

Financial statements and Independent Auditors' Report

TTK Banka AD Skopje

31 December 2012

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Independent Auditors' Report

To the Management and Shareholders of
TTK BANKA AD Skopje

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We have audited the accompanying financial statements of TTK BANKA AD Skopje (“the Bank”) which comprise of the Statement of financial position as at 31 December 2012, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 62.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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



Grant Thornton

Skopje,
29 March 2013

Financial statements
31 December 2012

Statement of Comprehensive Income

	Notes	2012	(000 mkd) Year ended 31 December 2011
Interest income		457,347	444,974
Interest expense		(183,149)	(198,611)
Net interest income	6	274,198	246,363
Fee and commission income		134,864	130,402
Fee and commission expense		(20,664)	(21,869)
Net fee and commission income	7	114,200	108,533
Net income / (expenses) from securities held for trading	8	(205)	(611)
Dividend income	9	5,497	4,421
Foreign exchange gains, net		11,570	14,726
Other operating income	10	21,544	13,930
Operating income		426,804	387,362
Allowance for impairment of financial assets, net	11	(34,891)	(44,628)
Impairment losses of non – financial assets, net	12	(7,915)	(9,466)
Personnel expenses	13	(130,580)	(125,568)
Amortisation and depreciation	14	(33,174)	(37,575)
Other operating expenses	15	(172,400)	(155,119)
Operating (expenses)		(378,960)	(372,356)
Profit before taxation		47,844	15,006
Income tax	16	(1,717)	(691)
Profit for the financial year		46,127	14,315
Other comprehensive income for the year			
Revaluation of buildings	26	6,827	-
Total comprehensive income for the year		52,954	14,315
Earnings per share			
Basic and diluted earnings per share (in Denars)	17	51	16

See accompanying Notes to the financial statements

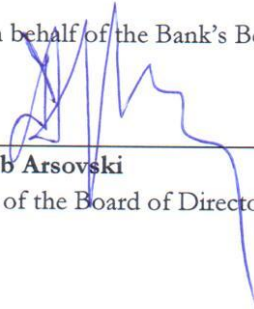
Financial statements
31 December 2012

Statement of Financial Position

	Notes	2012	At 31 December 2011	(000 mkd) At 1 January 2011
Assets				
Cash and cash equivalents	18	2,148,684	1,199,432	1,043,371
Securities held for trading	19	7,050	7,546	8,460
Loans and advances to banks	20	-	19,800	29,700
Loans and advances to customers	21	3,884,066	3,668,671	3,523,173
Investments in securities	22	85,044	1,142,122	778,855
Other receivables	23	44,022	41,890	33,486
Foreclosed assets	24	422,661	463,105	278,985
Intangible assets	25	17,908	20,148	21,573
Property, plant and equipment	26	267,551	284,937	303,172
Total assets		6,876,986	6,847,651	6,020,775
Liabilities				
Due to banks	27	29,173	89,741	120,648
Due to customers	28	5,213,320	5,521,636	4,461,405
Borrowings	29	600,821	248,160	439,328
Special reserve and provisions	30	6,966	7,052	5,035
Other liabilities	31	55,442	62,752	51,564
Total liabilities		5,905,722	5,929,341	5,077,980
Equity and reserves				
Share capital	32	907,888	907,888	907,888
Revaluation reserve		109,628	111,475	114,697
Statutory reserve		19,946	12,882	6,035
(Accumulated losses)		(66,198)	(113,935)	(85,825)
Total equity and reserves		971,264	918,310	942,795
Total liabilities, equity and reserves		6,876,986	6,847,651	6,020,775
Commitments and contingencies	33	630,149	645,375	650,278

These financial statements have been approved and signed by the Bank's Board of Directors on 28 March 2013.

Signed on behalf of the Bank's Board of Directors by:



Dragoljub Arsovski
President of the Board of Directors



Natalija Aleksova
Member of the Board of Directors

See accompanying Notes to the financial statements

Financial statements
31 December 2012

Statement of Changes in Equity

(000 mkd)	Share capital	Revaluation reserve	Statutory reserve	(Accumulated losses)	Total equity and reserves
At 01 January 2011	907,888	130,358	6,035	(101,486)	942,795
Correction on opening balance (Note 2.2.3)	-	(15,661)	-	15,661	-
At 01 January 2011-restated	907,888	114,697	6,035	(85,825)	942,795
<i>Transactions with owners</i>					
Allocation of retained earnings to legal reserves	-	-	6,847	(6,847)	-
Dividends paid	-	-	-	(38,215)	(38,215)
Tax for dividends payment	-	-	-	(585)	(585)
<i>Transactions with owners</i>	-	-	6,847	(45,647)	(38,800)
Profit for the year	-	-	-	14,315	14,315
Other comprehensive income for the year					
Depreciation on buildings	-	(3,222)	-	3,222	-
<i>Total comprehensive income for the year</i>	-	(3,222)	-	17,537	14,315
At 31 December 2011	907,888	111,475	12,882	(113,935)	918,310
At 01 January 2012	907,888	111,475	12,882	(113,935)	918,310
<i>Transactions with owners</i>					
Allocation of retained earnings to legal reserves	-	-	7,064	(7,064)	-
<i>Transactions with owners</i>	-	-	7,064	(7,064)	-
Profit for the year	-	-	-	46,127	46,127
Other comprehensive income for the year					
Revaluation of buildings (Note 26)	-	6,827	-	-	6,827
Disposal of buildings (Note 26)	-	(5,496)	-	5,496	-
Depreciation on buildings	-	(3,178)	-	3,178	-
<i>Total comprehensive income for the year</i>	-	(1,847)	-	54,801	52,954
At 31 December 2012	907,888	109,628	19,946	(66,198)	971,264

See accompanying Notes to the financial statements

Financial statements
31 December 2012

Statement of Cash Flows

	Notes	(000 mkd)	
		For the year ended 31 December	
		2012	2011
Operating activities			
Profit before taxation		47,844	15,006
Adjustment for:			
Depreciation and amortisation		33,174	37,575
Allowance for impairment of financial assets, net		34,891	44,628
Impairment losses of non – financial assets, net		7,915	9,466
Provisions for technological redundancy		804	-
Dividend income		(5,788)	(4,724)
Adjustment of fair value of securities held for trading		496	914
(Gains) from foreclosed assets sold		(11,427)	(3,945)
Gain from property, plant and equipment sold			-
Other adjustments		(2,348)	1,392
Interest income		(457,347)	(444,974)
Interest expenses		183,149	198,611
<i>(Profit) from operations before changes in working capital</i>		<i>(168,637)</i>	<i>(146,051)</i>
<i>Changes in working capital</i>			
Loans and receivables from banks		19,993	10,708
Statutory reserve in foreign currency		41,205	(21,065)
Loans and receivables from customers		(294,972)	(396,060)
Foreclosed assets		103,373	22,094
Other assets		(11,092)	(9,688)
Due to banks		(60,025)	(30,891)
Due to customers		(304,773)	1,065,682
Other liabilities		(7,310)	11,601
		<i>(682,238)</i>	<i>506,330</i>
Interest received		452,968	445,289
Interest paid		(186,546)	(201,312)
Income tax paid		(593)	(3,066)
Net cash used in operating activities		(416,409)	747,241

See accompanying Notes to the financial statements

Financial statements
31 December 2012

Statement of cash flows (continued)

	Notes	(000 mkd)	
		For the year ended	
		2012	2011
Investing activities			
(Purchase) of property, plant and equipment and intangible assets		(6,721)	(17,515)
(Purchase) of securities available – for – sale		1,056,991	(363,301)
Dividend inflows		4,688	1,383
		1,054,958	(379,433)
Financing activities			
Inflow from (Repayment of) borrowings		351,970	(193,933)
(Dividends paid)		-	(38,214)
		351,970	(232,147)
Change in allowance of impairment included in cash and cash equivalents		(78)	43
Effect from foreign exchange differences of cash and cash equivalents		9	2
Net change in cash and cash equivalents		990,450	135,706
Cash and cash equivalents, beginning of the year	18	988,168	852,462
Cash and cash equivalents, end of the year	18	1,978,618	988,168

See accompanying Notes to the financial statements

Notes to the financial statements

1 General

TTK BANKA AD Skopje (“the Bank”) is a Shareholding Bank incorporated in the Republic of Macedonia. The address of its registered head office is: “Naroden Front” 19a Skopje, Republic of Macedonia.

The Bank is authorized by the National Bank of the Republic of Macedonia for payment operations in the country and abroad, deposits activities in the country and abroad and crediting in the country.

The Bank’s shares are quoted on the official market of the Macedonian Stock Exchange, and the listing code is as follows:

Securities Identification	ISIN number
TTK (ordinary share)	MKTTKS101012

As at 31 December 2012, the Bank employs 268 persons (2011: 257 persons).

2 Accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense.

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;

The financial statements present separate financial statements..

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

Basis of preparation (continued)

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

The financial statements have been prepared as at and for the years ended 31 December 2012 and 2011. Current and comparative data stated in these financial statements are expressed in Denar thousand. Where necessary, comparative figures have been adjusted to conform with the changes in presentation for the current year.

