities	2,815,783	1,410,571	-	795,026	56,600	5,077,980
Allowance for impairment of financial assets, net	-	-	-	-	6,572	6,572
Impairment loss of non-financial assets, net	-	-	-	-	(21,167)	(21,167)
Amortisation	-	-	-	-	(34,205)	(34,205)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	-	-	-	-	(288,818)	(288,818)

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

Segment reporting (continued)
Primary business segment (continued)

In Denar thousand	Retail customers	Corporat. banking	Investm. banking	Other	Unalloc.	Total
2009						
Net interest income /(expense)	25,552	215,684	-	(6,217)	-	235,019
Net income /(expenses) from fees and commission	32,933	55,093	-	(9,160)	-	78,866
Net trading income	-	-	-	-	2,482	2,482
Net income from other financial instruments designated at their fair value	-	-	-	-	-	-
Other operating income	-	-	-	-	45,376	45,376
Income realized between segments	-	-	-	-	-	-
Total income per segment	58,485	270,777	-	(15,377)	47,858	361,743
Financial performance per segment	58,485	270,777	-	(15,377)	(376,884)	(62,999)
Income tax	-	-	-	-	(4,825)	(4,825)
(Loss) for the financial year	58,485	270,777	-	(15,377)	(381,709)	(67,824)
Total assets per segment	1,147,062	2,535,388	-	1,222,330	1,414,547	6,319,327
Unallocated assets per segment	-	-	-	-	-	-
Total assets	1,147,062	2,535,388	-	1,222,330	1,414,547	6,319,327
Total liabilities per segment	2,880,441	1,651,219	-	818,257	55,487	5,405,404
Unallocated liabilities per segment	-	-	-	-	-	-
Total liabilities	2,880,441	1,651,219	-	818,257	55,487	5,405,404
Allowance for impairment of financial assets, net	-	-	-	-	(98,552)	(98,552)
Allowance for impairment of non-financial assets, net	-	-	-	-	(34,838)	(34,838)
Amortization & depreciation	-	-	-	-	(30,832)	(30,832)
Restructuring costs	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-
Other expenses	-	-	-	-	(260,520)	(260,520)

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

Segment reporting (continued)

B. Secondary geographical segment

In Denar thousand	Republic of Macedoni a	EU member states	Europe (other countr.)	OECD member states	Other	Unalloc a- ted	Total
2010							
Net interest income /(expenses)	228,533	(10,099)	87	-	-	-	218,521
Net income /(expenses) from fees and commissions	96,700	(1,152)	-	-	-	-	95,548
Net income from trading	(1,659)	-	-	-	-	-	(1,659)
Net income from other financial instruments carried at fair value	-	-	-	-	-	-	-
Other operating income	74,279	-	-	-	-	-	74,279
Income realized between segments	-	-	-	-	-	-	-
Total income per segment	397,853	(11,251)	87	-	-	-	386,689
Financial performance per segment	60,235	(11,251)	87	-	-	-	49,071
Income tax	(3,422)	-	-	-	-	-	(3,422)
(Loss) for the financial year	56,813	(11,251)	87	-	-	-	45,649
Total assets per segment	5,572,177	426,935	38,440	-	-	-	6,037,552
Unallocated assets per segment	-	-	-	-	-	-	-
Total assets	5,572,177	426,935	38,440	-	-	-	6,037,552
Total liabilities per segment	4,858,466	208,297	2,872	5,651	2,694	-	5,077,980
Unallocated liabilities per segment	-	-	-	-	-	-	-
Total liabilities	4,858,466	208,297	2,872	5,651	2,694	-	5,077,980
Allowance for impairment of financial assets, net	6,573	-	-	-	-	-	6,573
Allowance for impairment of non- financial assets, net	(21,167)	-	-	-	-	-	(21,167)
Amortization and depreciation	(34,205)	-	-	-	-	-	(34,205)
Restructuring costs	-	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-	-
Other expenses	(288,818)	-	-	-	-	-	(288,818)

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

Segment reporting (continued)
Secondary geographical segment (continued)

In Denar thousand	Republic of Macedonia	EU member states	Europe (other countr.)	OECD member states	Other	Unalloca- ted	Total
2009							
Net interest income /(expenses)	246,779	(11,854)	94	-	-	-	235,019
Net income /(expenses) from fees and commissions	78,538	328	-	-	-	-	78,866
Net income from trading	2,482	-	-	-	-	-	2,482
Net income from other financial instruments carried at fair value	-	-	-	-	-	-	-
Other operating income	45,376	-	-	-	-	-	45,376
Income realized between segments	-	-	-	-	-	-	-
Total income per segment	373,175	(11,526)	94	-	-	-	361,743
Financial performance per segment	(51,567)	(11,526)	94	-	-	-	(62,999)
Income tax	(4,825)	-	-	-	-	-	(4,825)
(Loss) for the financial year	(56,392)	(11,526)	94	-	-	-	(67,824)
Total assets per segment	5,597,571	686,344	35,412	-	-	-	6,319,327
Unallocated assets per segment	-	-	-	-	-	-	-
Total assets	5,597,571	686,344	35,412	-	-	-	6,319,327
Total liabilities per segment	5,096,460	299,963	1,991	3,769	3,221	-	5,405,404
Unallocated liabilities per segment	-	-	-	-	-	-	-
Total liabilities	5,096,460	299,963	1,991	3,769	3,221	-	5,405,404
Allowance for impairment of financial assets, net	(98,552)	-	-	-	-	-	(98,552)
Loss due to impairment of non- financial assets, net	(34,838)	-	-	-	-	-	(34,838)
Amortization and depreciation	(30,832)	-	-	-	-	-	(30,832)
Restructuring costs	-	-	-	-	-	-	-
Costs for investment in property and equipment	-	-	-	-	-	-	-
Other expenses	(260,520)	-	-	-	-	-	(260,520)

Notes to the financial statements (continued)

5 Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be replaced or a liability settled on an arms length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

In Denar thousand	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	1,043,371	1,043,371	1,221,339	1,221,339
Trading assets	8,460	8,460	9,649	9,649
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	29,700	29,700	-	-
Loans and advances to other customers	3,539,950	3,539,950	3,683,441	3,683,441
Investment in securities	778,855	778,855	762,052	762,052
Investment in associates	-	-	-	-
Current income tax receivables	1,299	1,299	-	-
Other receivables	32,187	32,187	89,861	89,861
Assets pledged as collateral	-	-	-	-
Deferred tax assets	-	-	-	-
Liabilities				
Trading liabilities	-	-	-	-
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Due from banks	120,648	120,648	128,554	128,554
Due from other customers	4,461,405	4,461,405	4,672,596	4,672,596
Issued debt securities	-	-	-	-
Borrowings	439,328	439,328	548,766	548,766
Subordinated liabilities	-	-	-	-
Current income tax liabilities	413	413	2,716	2,716
Deferred tax liabilities	-	-	-	-
Other liabilities	51,151	51,151	47,156	47,156

Loans and advances to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits is equal to their carrying amount due to their short - term nature.

Loans and advances to customers

Loans and advances are carried at amortized cost and are net of provisions for impairment. Loans and advances to customers have predominantly floating rates. Their fair value approximates their carrying value.

Other financial assets

The fair value of monetary assets, that include cash and cash equivalents, is considered to approximate their respective carrying values by definition and due to their short - term nature.

Bele[ki kon finansiskite izve[ta]i (prodol`uva)

Financial assets and liabilities fair value (continued)

Deposits and loans

The estimated fair value of sight deposits, which include non-interest-bearing deposits, is the amount repayable on demand. The fair value of the term deposits at variable interest rates approximates their carrying values as of the balance sheet date.

The carrying amount of borrowings does not significantly differ from their fair value, mainly because of variable interest rates and their changes.