2.2 Changes in accounting policies and disclosures

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

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

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

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank (except for the Amendments to IAS 1 noted above in 3.1).

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

IFRS 9 'Financial Instruments' (IFRS 9)

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

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

Changes in accounting policies and disclosures (continued)

IFRS 13 ‘Fair Value Measurement’ (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013.

Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Bank’s consolidated financial statements.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)

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

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

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

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

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

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

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

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

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

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

Changes in accounting policies and disclosures (continued)

Annual Improvements 2009-2011 (the Annual Improvements)

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

Clarification of the requirements for opening statement of financial position:

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

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

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

Tax effect of distribution to holders of equity instruments:

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

Segment information for total assets and liabilities:

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

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

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

Changes in accounting policies and disclosures (continued)

2.2.3 Adoption of 'Transfer of revaluation surplus to retained earnings' (Amendments to IAS 16, paragraph 41)

During 2012, the bank has decided to retrospectively adopt paragraph 41 from IAS 16 'Transfer of revaluation surplus to retained earnings' which allows a part from the revaluation reserves related to the use of property, plant and equipment to be transferred to retained earnings/ (accumulated loss). In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

The effect from adoption of this paragraph from IAS 16, retrospectively for the years before 1 January 2011 in amount of 15,661 Denar thousand is included in the opening balances of revaluation reserves and accumulated losses in the Statement of Changes in Equity of these Financial Statements, while the transfer of revaluation surplus to retained earnings/ (accumulated loss) for the year ended 31 December 2011 is in amount of 3,222 Denar thousand.

2.3 Foreign currency transactions

Transactions denominated in foreign currencies have been translated into Denar at rates set by the National Bank of the Republic of Macedonia at the date when incurred.

Assets and liabilities denominated in foreign currencies are translated in Macedonian Denar ("Denar") at the Statement of financial position 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 statements of income in the period in which they arose. The middle exchange rates used for conversion of the Statement of financial position items denominated in foreign currencies are as follows:

	<u>31 December 2012</u>	<u>31 December 2011</u>
1 EUR	61.5000 Denars	61.5050 Denars
1 USD	46.6510 Denars	47.5346 Denars
1 CHF	50.9106 Denars	50.5964 Denars
1 GBP	75.2800 Denars	73.6322 Denars

2.4 Off-setting

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

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

2.5 Interest income and expenses

Interest income and expense are recognized in the Statement of comprehensive income for all interest bearing financial assets and liabilities using the effective interest method.

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

2.6 Fee and commission income

Fee and commission income is recognized in the Statement of comprehensive income on an accrual basis when the service has been provided.

2.7 Dividend income

Dividends are recognized in the Statement of comprehensive income when the right to receive payment is established. Dividends are presented in net trading income or in other income depending on the classification of the instrument.

2.8 Financial assets

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

Financial assets at fair value through profit or loss

This category of financial assets consists of securities held for trading. 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.

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 arise when the Bank provides money or services directly to a debtor. Loans are recognized when cash is advanced to the borrowers. Loans and receivables are carried at amortized cost using effective interest method. Loans and receivables of the Bank at the Statement of financial position date consist of loans and receivables to banks and customers, cash and cash equivalents and other assets.

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 statements (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. As at 31 December 2012 and 2011, the Bank has no financial assets classified under this category.

Initial recognition of the financial assets

Purchases and sales of 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 at fair value through profit or loss are recognized at fair value while transaction costs are recognized in the Statement of comprehensive income in the period of the purchase.

Subsequent measurement of the financial assets

Subsequently, financial assets held for trading and available – for – sale are carried at fair value. Investments available – for – sale are shown according to their fair value, with the exception of the financial assets that do not have a quoted market price and whose fair value cannot be measured, which are measured at the carrying value less impairment losses. Loans and receivables are carried at amortized cost using effective interest method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are recognized in the Statement of comprehensive income. Gains and losses arising from changes in the fair value of financial assets available – for – sale are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in current profit or loss. However, interest calculated using the effective interest method and positive and negative foreign currency gains and losses on monetary assets classified as available – for – sale are recognized in the Statement of comprehensive income.

Dividends on securities available – for – sale are recognized in the Statement of comprehensive income when the right to receive payment is established.

The fair values of quoted investments in active markets are based on current listing prices. If the market for a financial instrument is not active (for non-quoted securities), the Bank establishes fair value by using the assessment techniques.

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.

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

2.9 Impairment of financial assets

Assets carried at amortized cost

The Bank assesses at each Statement of financial position date whether there is objective evidence that a financial asset is impaired. Financial asset or group of financial assets are 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;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position;
- Deterioration in the value of collateral;
- Activating the collateral.

The Bank assesses the existence of objective evidence for impairment on individual basis for individually significant financial assets and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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 profits and losses.

For the purposes of a group evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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.

Impairment of financial assets (continued)

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

Assets carried at fair value

The Bank assesses at each statement of financial position 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 financial assets available – for – sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value is recognized in the Statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available – for – sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Statement of comprehensive income.

2.10 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.

During June 2012, The National Bank of the Republic of Macedonia issued „Decision on amending the Decision on accounting and regulatory treatment of the foreclosed assets”, according to which the Bank shall be required to recognize the impairment loss for the already foreclosed asset in the income statement equal at least to the higher amount of:

- the difference between the appraised value, reduced by the selling costs and the initial accounting value, reduced by the total amount of impairment loss
- 20% of the initial accounting value reduced by the total amount of impairment loss

The Bank is obliged to make the first recognition of impairment loss for these assets no later than 1 January 2013.

By exception to items above, for the assets foreclosed after 01 January 2010, the deadline and the requirement for impairment loss recognition shall start from 01 July 2014, while the Bank shall be required to make the first recognition of the impairment loss for these assets until 01 January 2015 at the latest.

Until 01 July 2014, for these assets the Bank shall be required to recognize impairment loss in the income statement equal to the difference between the appraised value, reduced by the selling costs and the initial accounting value, reduced by the total amount of impairment loss.

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

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

2.11 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.

2.12 Property, plant and equipment

Part of the Bank's property is recorded at estimated value determined by independent valuer, less accumulated depreciation and impairment losses. The increase in the carrying value as a result of valuation is recognised in the revaluation reserves within the Bank's equity. When disposing the valued asset, part of the previously recognised revaluation reserves are transferred to retained earnings.

All other 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 difference between the depreciation based on the revaluated value of the asset and the depreciation based on the initial cost value of the asset is transferred from revaluation reserves to retained earnings.

The following are approximations of estimated useful life applied to significant items of property, plant and equipment:

Buildings	40 years
Vehicles	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 Statement of comprehensive income 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 statement of comprehensive income.

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

2.13 Impairment of non-financial assets

Assets that are subject to amortisation 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.

2.14 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.

2.15 Provisions

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 Statement of financial position 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.

2.16 Employees 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.

2.17 Income tax

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 at 31 December 2012 and 31 December 2011, as there are no temporary differences existing at those dates.

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

2.18 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities consist of borrowings, deposits and other liabilities.

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. Borrowings are derecognized at the moment of their settlement, termination or expiration.

Deposits to banks and customers

Deposits to banks and customers mainly present: current accounts, demand deposits and time deposits to banks, legal entities and individuals. The Banks recognizes deposits in the Statement of financial position when the Bank becomes a party of contractual provisions of the instrument. The deposits of the clients are measured at their objective value, increased for the transaction costs, which are directly related to the undertaking or issuing of the financial obligation. Deposits to banks and customers shall consequently be measured according to their amortized value, by using the method of effective interest rate. Deposits to banks and customers are derecognized when measured, cancelled or expired.

Other liabilities

Other liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. There are subsequently stated at amortised cost. Other liabilities are derecognized when measured, cancelled or expired.

2.19 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.

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

2.20 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.

Payments of the operating leasing are recognized as an expense on a straight-line basis over the lease term. Prepaid rents are recognised as deferred expenses.

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 Statement of financial position 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.

2.21 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.

2.22 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.

2.23 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 Statement of financial position when become recoverable. Provision for impairment related to off balance commitments and contingencies are recognized as a liability within the Statement of financial position.

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

2.24 Events after the reporting date

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

Notes to the financial statements (continued)

3 Financial risk management

The Bank establishes an integrated system for management of all property, plant and equipment 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.

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.

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

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.

3.1 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.

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 export 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 term 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)
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.

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.

Notes to the financial statements (continued)**Financial risk management (continued)****Credit risk (continued)****Policies and procedures (continued)**

In these cases, 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 calculates impairment and 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".