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

6 Interest income and expense

A. Structure of interest income and expense according to the type of financial instruments

	2010	2009
Interest income		
Cash and cash equivalents	8,352	7,925
Financial assets at fair value through profit and loss at its/ their initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	418	514
Loans and advances to other customers	362,353	422,018
Investment in securities	45,511	27,621
Other receivables	217	35
(Allowance for impairment of interest income, net)	(15,856)	(19,182)
Collected interest previously written off	47,160	43,075
Total interest income	448,155	482,006
Interest expense		
Financial liabilities at fair value through profit and loss at its/ their initial recognition	-	-
Derivative liabilities held for risk management	-	-
Due to banks	1,320	2,558
Due to customers	205,395	213,413
Issued debt securities	-	-
Loan liabilities	22,919	31,016
Subordinated liabilities	-	-
Other liabilities	-	-
Total interest expenses	229,634	246,987
Net interest income	218,521	235,019

B. Sector analysis of interest income and expenses according to sector

	2010	2009
Interest income		
Non-financial companies	240,395	263,493
Government	4,810	1,359
Non-profit institutions that serve households	350	37
Banks	48,732	32,679
Other financial institutions (non-banking)	-	-
Households	121,608	158,488
Non-residents	956	2,057
(Allowance for impairment of interest income, net)	(15,856)	(19,182)
Collected interest previously written off	47,160	43,075
Total interest income	448,155	482,006
Interest expense		
Non-financial companies	25,521	33,580
Government	3,410	8,461
Non-profit institutions that serve households	5,989	6,256
Banks	17,141	21,099
Other financial companies (non-banking)	46,211	18,268
Households	120,395	145,505
Non-residents	10,967	13,818
Total interest expense	229,634	246,987
Net interest income/(expense)	218,521	235,019

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

7 Fee and commission income and expense

A. Structure of fee and commission income and expense according to the type of financial instruments

	2010	2009
Fee and commission income		
Loans	32,341	25,686
Payment's operations		
- in the country	39,621	33,122
- abroad	23,707	23,175
Letter of credit and guarantees	11,742	11,045
Brokerage operations	1,352	2,371
Asset management	-	-
Fiduciary activities	-	25
Issuing securities	-	-
Other	8,413	5,970
Total fee and commission income	117,176	101,394
Fee and commission expense		
Loans	3,328	4,569
Payment operations		
- in the country	10,644	10,468
- abroad	3,740	3,280
Letter of credit and guarantees	-	-
Brokerage operations	439	373
Asset management	-	-
Fiduciary activities	-	-
Issuing securities	-	-
Other	3,477	3,838
Total fee and commission expense	21,628	22,528
Net fee and commission income/(expense)	95,548	78,866

B. Sector analysis of fees and commission income and revenue per sector

	2010	2009
Fee and commission income		
Non-financial companies	77,647	65,251
Government	297	336
Non-profit institutions that serve households	801	728
Banks	1,055	987
Other financial companies (non-banking)	784	-
Households	33,448	31,067
Non-residents	3,144	3,025
Total fee and commission income	117,176	101,394
Fee and commission expense		
Non-financial companies	1,538	4,063
Government	35	35
Non-profit institutions that serve households	-	-
Banks	7,221	8,339
Other financial institutions (non-banking)	8,539	7,392
Households	-	-
Non-residents	4,295	2,699
Total fee and commission expense	21,628	22,528
Net fee and commission income	95,548	78,866

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousands, unless otherwise stated)

8 Net income/ loss from trading

	2010	2009
Assets for trading		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of equity instruments, net		-
- realised	(8)	-
- unrealised	(2,344)	2,399
Income from dividends from trading assets	693	83
Income from interest of trading assets	-	-
Liabilities for trading		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of trading deposits, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of remaining financial liabilities for trading, net		
- realised	-	-
- unrealised	-	-
Interest expense of financial liabilities held for trade	-	-
<i>Profit/(loss) from fair value change of derivatives held for trading, net</i>		
- realised	-	-
- unrealised	-	-
Net income from trading	(1,659)	2,482

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

9 Net income from other financial instruments carried at fair value

	2010	2009
Financial assets carried at fair value through profit and loss at their initial recognition		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from fair value changes of equity instruments, net		
- realised	-	-
- unrealised	-	-
Income from dividends from financial assets at fair value through profit and loss	-	-
Profit/(loss) from the changes in fair value of loans and receivables at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
Financial liabilities carried at fair value through profit and loss at their initial recognition		
Profit/(loss) from fair value changes of debt securities, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of deposits at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of borrowings at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
Profit/(loss) from the changes in fair value of other financial liabilities at fair value through profit and loss, net		
- realised	-	-
- unrealised	-	-
<i>Profit/(loss) from fair value changes of derivatives held for risk management at fair value through profit and loss, net</i>		
- realised	-	-
- unrealised	-	-
Net income from other financial instruments carried at fair value	-	-

10 Net foreign exchange gains/(losses)

	2010	2009
Realized foreign exchange gains / (losses), net	15,958	20,085
Unrealized foreign exchange gains / (losses), net		
- foreign exchange differences of allowance for impairment of financial assets, net	(134)	-
- other foreign exchange differences, net	(2,212)	(1,850)
Net foreign exchange gains/(losses)	13,612	18,235

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousands, unless otherwise stated)

11 Other operating income

	2010	2009
Profit from the sale of assets available – for – sale	-	-
Dividends from equity instruments available – for – sale	4,060	12,082
Net income from investment in subsidiaries and associates	-	-
Capital gain from the sale of:		
- property and equipment	125	462
- intangible assets	-	-
- foreclosed assets	13,016	11,350
- non – current assets held for sale and group for disposal	-	-
Income from rent	313	258
Income from litigations	33,784	-
Collected receivables previously written off	7,328	14
Release of special reserve and provisions for:		
- off – balance sheet credit exposure	606	-
- contingent commitments based on litigations	-	-
- pensions and other employee benefits	-	-
- restructuring	-	-
- adverse contracts	-	-
- other provisions	-	-
Other	1,435	2,975
Total other operating income	60,667	27,141

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

12 Impairment loss of financial assets, net

	Loans and advances to banks	Loans and advances to other customers	Investment in finan. assets available-for- sale	Investment in finan. assets held to maturity	Cash and cash equivalents	Fees and commission receivables	Other receivables	Total
2010								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	750	389,469	76	-	3,627	1,613	215,236	610,771
(Release of allowance for impairment)	(450)	(256,579)	-	-	(3,665)	(356)	(356,293)	(617,343)
	300	132,890	76	-	(38)	1,257	(141,057)	(6,572)
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	-	-	-	-	-	-	-
(Release of allowance for impairment)	-	-	-	-	-	-	-	-
Total allowance for impairment of financial assets, net	300	132,890	76	-	(38)	1,257	(141,057)	(6,572)
2009								
<i>Allowance for impairment, on individual basis</i>								
Additional allowance for impairment	-	266,062	39	-	2,653	28,266	209,330	506,350
(Release of allowance for impairment)	-	(242,021)	(1,256)	-	(2,722)	-	(161,799)	(407,798)
	-	24,041	(1,217)	-	(69)	28,266	47,531	98,552
<i>Allowance for impairment, on group basis</i>								
Additional allowance for impairment	-	22,244	-	-	-	-	-	22,244
(Release of allowance for impairment)	-	(22,244)	-	-	-	-	-	(22,244)
	-	-	-	-	-	-	-	-
Total allowance for impairment of financial assets, net	-	24,041	(1,217)	-	(69)	28,266	47,531	98,552

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousands, unless otherwise stated)

13 Impairment loss of non – financial assets, net

	Property and equipment	Intangible assets	Foreclosed assets	Non - current assets held for sale and group for disposal	Other non- financial assets	Goodwill	Total
2010							
Additional impairment loss	-	-	21,167	-	-	-	21,167
(Release of impairment loss)	-	-	-	-	-	-	-
Total impairment loss of non-financial assets, net	-	-	21,167	-	-	-	21,167
2009							
Additional impairment loss	-	-	34,838	-	-	-	34,838
(Release of impairment loss)	-	-	-	-	-	-	-
Total impairment loss of non-financial assets, net	-	-	34,838	-	-	-	34,838