Impairment and provisioning policies

The allowance for impairment at year-end is derived from each of the Bank's internal rating grades as explained in the Credit risk measurement paragraph above. The table below shows the percentage of the Bank's items relating to loans and advances and the associated allowance for impairment for each of the Bank's internal rating categories:

	2012		2011	
	Financial assets	Allowance for impairment	Financial assets	Allowance for impairment
A	85.15%	0.53%	84.42%	0.91%
B	2.14%	0.25%	2.56%	0.30%
C	1.65%	0.46%	2.23%	0.58%
D	2.09%	1.22%	2.57%	1.41%
E	8.97%	8.70%	8.22%	7.93%
	100.00%	11.16%	100.00%	11.13%

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

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

Credit risk (continued)

Analysis of maximum credit risk exposure

Maximum exposure to credit risk is presented by the carrying amount of the financial assets in the Statement of financial position, as presented in the table below (in Denar thousand):

	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Securities available-for-sale		Other receivables		Off – balance sheet items		Total 2011	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011		
Risk category A	438,735	42,836	-	20,000	3,659,419	3,442,988	85,903	84,803	23,273	14,270	186,505	178,686	4,393,835	3,783,583
Risk category B	480	-	-	-	92,012	104,512	-	-	1,186	298	4,096	9,476	97,774	114,286
Risk category C	16	1,273	-	-	70,845	91,258	-	-	1,027	1,775	7,436	261	79,324	94,567
Risk category D	236	-	-	-	90,002	105,261	-	156	1,691	2,593	-	384	91,929	108,394
Risk category E	-	-	-	-	386,161	336,298	72,847	72,691	85,986	74,754	-	-	544,994	483,743
Net carrying value before provision for impairment	439,467	44,109	-	20,000	4,298,439	4,080,317	158,750	157,650	113,163	93,690	198,037	188,807	5,207,856	4,584,573
(Provision for impairment)	(1,134)	(1,065)	-	(200)	(479,894)	(455,357)	(73,706)	(73,619)	(81,827)	(70,911)	(6,162)	(7,052)	(642,723)	(608,204)
Net carrying value less provision for impairment at 31 December	438,333	43,044	-	19,800	3,818,545	3,624,960	85,044	84,031	31,336	22,779	191,875	181,755	4,565,133	3,976,369
Not past due nor impaired	927,214	427,848	-	-	65,521	43,711	-	1,058,091	372	541	398,415	437,503	1,391,522	1,967,694
Net carrying value at 31 December	1,365,547	470,892	-	19,800	3,884,066	3,668,671	85,044	1,142,122	31,708	23,320	590,290	619,258	5,956,655	5,944,063

Notes to the financial statements (continued)

Financial risk management (continued)

Credit risk (continued)

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

	Loans and receivables from customers		Other receivables		Off – balance sheet items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
First – class security instruments:								
- cash deposits (in a depot and/or restricted bank account)	132,730	118,988	11,060	1,848	39,665	35,600	183,455	156,436
Guarantees from individuals	4,274,420	3,967,371	76,846	54,835	476,537	484,288	4,827,803	4,506,494
Property for own use (flats, houses)	2,869,741	2,429,290	54,285	134,505	198,164	179,687	3,122,190	2,743,482
Business property	6,556,325	5,008,621	167,502	448,032	565,241	726,757	7,289,068	6,183,410
Moveable property pledge	1,467,845	1,220,310	56,447	18,149	33,963	54,533	1,558,255	1,292,992
Other types of guarantee	95,518	187,811	2,229	20,654	2,305	9,842	100,052	218,307
	15,396,579	12,932,391	368,369	678,023	1,315,875	1,490,707	17,080,823	15,101,121

Notes to the financial statements (continued)

Financial risk management (continued)

Credit risk (continued)

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 at 31 December 2012 and 2011 (in Denar thousand):

	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Investment in financial assets available-for-sale		Other receivables		Off – balance sheet items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Agriculture, forestry and fishery	-	-	-	-	76,223	78,564	-	-	21	9	753	9,053	76,997	87,626
Mining	-	-	-	-	9,729	6,606	-	-	36	-	-	4,026	9,765	10,632
Food industry	-	-	-	-	66,216	42,292	-	-	819	777	3,069	4,311	70,104	47,380
Textile industry and production of clothing and footwear	-	-	-	-	107,585	139,660	-	-	5,648	5,807	14,405	13,901	127,638	159,368
Chemical industry, production of construction materials production and processing of fuels, pharmaceutical industry	-	-	-	-	100,657	56,713	-	-	255	81	1,499	2,938	102,411	59,732
Production of metals, machinery, tools and equipment	-	-	-	-	96,453	132,750	21,357	21,357	146	232	6,486	32,007	124,442	186,346
Other manufacturing	-	-	-	-	146,874	174,612	-	-	202	182	6,311	6,164	153,387	180,958
Electricity, gas, steam and air conditioning	-	-	-	-	-	-	-	-	12	5	2,422	-	2,434	5
Water, removing waste water, waste management and remediation activities on the environment	-	-	-	-	2,082	3,017	-	-	-	-	-	-	2,082	3,017
Construction	-	-	-	-	477,100	344,573	-	-	380	658	71,179	69,704	548,659	414,935
Wholesale and retail trade, repair of motor vehicles and motorcycles;	-	-	-	-	1,078,751	929,976	-	76	10,071	1,335	127,896	143,940	1,216,718	1,075,327
Transport and storage	-	-	-	-	169,284	205,191	-	-	377	338	193,007	182,772	362,668	388,301
Accommodation and food service activities	-	-	-	-	40,330	29,202	-	-	35	1,566	2,163	2,104	42,528	32,872
Information and communications	-	-	-	-	17,554	6,954	-	-	12	2	1,445	14	19,011	6,970
Financial activities and insurance activities	937,873	470,892	-	19,800	167	2,339	63,687	1,060,954	11,972	9,628	184	184	1,013,883	1,563,797
Activities related to real estate	-	-	-	-	21,361	4,840	-	-	-	-	8,100	1	29,461	4,841
Professional, scientific and technical activities	-	-	-	-	44,822	59,905	-	-	74	14	390	460	45,286	60,379