Notes to the financial statements (continued)
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14 Employee benefits

	2010	2009
Short - term employee benefits		
- Salaries	78,955	69,566
- Mandatory contribution for social and health insurance	37,457	34,671
- Short - term paid leave of absence	-	-
- Expenses for temporary employment	-	-
- Interest in profit and rewards	-	-
- Non-monetary benefits	-	-
	116,412	104,237
Benefits after termination of employment		
- Contribution to pension plans for defined contributions	-	-
- Benefits at retirement	-	40
- Increasing the obligation for pension plans and defined benefits	-	-
- Increasing the obligation for other long-term benefits	-	-
- Other benefits after the termination of employment	-	-
	-	40
Benefits due to termination of employment		
Employee payments based on shares, settled with equity instruments	-	-
Employee share-based payments, settled in cash	-	-
Other	-	-
- Employee expenses based on collective contracts	1,658	5,578
	1,658	5,578
Total personnel expenses	118,070	109,855

15 Amortisation and depreciation

	2010	2009
Amortization of intangible assets		
Internally developed software	-	-
Software purchased from external suppliers	3,458	2,850
Other internally developed intangible assets	-	-
Other non-material assets	759	307
Investment in intangible assets under lease	-	-
	4,217	3,157
Depreciation of property and equipment		
Construction objects	7,933	7,929
Transport vehicles	1,450	885
Furniture and office equipment	9,692	10,415
Other equipment	8,841	6,673
Other items of property and equipment	451	391
Investment in property and equipment under lease	1,621	1,382
	29,988	27,675
Total amortization and depreciation	34,205	30,832

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
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16 Other operating expenses

	2010	2009
Loss due to the sale of assets available – for – sale	-	-
Expenses for software licensing	-	-
Insurance premiums on deposits	20,167	19,349
Insurance premiums on property and employees	3,022	2,590
Materials and services	67,564	69,395
Administrative and marketing expenses	13,070	14,209
Other taxes and contributions	766	3,431
Expenses for rent	32,001	31,188
Expenses for litigation	29,009	4,291
Special reserve for off-balance exposure, net	-	506
Provisions for pensions and other employee benefits, net	-	-
Provisions for contingent commitments based on litigations, net	-	-
Other provisions, net	-	-
Loss from the sale of:		
- property and equipment	-	-
- non-material assets	-	-
- foreclosed assets	23	-
- non - current assets held for sale and group for disposal	-	-
Other	5,126	5,706
Total other operating expenses	170,748	150,665

17 Income tax

A. Expenses/income for current and deferred income tax

	2010	2009
Current income tax		
Expenses / (income) for current income tax for the year	3,422	4,825
Adjustments for previous years	-	-
Benefits for previously unrecognized tax losses, tax balance or temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	3,422	4,825
Deferred income tax		
Deferred income tax that arises from temporary differences for the year	-	-
Recognition of previously unrecognized tax losses	-	-
Changes in the tax rate	-	-
Introducing new taxes	-	-
Benefits from previously unrecognized tax losses, balance or temporary differences from previous years	-	-
Other	-	-
	-	-
Total income tax expenses	3,422	4,825

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Income tax (continued)	2010	2009
Current income tax		
Recognized in the Income statement	3,422	4,825
Recognized in equity	-	-
	3,422	4,825
Deferred income tax		
Recognized in the Income statement	-	-
Recognized in equity	-	-
	-	-
Total income tax expenses	3,422	4,825

B. Reconciliation of the effective average tax rate with the variable tax rate

	in%	Denar thousand 2010	in%	Denar thousand 2009
Profit/(loss) before taxation	-	49,071	-	(62,999)
Income tax in accordance with the applicable tax rate	-	-	-	-
Effect from various tax rates in other countries	-	-	-	-
Adjustment for previous years and changes in the tax rate	-	-	-	-
Taxed income abroad	-	-	-	-
Expenses unrecognized for tax purposes	10%	3,422	10%	4,825
Tax exempted income	-	-	-	-
Tax exemptions unrecognized in the Income statement	-	-	-	-
Recognition of previously unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax balance or temporary differences from previous years	-	-	-	-
Changes of deferred tax	-	-	-	-
Other	-	-	-	-
Total expenses/(return) of income tax	-	3,422	-	4,825
Average effective tax rate	-	-	-	-

18 Cash and cash equivalents

	2010	2009
Cash in hand	128,592	108,532
Current account and deposits with the NBRM, except for obligatory foreign currency reserves	421,404	377,412
Current accounts and deposits with foreign banks	186,477	184,567
Current accounts and deposits with domestic banks	27,602	12,844
Treasury bills traded on the secondary market	-	-
Government bills traded on the secondary market	-	-
Term deposits with a maturity period less than, or equal to three months	88,823	307,470
Other short - term highly liquid assets	674	923
Interest receivables	-	-
(allowance for impairment loss)	(1,110)	(1,119)
Included in cash and cash equivalents for the purpose of the Statement of cash flows	852,462	990,629
Obligatory foreign currency reserves	189,986	228,577
Restricted deposits	923	2,133
(allowance for impairment loss)	-	-
Total	1,043,371	1,221,339

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

Cash and cash equivalents (continued)

	2010	2009
Movement of allowance for impairment		
As of 01 January	1,119	1,188
Allowance for impairment for the year		
- additional allowance for impairment	3,627	2,653
- (release from allowance for impairment)	(3,665)	(2,722)
Effect of exchange rate difference	29	-
(Written-off receivables)	-	-
As of 31 December	1,110	1,119

As of 31 December 2010 the cash and cash equivalents are in amount of Denar 375,227 thousand (2009: Denar 348,732 thousand) which represent obligatory reserve.

Based on the new Decision on obligatory reserve brought by the National Bank of the Republic of Macedonia and effective from 01 June 2009, Bank's reserve requirement ratio equals to 10% for liabilities in domestic currency, 20% for liabilities in domestic currency with foreign exchange 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 11 in the current month until 10 in the following month.

Bank's reserve requirement in Denar represent sum of the amount calculated from the liabilities in domestic currency, the amount calculated from liabilities in domestic currency with foreign exchange clause and 23% of the amount calculated from the liabilities in foreign currency. The Bank fulfils the reserve requirement in Denar on average basis. Bank's reserve requirement in Euro is 77% of the amount calculated from the liabilities in foreign currency. The Bank is required to keep an obligatory reserve in foreign currency in separate accounts with the National Bank of the Republic of Macedonia denominated in Euro at a fixed level.

As of 31 December 2009 the Bank was required to keep its foreign currency obligatory reserve on special accounts with the National Bank of Republic of Macedonia, calculated at 10% of the average balance of the Bank's Denar amounts due to residents and non-residents, legal entities and individuals for each calendar day during the previous month. These assets are restricted for the daily business activities of the Bank.

The interest rate for the reserve requirement in Denar as of 2010 and 2009 was 2% p.a. During 2010, the interest rate for the reserve requirement in foreign currency was 0.1% p.a. (2009: 0.0%).