Notes to the financial statements (continued)

Financial risk management (continued)

Credit risk (continued)

Industrial sectors (continued)

	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Investment in financial assets available-for-sale		Other receivables		Off – balance sheet items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Administrative and support service activities	-	-	-	-	59,224	55,965	-	-	277	15	2,230	8,285	61,731	64,265
Public administration and defence, compulsory social security	427,674	-	-	-	-	-	-	59,735	11	90	-	-	427,685	59,825
Education	-	-	-	-	20,531	8,261	-	-	-	3	222	663	20,753	8,927
Activities of health and social care	-	-	-	-	90,524	80,726	-	-	58	180	1,143	679	91,725	81,585
Arts, entertainment and recreation	-	-	-	-	4,287	6,323	-	-	-	1	18,450	-	22,737	6,324
Other service activities	-	-	-	-	53,063	54,365	-	-	36	140	10,297	10,955	63,396	65,460
Activities of territorial organizations and bodies	-	-	-	-	15,694	14,583	-	-	42	-	-	-	15,736	14,583
Individuals	-	-	-	-	1,159,937	1,203,994	-	-	1,184	2,241	116,580	125,519	1,277,701	1,331,754
Sole proprietors and individuals who are not considered as traders	-	-	-	-	25,618	27,260	-	-	40	16	2,059	1,578	27,717	28,854
Total	1,365,547	470,892	-	19,800	3,884,066	3,668,671	85,044	1,142,122	31,708	23,320	590,290	619,258	5,956,655	5,944,063

Notes to the financial statements (continued)

Financial risk management (continued)

Credit risk (continued)

Geographical location

	Cash and cash equivalents		Loans and advances to banks		Loans and advances to customers		Securities available-for-sale		Other receivables		Off – balance sheet items		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Geographical location														
Republic of Macedonia	985,016	39,291	-	19,800	3,884,066	3,668,671	85,044	1,142,122	31,708	23,320	590,290	619,258	5,576,124	5,512,462
EU member countries	289,999	266,300	-	-	-	-	-	-	-	-	-	-	289,999	266,300
Europe (other)	90,532	104,775	-	-	-	-	-	-	-	-	-	-	90,532	104,775
OECD member countries (without the European member-countries of OECD)	-	60,526	-	-	-	-	-	-	-	-	-	-	-	60,526
Total	1,365,547	470,892	-	19,800	3,884,066	3,668,671	85,044	1,142,122	31,708	23,320	590,290	619,258	5,956,655	5,944,063

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

3.2 Liquidity risk

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

The Bank is exposed to daily withdrawals of funds from its available cash resources of current accounts, deposits due, on the basis of approved loans and other withdrawals.

Liquidity risk management

The management of liquidity risk includes assets and liabilities management that ensures timely and regular settlement of liabilities of the bank in regular operations or emergency.

The Bank has established Policy for managing liquidity risk, which was adopted by the Supervisory Board and is regularly revised. The policy defines the manner of the Bank's liquidity management through the establishment of basic goals, the basic components of a system for managing liquidity risk (organizational structure, steps and procedures for internal control and audit, information systems, stress testing and liquidity contingencies plan), the basic elements of maintaining an adequate level of liquidity.

The Bank has established procedures for liquidity management, which are adopted by the Board of Directors and are regularly reviewed.

Planning and monitoring of inflows and outflows of funds, establish and maintain adequate maturity structure, monitor the sources of funds and their concentration, liquidity ratios, internal liquidity indicators, fulfilling the legal obligatory reserve requirement in Denars and foreign currency, analysis of Denar and foreign currency operational liquidity, stress testing and other methods are used to manage liquidity risk. Reports of liquidity on a regular basis are submitted to the Risk Management Board and to NBRM on a monthly basis.