Notes to the financial statements (continued)
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(All amounts expressed in Denar thousand, unless otherwise stated)

19 Trading assets

	2010	2009
<i>Trading Securities</i>		
Debt securities for trading		
- Treasury bills for trading	-	-
- Government bills for trading	-	-
- Other instruments on the money market	-	-
- Bonds issued by the Government	-	-
- Corporative bonds	-	-
- Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Owned instruments for trading</i>		
- Owned instruments issued by banks	-	6,726
- Other owned instruments	8,460	2,923
	8,460	9,649
Quoted	8,460	9,649
Unquoted	-	-
<i>Derivatives for trading</i>		
- Contracts dependent on the change of interest rate	-	-
- Contracts dependent on the change of exchange rate	-	-
- Contracts dependent on the change of price of securities	-	-
- Other contracts that meet the criteria of IAS 39	-	-
	-	-
Total assets for trading	8,460	9,649

20 Financial assets at fair value through profit and loss at initial recognition

	2010	2009
Debt securities		
- Treasury bills	-	-
- Government bills	-	-
- Other instruments on the money market	-	-
- Bonds issued by the government	-	-
- Corporative bonds	-	-
- Other debt instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
<i>Equity instruments</i>		
- Equity instruments issued by banks	-	-
- Other equity instruments	-	-
	-	-
Quoted	-	-
Unquoted	-	-
Loans and advances to banks	-	-
Loans and advances to other customers	-	-
Total financial assets at fair value through profit and loss, at initial recognition	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
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21 Derivative assets and liabilities held for risk management

	2010		2009	
	Derivative assets	(Derivative liabilities)	Derivative assets	(Derivative liabilities)
A. Derivatives for risk protection /Derivatives held for risk management				
<i>A.1 According to type of variability</i>				
Derivatives held for risk management				
Contracts dependent on the change of interest rate	-	-	-	-
Contracts dependent on the change of exchange rate	-	-	-	-
Contracts dependent on the change of price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
Total derivatives held for risk management	-	-	-	-
<i>A.2 According to risk protection</i>				
Fair value risk protection	-	-	-	-
Cash flow risk protection	-	-	-	-
Risk protection of net investment in foreign operations	-	-	-	-
Total derivatives held for risk management	-	-	-	-
B. Embedded derivatives				
Contracts dependent on the change of interest rate	-	-	-	-
Contracts dependent on the change of exchange rate	-	-	-	-
Contracts dependent on the change of price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
Total embedded derivatives	-	-	-	-
Total derivatives held for risk management	-	-	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

22 Loans and advances

22.1 Loans and advances to banks

	2010		2009	
	Short – term	Long – term	Short – term	Long – term
Loans to banks				
- domestic banks	30,000	-	-	-
- foreign banks	-	-	-	-
Term deposits, maturity over three months				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Repo				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Other receivables				
- domestic banks	-	-	-	-
- foreign banks	-	-	-	-
Interest receivables	-	-	-	-
Current maturity	-	-	-	-
Total loans and advances to banks before allowance for impairment	30,000	-	-	-
(Allowance for impairment)	(300)	-	-	-
Total loans and receivable to banks less allowance for impairment	29,700	-	-	-

	2010	2009
Movements of allowance for impairment		
As of 01 January	-	-
Allowance for impairment for the year		
- additional allowance for impairment	750	-
- (release of allowance for impairment)	(450)	-
Effect of exchange rate differences	-	-
(Written – off receivables)	-	-
As of 31 December	300	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousands, unless otherwise stated)

22.2 Loans and advances to customers

A. Structure of loans and advances to customers by type of debtor

	2010		2009	
	Short – term	Long – term	Short – term	Long – term
Non-financial companies				
- receivables per principal	1,605,107	1,047,119	1,392,669	1,263,270
- interest receivables	20,658	-	27,950	-
Government				
- receivables per principal	-	-	-	-
- interest receivables	-	-	789	-
Non-profit institutions that serve households				
- receivables per principal	18,508	4,219	13,907	3,815
- interest receivables	229	-	234	-
Financial companies, apart from banks				
- receivables per principal	-	-	-	-
- interest receivables	-	-	-	-
Households				
- receivables per principal				
housing loans	1,646	114,876	2,435	84,780
consumer loans	95,884	524,267	118,870	517,710
car loans	20,411	133,295	20,350	166,565
mortgages	21,481	113,935	18,375	114,535
credit cards	27,416	99,154	28,220	97,091
other loans	102,895	5,159	101,210	5,114
interest receivables	9,836	-	14,186	-
Non – residents, apart from banks				
receivables per principal	-	-	-	-
interest receivables	-	-	-	-
Current maturity	406,304	(406,304)	67,739	(67,739)
Total loans and advances to other customers before allowance for impairment	2,330,376	1,635,720	1,806,934	2,185,141
(Allowance for impairment)	(135,629)	(290,516)	(124,814)	(183,820)
Total loans and advances to other customers less allowance for impairment	2,194,746	1,345,204	1,682,120	2,001,321

As of 31 December 2010 the bad and doubtful loans amounted to Denar 415,084 thousand (2009: Denar 481,407 thousand). Unrecognized interest relating to these loans amounted to Denar 74,638 thousand (2009: Denar 67,002 thousand).

Notes to the financial statements (continued)
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(All amounts expressed in Denar thousands, unless otherwise stated)

Loans and advances to customers (continued)

	2010	2009
Movements of allowance for impairment, individual basis		
As of 01 January	308,634	284,593
Allowance for impairment for the year		
- additional allowance for impairment	389,469	266,062
- (release of allowance for impairment)	(256,579)	(242,021)
Effect of exchange rate differences	70	-
(Written-off receivables)	(15,449)	-
As of 31 December	426,145	308,634
Movements of allowance for impairment, group basis		
As of 01 January	-	-
allowance for impairment for the year		
- additional allowance for impairment	-	22,244
- (release of allowance for impairment)	-	(22,244)
Effect of exchange rate differences	-	-
(Written – off receivables)	-	-
As of 31 December	-	-
Total allowance for impairment of loans and advances to customers	426,145	308,634

B. Structure of loans and advances to customers per type of collateral

	2010	2009
<i>First class instruments for guarantee</i>		
- Cash deposits (in depot and/or limited bank accounts)	107,569	154,599
- Government securities	-	-
- Government unconditional guarantees	-	-
- Bank guarantees	-	-
Guarantees from insurance companies and insurance policies	-	-
Corporate guarantees (apart from banking and insurance companies)	-	-
Guarantees from individuals	818,174	582,348
<i>Property pledge</i>		
- Property for own use	571,177	132,420
- Property for operating activities	1,412,980	1,522,608
Property pledge	330,598	488,886
Other types of guarantees	122,576	145,379
Unsecured	176,876	657,201
Total loans and advances to customers less allowance for impairment	3,539,950	3,683,441

Notes to the financial statements (continued)
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23 Investment in securities

23.1 Investment in financial assets available – for – sale

	2010	2009
<i>Debt securities</i>		
Treasury bills	638,790	607,537
Government bills	59,340	80,854
Other instruments on the money market	-	-
Government issued bonds	-	-
Corporative bonds	-	-
Other debt instruments	-	-
	698,130	688,391
Quoted	-	-
Unquoted	698,130	688,391
<i>Owned instruments</i>		
Owned instruments issued by banks	24,828	24,828
Other owned instruments	132,578	125,441
	157,406	150,269
Quoted	103,078	95,941
Unquoted	54,328	54,328
Total investment in financial instruments available – for – sale before allowance for impairment	855,536	838,660
(Allowance for impairment)	(76,681)	(76,610)
Total investment in financial instruments available – for – sale less allowance for impairment	778,855	762,050

	2010	2009
Movements of allowance for impairment		
As of 01 January	76,610	77,827
Allowance for impairment for the year		
- additional allowance for impairment	76	39
- (release of allowance for impairment)	-	(1,256)
Foreign exchange differences	-	-
(Written – off receivables)	(5)	-
As of 31 December	76,681	76,610

23.2 Investment in financial assets held – to - maturity

	2010	2009
<i>Debt securities</i>		
Treasury bills	-	-
Government bills	-	-
Other instruments on the money market	-	-
Government issued bonds	-	2
Corporative bonds	-	-
Other debt instruments	-	-
	-	2
Quoted	-	2
Unquoted	-	-
Total investments in financial instruments held-to-maturity before allowance for impairment	-	2
(Allowance for impairment)	-	-
Total investment in financial instruments held-to-maturity less allowance for impairment	-	2

Notes to the financial statements (continued)
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Investments in financial assets held – to – maturity (continued)

	2010	2009
Movements of allowance for impairment		
As of 01 January	-	-
Allowance for impairment for the year	-	-
- additional allowance for impairment	-	-
- (release of allowance for impairment)	-	-
Foreign exchange differences	-	-
(Written-off receivables)	-	-
As of 31 December	-	-

Treasury bills issued by the NBRM are with a maturity of 28 days (2009: 28 days) and interest rates of 4% p.a. (2009: from 7%-9% p.a.).