The following tables analyse financial liabilities, grouped according to their maturity based on the remaining period from the Statement of financial position date to the agreed maturity date.

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

Liquidity risk (continued)

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total	In Denar thousand Less than one month
31 December 2012							
Liabilities							
Due to banks	26,173	-	3,000	-	-	-	29,173
Due to customers	2,108,608	1,072,107	1,463,403	464,003	105,199	-	5,213,320
Borrowings	47,193	199	83,469	116,965	269,132	83,863	600,821
Other liabilities	33,404	71	333	437	-	-	34,245
Total liabilities	2,215,378	1,072,377	1,550,205	581,405	374,331	83,863	5,877,559
31 December 2011							
Liabilities							
Due to banks	25,228	61,513	3,000	-	-	-	89,741
Due to customers	2,125,072	909,739	1,675,605	577,257	233,963	-	5,521,636
Borrowings	17,756	-	62,303	54,668	96,179	17,254	248,160
Other liabilities	37,832	98	273	440	437	-	39,080
Total liabilities	2,205,888	971,350	1,741,181	632,365	330,579	17,254	5,898,617

3.3 Market risks

Market risk is the risk that changes in market prices, such as changes in interest rates, changes in equity prices, exchange rates and / or market prices of securities will affect the Bank's profit or the value of own financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits by optimizing the yield.

Interest rate risk

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

Risk of changes in interest rates in the banking book

Risk of changes in interest rates in the banking book presents a risk of loss arising from adverse changes in interest rates, affecting the positions in the banking book of the Bank.

The Bank has established Policy for managing risk from changes in interest rates in the banking book, which was adopted by the Supervisory Board and is regularly revised. The policy for managing the risk of changes in interest rates defines how the position and / or implementation of the following components: assessment, monitoring and controlling the risk of changes in interest rates in the banking book, limits on risk exposure, organizational structure risk management of change in interest rates, procedures for internal control and audit, information system and stress testing.

When assessing exposure to risk from changes in interest rates in the banking book, the Bank takes into account all positions of the banking book that are sensitive to changes in interest rates, which may affect the profits and own assets of the Bank. The Bank determines the change in the economic value of the banking book as a result of the exposure to the interest rate risk, by applying the standardised interest rate shock.

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

Market risks (continued)

The table below analyses assets and liabilities of the Bank, grouped according to the period of changes in interest rates at 31 December 2012 and 2011 (in Denar thousand):

	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
31 December 2012							
Assets							
Cash and cash equivalents	1,304,138	367,760	-	-	-	-	1,671,898
Securities held for trading	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	243,080	2,962,003	93,884	122,803	285,641	95,846	3,803,257
Securities available-for-sale	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
	1,547,218	3,329,763	93,884	122,803	285,641	95,846	5,475,155
Liabilities							
Due to banks	24,613	-	3,000	-	-	-	27,613
Due to customers	2,022,564	3,073,062	837	61	-	-	5,096,524
Borrowings	44,171	199	83,469	116,965	269,132	83,863	597,799
Other liabilities	35	71	333	437	-	-	876
	2,091,383	3,073,332	87,639	117,463	269,132	83,863	5,722,812
Net interest rate risk	(544,165)	256,431	6,245	5,340	16,509	11,983	(247,657)
31 December 2011							
Total assets	2,106,193	3,149,849	67,387	41,615	86,456	12,520	5,464,020
Total liabilities	2,096,537	2,734,429	451,378	365,613	96,617	17,254	5,761,828
Net interest rate risk	9,656	415,420	(383,991)	(323,998)	(10,161)	(4,734)	(297,808)

Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2012 and 2011, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's profit for the year ended 31 December 2012 would respectively decrease/increase by approximately Denar 4,953 thousand (2011: Denar 5,956 thousand).

At 31 December 2011 the other equity components would respectively increase/decrease by Denar 21,162 thousand.