24 Investment in subsidiaries and associates

A. Percentage of the Bank's interest in subsidiaries and associates

Name of subsidiaries and associates	Country	Percentage of interest in ownership		Percentage of right to vote		in %
		2010	2009	2010	2009	
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-

B. Financial information of associates – 100%

Name of associates	Total assets	Total liabilities	Total equity and reserves	Income	Profit/(loss) for the financial year
2010					
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2009					
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-

Notes to the financial statements (continued)
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25 Other receivables

	2010	2009
Trade receivables	7,029	13,613
Prepaid expenses	6,245	6,058
Calculated deferred income	-	-
Fees and commission receivables	4,469	5,083
Receivables from the employees	16	2,051
Advances for intangible assets	-	-
Advances for property and equipment	-	-
Other receivables	-	-
- Doubtful receivables from related parties for sale of foreclosed assets	36,507	235,969
- Materials and petty inventory	7,466	7,064
- Receivables for overpaid personal income tax	4,199	4,199
- Other	32,660	31,623
Total other receivables before allowance for impairment	98,591	305,660
(allowance for impairment)	(66,404)	(215,799)
Total other receivables less allowance for impairment	32,187	89,861
	2010	2009
Movement of allowance for impairment		
As of 01 January	215,799	140,002
Allowance for impairment for the year		
- additional allowance for impairment	216,849	237,596
- (release of allowance for impairment)	(356,649)	(161,799)
Effect of exchange rate differences	10	-
(Written-off receivables)	(9,605)	-
As of 31 December	66,404	215,799

Notes to the financial statements (continued)
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26 Pledged assets

	2010	2009
Debt securities	-	-
Owned instruments	-	-
Total pledged assets	-	-

27 Foreclosed assets

	Land	Buildings	Equipment	Residential facilities and apartments	Other	Total
Cost						
At 01 January 2009	-	150,904	17,069	10,447	60,544	238,964
Foreclosed during the year	-	47,246	756	17,150	2,901	68,053
(Sold during the year)	-	(29,779)	-	(1,679)	(1,353)	(32,811)
(Transfer to own assets)	-	-	-	-	-	-
At 31 December 2009	-	168,371	17,825	25,918	62,092	274,206
At 01 January 2010	-	168,371	17,825	25,918	62,092	274,206
Foreclosed during the year	8,339	31,521	21,128	36,878	462	98,328
(Sold during the year)	-	(27,841)	(52)	(2,442)	(996)	(31,331)
(Transfer to own assets)	-	-	-	-	(991)	(991)
At 31 December 2010	8,339	172,051	38,901	60,354	60,567	340,212
Impairment						
At 01 January 2009	-	-	2,159	-	3,082	5,241
Impairment loss	-	-	1,220	473	33,145	34,838
(sold during the year)	-	-	-	-	-	-
(Transfer to own assets)	-	-	-	-	-	-
At 31 December 2009	-	-	3,379	473	36,227	40,079
At 01 January 2010	-	-	3,379	473	36,227	40,079
Impairment loss	-	9,951	5,826	100	5,290	21,167
(Sold during the year)	-	-	(19)	-	-	(19)
(Transfer to own assets)	-	-	-	-	-	-
At 31 December 2010	-	9,951	9,186	573	41,517	61,227
Current carrying value						
At 01 January 2009	-	150,904	14,910	10,447	57,462	233,723
At 31 December 2009	-	168,371	14,446	25,445	25,865	234,127
At 31 December 2010	8,339	162,100	29,715	59,781	19,050	278,985

As of 31 December 2010 foreclosed assets include property with total carrying value of Denar 40,905 thousand, for which, the Bank is in no possession of property deeds. For this property the Bank has other appropriate ownership documentation (ownership certificates, sale and purchase agreements and construction agreements) in accordance with the provisions on Law on Ownership.

Notes to the financial statements (continued)
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28 Intangible assets

Intangible assets as of 31 December 2010 consist of acquired software from external suppliers and other internally developed intangible assets. Movements of carrying values for the reviewed periods are as follows:

	Internally developed software	Acquired software from external suppliers	Other internally developed intangible assets	Other intangible assets	Investments in intangible assets under lease	Goodwill	Total
Cost							
At 01 January 2009	-	21,081	-	-	-	-	21,081
Increase through new acquisitions	-	4,469	-	3,529	-	-	7,998
Increase through internal development	-	-	-	-	-	-	-
Increase through business combinations	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-
(Disposal through business combinations)	-	-	-	-	-	-	-
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-
(Transfer from non – current assets held for sale)	-	-	-	-	-	-	-
At 31 December 2009	-	25,550	-	3,529	-	-	29,079
At 01 January 2010	-	25,550	-	3,529	-	-	29,079
Increase through new acquisitions	-	2,601	-	737	-	-	3,338
Increase through internal development	-	-	-	-	-	-	-
Increase through business combinations	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-
(Disposal through business combinations)	-	-	-	-	-	-	-
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-
Transfer from property and equipment in preparation	-	11,724	-	-	-	-	11,724
(Transfer from non – current assets held for sale)	-	-	-	-	-	-	-
At 31 December 2010	-	39,875	-	4,266	-	-	44,141

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Intangible assets (continued)

	Internally developed software	Acquired software from external suppliers	Other internally developed intangible assets	Other intangible assets	Investments in intangible assets under lease	Goodwill	Total
Amortization and impairment							
At 1 January 2009	-	15,194	-	-	-	-	15,194
Amortization for the year	-	2,850	-	307	-	-	3,157
Impairment loss during the year	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-
At 31 December 2009	-	18,044	-	307	-	-	18,351
At 1 January 2010	-	18,044	-	307	-	-	18,351
Amortization for the year	-	3,458	-	759	-	-	4,217
Impairment loss during the year	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-
(Disposal and write off)	-	-	-	-	-	-	-
At 31 December 2010	-	21,502	-	1,066	-	-	22,568
Current carrying amount							
At 1 January 2009	-	5,887	-	-	-	-	5,887
At 31 December 2009	-	7,506	-	3,222	-	-	10,728
At 31 December 2010	-	18,373	-	3,200	-	-	21,573

Notes to the financial statements (continued)
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(All amounts expressed in Denar thousand, unless otherwise stated)

29 Property and equipment

A. Reconciliation of the current carrying amount

	Land	Buildings	Transport	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in preparation	Investments in intangible assets under lease	Total
Cost									
At 01 January 2009	-	313,318	9,945	101,836	33,285	3,845	2,322	5,467	470,018
Increase	-	-	2,898	2,986	2,469	255	-	2,637	11,245
Increase through business combinations	-	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	(5,343)	(650)	-	-	-	-	(5,993)
(Disposal through business combinations)	-	-	-	-	-	-	-	-	-
(transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	2,181	-	2,181
At 31 December 2009	-	313,318	7,500	104,172	35,754	4,100	4,503	8,104	477,451
At 01 January 2010	-	313,318	7,500	104,172	35,754	4,100	4,503	8,104	477,451
Increase	-	-	558	5,921	14	107	30,154	-	36,754
Increase through business combinations	-	2,007	991	-	16,285	702	(20,015)	30	-
(Disposal and write off)	-	-	-	-	-	-	-	-	-
(Disposal through business combinations)	-	-	(1,620)	(944)	-	-	-	-	(2,564)
(transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
At 01 January 2009	-	-	-	-	-	-	(11,724)	-	(11,724)
Increase	-	-	-	-	-	-	-	-	-
At 31 December 2010	-	315,325	7,429	109,149	52,053	4,909	2,918	8,134	499,917

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Property and equipment (continued)

	Land	Buildings	Transport	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment in preparation	Investments in intangible assets under lease	Total
Depreciation and impairment									
At 01 January 2009	-	51,666	8,334	75,004	10,818	620	-	1,098	147,540
Depreciation for the year	-	7,929	885	10,415	6,673	391	-	1,382	27,675
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	(5,290)	(604)	-	-	-	-	(5,894)
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
At 31 December 2009	-	59,595	3,929	84,815	17,491	1,011	-	2,480	169,321
At 01 January 2010	-	59,595	3,929	84,815	17,491	1,011	-	2,480	169,321
Depreciation for the year	-	7,933	1,450	9,692	8,841	451	-	1,621	29,988
Impairment loss during the year	-	-	-	-	-	-	-	-	-
(Release of impairment loss during the year)	-	-	-	-	-	-	-	-	-
(Disposal and write off)	-	-	(1,620)	(944)	-	-	-	-	(2,564)
(Transfer to non – current assets held for sale)	-	-	-	-	-	-	-	-	-
Transfer from non – current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
At 31 December 2010	-	67,528	3,759	93,563	26,332	1,462	-	4,101	196,745
Net carrying amount									
At 01 January 2009	-	261,652	1,611	26,832	22,467	3,225	2,322	4,369	322,478
At 31 December 2009	-	253,723	3,571	19,357	18,263	3,089	4,503	5,624	308,130
At 31 December 2010	-	247,797	3,670	15,586	25,721	3,447	2,918	4,033	303,172

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

30 Current and deferred tax assets and liabilities

30.1 Current tax assets and current tax liabilities

	2010	2009
income tax receivables (current)	1,299	-
income tax liabilities (current)	(413)	(2,716)
	886	(2,716)

30.2 Deferred tax assets and deferred tax liabilities

A. Recognized deferred tax assets and deferred tax liabilities

	2010			2009		
	Deferred tax assets	(Deferred tax liabilities)	Net basis	Deferred tax assets	(Deferred tax liabilities)	Net basis
Derivative liabilities held for risk management						
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management						
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets/liabilities recognized in the Statement of Income	-	-	-	-	-	-
Investments in financial assets available – for – sale	-	-	-	-	-	-
Cash flow risk protection	-	-	-	-	-	-
Deferred tax assets/liabilities recognized in equity	-	-	-	-	-	-
Total recognized deferred tax assets/liabilities	-	-	-	-	-	-

B. Unrecognized deferred tax assets

	2010	2009
Tax losses	-	-
Tax credits	-	-
Total unrecognized deferred tax assets	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Current and deferred tax assets and liabilities (continued)

V. Reconciliation of the movement of deferred tax assets and tax liabilities during the year

	As of 01 January	Recognized during the year in:		As of 31 December
		Income statement	Equity	
2009				
Derivative liabilities held for risk management				
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property, plant and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management				
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available – for – sale	-	-	-	-
Cash flow risk protection	-	-	-	-
Total recognized deferred tax assets/ liabilities	-	-	-	-
2010				
Derivative liabilities held for risk management				
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property, plant and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management				
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available – for – sale	-	-	-	-
Cash flow risk protection	-	-	-	-
Total recognized deferred tax assets/ liabilities	-	-	-	-

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

31 Non- current assets held for sale and disposal group

A. Non – current assets held for sale

	2010	2009
Intangible assets	-	-
Property and equipment	-	-
Total non – current assets held for sale	-	-

B. Disposal group

	2010	2009
<i>Disposal group of assets</i>		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investment in associates	-	-
Income tax receivables	-	-
Other assets	-	-
Total disposal group of assets	-	-
<i>Liabilities directly related to disposal group</i>		
Financial liabilities	-	-
Special reserve	-	-
Income tax liabilities	-	-
Other liabilities	-	-
Total liabilities directly related to the disposal group	-	-

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

	2010	2009
Profit / (loss) recognized from the sale of assets held for sale and disposal group	-	-
	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

32 Trading liabilities

	<i>In MKD thousand</i>	
	Current year 2010	Current year 2009
<i>Due to banks</i>		
- Current accounts, demand deposits and overnight deposits	-	-
- Term deposits	-	-
- Other deposits	-	-
	-	-
<i>Due to customer</i>		
- Current accounts, demand deposits and overnight deposits	-	-
- Term deposits	-	-
- Other deposits	-	-
	-	-
<i>Issued debt securities</i>		
- Money market instruments	-	-
- Deposit certificates	-	-
- Issued bonds	-	-
- Other	-	-
	-	-
<i>Other financial liabilities</i>	-	-
<i>Trade derivatives</i>		
Contracts dependent on the interest rate change	-	-
Contracts dependent on the exchange rate change	-	-
Contracts dependent on the price of securities	-	-
Other contracts that meet the criteria of IAS 39	-	-
	-	-
Total trading liabilities	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

33 Financial liabilities designated at fair value through profit and loss at its / their initial recognition

	Current carrying amount	2010 Contractual value, paid at maturity	Current carrying amount	2009 Contractual value, paid at maturity
<i>Due to banks</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Due to customer</i>				
Current accounts, demand deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
	-	-	-	-
<i>Issued debt securities</i>				
Money market instruments	-	-	-	-
Deposit certificates	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
	-	-	-	-
<i>Subordinary debts</i>				
	-	-	-	-
<i>Other financial liabilities</i>				
	-	-	-	-
Total financial liabilities through profit and loss at its/ their initial recognition	-	-	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

34 Deposits

34.1 Due to banks

	2010		2009	
	Short – term	Long – term	Short – term	Long – term
Current accounts				
- Domestic banks	217	-	4	-
- Foreign banks	-	-	-	-
	217	-	4	-
Demand deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
	-	-	-	-
Term deposits				
- Domestic banks	27,602	-	36,645	-
- Foreign banks	92,258	-	91,760	-
	119,860	-	128,405	-
Limited deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
	-	-	-	-
Other deposits				
- Domestic banks	-	-	-	-
- Foreign banks	-	-	-	-
	-	-	-	-
Interest				
- Domestic banks	52	-	42	-
- Foreign banks	519	-	103	-
	571	-	145	-
Current maturity	-	-	-	-
Total due to banks	120,648	-	128,554	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

34.2 Due to customers

	Short - term	2010 Long-term	Short - term	2010 Long-term
Non-financial companies				
- Current accounts	560,436	-	493,805	-
- Demand deposits	1,641	-	1,242	-
- Term deposits	345,721	-	449,652	-
- Limited deposits	67,664	-	83,261	-
- Other deposits	410	-	1	-
- Interest	899	-	2,300	-
	976,771	-	1,030,261	-
Government				
- Current accounts	6,568	-	18,749	-
- Demand deposits	819	-	819	-
- Term deposits	10,000	-	90,554	-
- Limited deposits	-	-	38	-
- Other deposits	-	-	-	-
- Interest	14	-	651	-
	17,401	-	110,811	-
Non-profit organizations that serve households				
- Current accounts	20,674	-	42,120	-
- Demand deposits	-	-	-	-
- Term deposits	87,680	-	103,521	-
- Limited deposits	433	-	2,241	-
- Other deposits	-	-	-	-
- Interest	150	-	333	-
	108,937	-	148,215	-
Financial companies, apart from banks				
- Current accounts	9,168	-	10,498	-
- Demand deposits	-	-	-	-
- Term deposits	292,190	206,305	387,176	88,988
- Limited deposits	8,306	73	2,945	-
- Other deposits	-	-	-	-
- Interest	13,720	-	3,486	-
	323,384	206,378	404,105	88,988
Households				
- Current accounts	404,697	-	332,154	-
- Demand deposits	244,697	-	270,666	-
- Term deposits	1,480,476	509,737	1,406,477	675,236
- Limited deposits	82,668	77,644	105,199	75,338
- Other deposits	-	-	-	-
- Interest	4,614	-	6,022	-
	2,217,152	587,381	2,120,518	750,574
Non-residents, apart from banks				
- Current accounts	18,445	-	15,823	-
- Demand deposits	2,132	-	-	-
- Term deposits	-	-	-	-
- Limited deposits	3,424	-	3,301	-
- Other deposits	-	-	-	-
- Interest	-	-	-	-
	24,001	-	19,124	-
Current maturity	435,726	(435,726)	503,988	(503,988)
Total due to other customers	4,103,372	358,033	4,337,022	335,574

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
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35 Issued debt securities

	2010	2009
Money market instruments	-	-
Deposit certificates	-	-
Issued bonds	-	-
Other	-	-
Interest on issued securities	-	-
Total issued debt securities	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
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36 Borrowings

A. The structure of borrowings according to the type of liabilities and the donor's sector

	2010		2009	
	Short - term	Long-term	Short - term	Long-term
Banks				
- Residential				
Borrowings	29,999	288,522	-	345,209
Repo-transactions	-	-	-	-
Interest	2,973	-	3,288	-
- Non-residential				
Borrowings	-	46,129	-	76,467
Repo-transactions	-	-	-	-
Interest	71	-	101	-
	33,043	334,651	3,389	421,676
Non-financial companies				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
	-	-	-	-
Government				
Borrowings	-	2,312	-	2,312
Repo-transactions	-	-	-	-
Interest	-	-	-	-
	-	2,312	-	2,312
Non-profit institutions that serve to households				
Borrowings	-	-	-	-
Interest	-	-	-	-
	-	-	-	-
Financial companies, apart from banks				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
	-	-	-	-
Non-residents, apart from banks				
- Non-financial companies				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Government				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Non-profit institutions that serve to households				
Borrowings	-	-	-	-
Repo-transactions	-	-	-	-
Interest	-	-	-	-
- Financial companies, apart from banks				
Borrowings	-	68,488	-	119,950
Repo-transactions	-	-	-	-
Interest	834	-	1,439	-
- Households				
Borrowings	-	-	-	-
Interest	-	-	-	-
	834	68,488	1,439	119,950
Current maturity	172,789	(172,789)	139,380	(139,380)
Total borrowings	206,666	232,662	144,208	404,558

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Borrowings (continued)

B. Borrowings liabilities according to donor

	2010		2009	
	Short - term	Long-term	Short - term	Long-term
<i>Domestic sources:</i>				
Banks	32,972	288,522	3,288	345,209
Government	-	2,312	-	2,312
	32,972	290,834	3,288	347,521
<i>Foreign sources:</i>				
Banks	71	46,129	101	76,467
Financial companies, apart from banks	834	68,488	1,439	119,950
	905	114,617	1,540	196,417
Current maturity	172,789	(172,789)	139,380	(139,380)
Total borrowings	206,666	232,662	144,208	404,558

37 Subordinated liabilities

	2010	2009
<i>Subordinated deposit liabilities</i>		
_____	-	-
_____	-	-
_____	-	-
Liabilities based on interest	-	-
	-	-
<i>Subordinated credit liabilities</i>		
_____	-	-
_____	-	-
_____	-	-
Interest	-	-
	-	-
<i>Subordinated liabilities on issued securities</i>		
_____	-	-
_____	-	-
_____	-	-
Interest	-	-
	-	-
Preference shares	-	-
Total subordinated liabilities	-	-

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
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39 Other liabilities

	2010	2009
Trade payables	20,910	18,691
Received advances	16,099	16,012
Fee and commission liabilities	17	17
Accrued expenses	-	-
Deferred income from the previous year	627	1,831
Short – term liabilities to employees	5	1
Short – term liabilities for employee benefits	-	-
Other payables		
- Other foreclosed assets liabilities	-	-
- Liabilities based on income allocation	3,028	3,028
- Liabilities based on share clearance	2,907	2,907
Other	7,558	16,012
Total other liabilities	51,151	47,156

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

40 Share capital

A. Share capital

	<i>in MKD</i>		ordinary shares		<i>Number of issued shares</i>		<i>in MKD thousand</i>	
	ordinary shares	Nominal value per share preference shares not for sale	2010	2009	preference shares	not for sale	2010	2009
At 01 January – fully paid	1,000	-	907,888	907,888	-	-	907,888	907,888
Recorded shares during the year	-	-	-	-	-	-	-	-
Realization of share option	-	-	-	-	-	-	-	-
Division / increase of nominal value per share	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
At 31 December – fully paid	1,000	-	907,888	907,888	-	-	907,888	907,888

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Share capital (continued)

B. Dividends

B.1 Issued dividends and paid dividends by the Bank

	2010	2009
Issued dividends and paid dividends for the year	-	-

	2010	2009
Ordinary share dividend	-	-
Preference share dividend	-	-

B.2 Issued dividends after the balance sheet date (the dividends liabilities are not shown in the Balance sheet)

	2010	2009
Issued dividends after 31 December	-	-

	2010	2009
Ordinary share dividend	-	-
Preference share dividend	-	-

C. Shareholders with more than 5% voting share

<i>Shareholder's name</i>	<i>Denar thousand</i>		<i>in %</i>	
	2010 Subscribed capital (Nominal value)	2009 Subscribed capital (Nominal value)	2010 Voting right	2009 Voting right
Teteks AD Tetovo	401,444	401,444	44	44
EBOR	226,972	226,972	25	25
Total	628,416	628,416	69	69

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

41 Earnings per share

A. Basic earnings per share

	2010	2009
Net - profit attributable to holders of ordinary shares		
Net - profit for the year	45,649	(67,824)
Dividends for preference shares not for sale	-	-
Changes of Net - Profit attributable to holders of ordinary shares	-	-
Net profit attributable to holders of ordinary shares	45,649	(67,824)

	2010	2009
Weighted average number of ordinary shares		
Issued ordinary shares as of 1 January	907,888	907,888
Effects of issuing potential ordinary shares	-	-
Weighted average number of ordinary shares (diluted) as of 31 December	907,888	907,888
Basic earnings per share (in MKD)	50	(75)

B. Diluted earnings per share

	2010	2009
<i>Net - profit attributable to holders of ordinary shares (diluted)</i>		
Net profit attributable to holders of ordinary shares	-	-
Changes of net profit attributable to holders of ordinary shares for the effects of all issued potential ordinary shares	-	-
Net profit attributable to holders of ordinary shares (diluted)	-	-

	2010	2009
<i>Weighted average number of ordinary shares (diluted)</i>		
Issued ordinary shares as of 1 January	-	-
Effects of issuing potential ordinary shares	-	-
Weighted average number of ordinary shares (diluted) as of 31 December	-	-
Diluted earnings per share (in MKD)	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

42 Commitments and contingencies

42.1 Commitments

	2010	2009
Payment guarantees		
- in Denar	238,300	217,342
- in foreign currency	49,289	33,057
- in Denar with foreign clause	38,734	64,275
Performance guarantees		
- in Denar	28,372	36,901
- in foreign currency	11,878	3,434
- in Denar with foreign clause	1,296	-
Uncovered letter of credit		
- in Denar	-	-
- in foreign currency	7,339	3,568
- in Denar with foreign clause	-	-
Unused overdraft for current accounts	70,968	77,133
Unused credit card limits	61,775	62,140
Foreclosed liabilities for crediting and unused credit limits	137,590	-
Other commitments and contingencies (covered and uncovered)	414	4,555
Issued covered collateral	8,948	37,311
Covered letter of credit	410	-
Other covered commitments and contingencies	-	-
Total commitments and contingencies before the special reserve	655,313	539,716
(Special reserve)	(5,035)	(5,616)
Total commitments and contingencies less potential reserve	650,278	534,100

Litigations

At 31 December 2010, proceedings against the Bank amount in total Denar 146,556 thousand. The provision as of the balance sheet date has not been recorded because the professional legal advice indicates 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 occur.

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 of the balance sheet date, there are no capital commitments that have been recognized in the financial statements.

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

43 Activities on behalf of third parties

	2010			2009		
	Assets	Liabilities	Net-position	Assets	Liabilities	Net-position
<i>Asset administration on behalf and at the expense of third parties</i>						
Deposits in Denar	-	28,596	(28,596)	-	28,110	(28,110)
Deposits in foreign currencies	-	-	-	-	-	-
Loans in Denar	28,596	-	28,596	28,110	-	28,110
Loans in foreign currencies	-	-	-	-	-	-
Other receivables in Denar	-	-	-	-	-	-
Other receivables in foreign currencies	-	-	-	-	-	-
<i>Asset management on behalf and at the expense of third parties</i>						
Deposits in Denar	-	-	-	-	-	-
Deposits in foreign currencies	-	-	-	-	-	-
Loans in Denar	-	-	-	-	-	-
Loans in foreign currencies	-	-	-	-	-	-
Other receivables in Denar	-	-	-	-	-	-
Other receivables in foreign currencies	-	-	-	-	-	-
Bank accounts	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	28,596	28,596	-	28,110	28,110	-

The Bank manages the assets on behalf of third parties intended for purchasing government bills and bonds or approving loans for customers. These assets are not owned by the Bank and are not recognized in the Balance sheet. The Bank is not exposed to credit risk that arises from these placements.

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

44 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 or that enable a significant influence on the Bank's managing), affiliates and entities, as well as the responsible persons of these shareholders - legal entities, Bank's subsidiaries and other persons related to the Bank.

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 market terms and conditions and during the regular course of business activities.

As of 31 December 2010 and 2009 the balances and volume of transactions with companies related to companies that have common control over the Bank, and key management personnel of the Bank and its related parties, are as follows:

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Related party transactions (continued)

A. Balance sheet

	Parent Company	Subsidiari es	Associates	Managem ent of the Bank	Other related parties	Total
At 31 December 2010						
Assets						
Current accounts	-	-	-	682	319	1,001
Trading assets	-	-	-	-	-	-
Loans and advances						
- Mortgages	-	-	-	942	2,927	3,869
- Consumer loans	-	-	-	1,545	614	2,159
- Financial leasing receivables	-	-	-	-	-	-
- Factoring and forfeiting receivables	-	-	-	-	-	-
- Other loans and advances	-	-	-	762	97,112	97,874
Investments in securities	-	-	-	-	-	-
(Allowance for impairment)	-	-	-	(52)	(31,465)	(31,517)
Other assets	-	-	-	-	-	-
Total	-	-	-	3,879	69,507	73,386
Liabilities						
Trading liabilities	-	-	-	-	-	-
Deposits	-	-	-	29,631	120,068	149,699
Issued securities	-	-	-	-	-	-
Borrowings	-	-	-	-	46,129	46,129
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	-	-	-	-	3,660	3,660
Total	-	-	-	29,631	169,857	199,488
Commitments						
Issued guarantees	-	-	-	-	606	606
Issued letter of credit	-	-	-	-	-	-
Other commitments	-	-	-	1,772	268	2,040
(Special reserves)	-	-	-	-	-	-
Total	-	-	-	1,772	874	2,646
Potential assets						
Received guarantees	-	-	-	-	-	-
Other potential assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Related party transactions (continued)

B. Income and expenses from other related party transactions

	Parent Company	Subsidiaries	Associates	Management of the Bank	Other related parties	Total
2010						
Income						
Interest income	-	-	-	495	2,506	3,001
Fee and commission income	-	-	-	52	1,481	1,533
Net income from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gain from the sale of non - current assets	-	-	-	-	-	-
Other income	-	-	-	-	110	110
Transfers between subjects	-	-	-	-	-	-
Total	-	-	-	547	4,097	4,644
Expenses						
Interest expense	-	-	-	1,286	7,794	9,080
Fee and commission expense	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses from purchase of non - current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, net	-	-	-	5	(156,313)	(156,308)
Other expenses	-	-	-	-	21,007	21,007
Transfers between subjects	-	-	-	-	-	-
Total	-	-	-	1,291	(127,512)	(126,221)
2009						
Income						
Interest income	-	-	-	1,129	3,624	4,753
Fee and commission income	-	-	-	36	904	940
Net income from trading	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gain from the sale of non - current assets	-	-	-	-	-	-
Other income	-	-	-	-	110	110
Transfers between subjects	-	-	-	-	-	-
Total	-	-	-	1,165	4,638	5,803
Expenses						
Interest expense	-	-	-	760	12,376	13,136
Fee and commission expense	-	-	-	-	-	-
Net losses from trading	-	-	-	-	-	-
Expenses from purchase of non - current assets	-	-	-	-	-	-
Allowance for impairment of financial assets, net	-	-	-	(5)	69,313	69,308
Other expenses	-	-	-	-	24,386	24,386
Transfers between subjects	-	-	-	-	-	-
Total	-	-	-	755	106,075	106,830

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Related party transactions (continued)

V. Expenses for the Bank Management

	2010	2009
Short - term employee benefits	26,041	30,116
Benefits after employment	-	-
Benefits due to termination of employment	443	2,826
Employee payment based on shares, settled with owned instruments	-	-
Employee payment based on shares, settled in cash	-	-
Other	-	61
Total	26,484	33,003

45 Leases

A. Lessor

A.1 Financial leases receivables

	Total financial lease receivables	Maturity period for financial lease receivables up to 1 year	
At 31 December 2010			
Current value of minimum lease payments	-	-	-
Total	-	-	-
At 31 December 2009			
Current value of minimum lease payments	-	-	-
Total	-	-	-

A.2 Irreversible operative lease receivables

	Total financial lease receivables	Maturity period for financial lease receivables		
		up to 1 year	From 1 to 5 years	Over 5 years
At 31 December 2010				
Current value of minimum lease payments	-	-	-	-
Total	-	-	-	-
At 31 December 2009				
Current value of minimum lease payments	-	-	-	-
Total	-	-	-	-

	Land	Construction objects	Transport vehicles	Furniture and office equipment	Other equipment	Other items of property, plant and equipment	Total
Value of property under operational lease:							
At 31 December 2010	-	-	-	-	-	-	-
At 31 December 2009	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Notes to the financial statements (continued)
 As of and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

Leases (continued)

B. Lessee

B.1 Financial lease liabilities

	Total financial leases receivables	up to 1 year	From 1 to 5 years	Maturity period for financial lease liabilities Over 5 years
At 31 December 2010				
Current value of minimum lease payments	-	-	-	-
Total	-	-	-	-
At 31 December 2009	-	-	-	-
Current value of minimum lease payments	-	-	-	-
Total	-	-	-	-

Notes to the financial statements (continued)
As of and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Leases (continued)
Financial lease liabilities (continued)

	Land	Buildings	Transport	Furniture and office equipment	Other equipment	Other items of plant, property and equipment	Total
<i>Value of property under financial lease:</i>							
Cost							
At 1 January 2009	-	-	-	-	-	-	-
- additions	-	-	-	-	-	-	-
- (disposal and write off)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
At 31 December 2009	-	-	-	-	-	-	-
As of 01 January 2010	-	-	-	-	-	-	-
- additions	-	-	-	-	-	-	-
- (disposal and write offs)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
At 1 January 2008	-	-	-	-	-	-	-
- depreciation for the year	-	-	-	-	-	-	-
- impairment loss during the year	-	-	-	-	-	-	-
- (release of impairment loss during the year)	-	-	-	-	-	-	-
- (disposal and write offs)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
At 31 December 2009	-	-	-	-	-	-	-
At 1 January 2010	-	-	-	-	-	-	-
- depreciation for the year	-	-	-	-	-	-	-
- impairment loss during the year	-	-	-	-	-	-	-
- (release of impairment loss during the year)	-	-	-	-	-	-	-
- (disposal and write offs)	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	-	-	-
Current carrying value							
At 1 January 2009	-	-	-	-	-	-	-
At 31 December 2009	-	-	-	-	-	-	-
At 31 December 2010	-	-	-	-	-	-	-



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