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

Market risks (continued)

Foreign currency risk

The Bank takes on exposure to effects on fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The following table summarizes the net foreign currency risk position of the Bank at 31 December 2012 and 2011 (in Denar thousand):

	MKD	EUR	USD	CHF	GBP	Other currencies	Total
31 December 2012							
Assets							
Cash and cash equivalents	1,386,584	489,578	212,755	30,529	2,440	26,798	2,148,684
Securities held for trading	7,050	-	-	-	-	-	7,050
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	2,078,938	1,805,128	-	-	-	-	3,884,066
Investments in securities	85,044	-	-	-	-	-	85,044
Other receivables	21,564	5,306	4,838	-	-	-	31,708
	3,579,180	2,300,012	217,593	30,529	2,440	26,798	6,156,552
Liabilities							
Due to banks	3,020	26,153	-	-	-	-	29,173
Due to customers	3,340,693	1,598,115	215,909	30,270	2,252	26,081	5,213,320
Borrowings	25,716	575,105	-	-	-	-	600,821
Other liabilities	28,729	4,906	532	49	-	29	34,245
	3,398,158	2,204,279	216,441	30,319	2,252	26,110	5,877,559
Net foreign currency position	181,022	95,733	1,152	210	188	688	278,993
31 December 2011							
Total assets	3,455,949	2,336,719	210,124	29,515	3,409	25,175	6,060,891
Total liabilities	3,431,056	2,201,300	209,737	29,178	3,043	24,303	5,898,617
Net foreign currency position	24,893	135,419	387	337	366	872	162,274

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

	Change in 2012	Change in 2011	2012 Profit or Loss (in Denar thousand)	2011
EUR	1%	1%	957	1,354
USD	5%	5%	58	19
Other currencies	1%	1%	11	16

3.4 Operating risk

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

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

3.5 Fair value estimation

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

Financial instruments recognised at fair value

In accordance with IFRS 7, the Bank groups financial assets and liabilities into three levels based on the importance of input data used in measuring the fair value of financial assets. The hierarchy according to fair value is determined as follows:

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

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

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

2012	Level 1	Level 2	Level 3	Total
Assets				
Securities available-for-sale	-	85,044	-	85,044
Securities held for trading	7,050	-	-	7,050
2011	Level 1	Level 2	Level 3	Total
Assets				
Securities available-for-sale	-	1,142,122	-	1,142,122
Securities held for trading	7,546	-	-	7,546

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

Fair value estimation (continued)

Financial instruments not recognised at fair value

The following table summarizes the carrying values and fair values to those financial assets and liabilities not recognised in the Statement of financial position at their fair value (in Denar thousand):

	Loans and receivables	Other assets at amortised cost	Total carrying value	Fair value
31 December 2012				
Assets				
Cash and cash equivalents	2,148,684	-	2,148,684	2,148,684
Loans and advances to banks	-	-	-	-
Loans and advances to customers	3,884,066	-	3,884,066	3,884,066
Other receivables	31,708	-	31,708	31,708
	6,064,458		6,064,458	6,064,458
Liabilities				
Due to banks	-	29,173	29,173	29,173
Due to customers	-	5,213,320	5,213,320	5,213,320
Borrowings	-	600,821	600,821	600,821
Other liabilities	-	34,245	34,245	34,245
	-	5,877,559	5,877,559	5,877,559
31 December 2011				
Assets				
Cash and cash equivalents	1,199,432	-	1,199,432	1,199,432
Loans and advances to banks	19,800	-	19,800	19,800
Loans and advances to customers	3,668,671	-	3,668,671	3,668,671
Other receivables	23,320	-	23,320	23,320
	4,911,223	-	4,911,223	4,911,223
Liabilities				
Due to banks	-	89,741	89,741	89,741
Due to customers	-	5,521,636	5,521,636	5,521,636
Borrowings	-	248,160	248,160	248,160
Other liabilities	-	39,080	39,080	39,080
	-	5,898,617	5,898,617	5,898,617

Loans and advances to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits approximates 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. The loans and advances have predominantly floating rate. The fair value approximates their carrying value.

Other financial assets

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

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

Fair value estimation (continued)

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The fair value of the term deposits at variable interest rates approximates their carrying values as at the Statement of financial position date.

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

Other financial liabilities

The fair value of other liabilities approximates their carrying value, considering their short maturity period.

3.6 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 and to maintain a strong capital base to support the development of its business.

As at 31 December 2012 the Bank's own funds are in amount of Denar 898,634 thousand (2011: Denar 892,556 thousand), and capital adequacy calculated according to the NBRM's regulative is amounting 16.41% (2011: 16.85%).

3.7 Compliance with the provisions of the Shareholders Agreement

As at 31 December 2012, the Bank is not in compliance with certain provisions from the Shareholders Agreement signed between the Bank and the two majority shareholders of the following provisions of the contracts:

- As at 31 December 2012 the foreclosed assets are 6.1% compared to total assets of the Bank. According to the Shareholders Agreement, this ration should not exceed 5%.

Notes to the financial statements (continued)

4 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.

4.1 Impairment of loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the Statement of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. 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.

4.2 Impairment of securities available-for-sale

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.

4.3 Impairment of foreclosed assets

Foreclosed assets consist of property and equipment acquired in settlement of bad and doubtful receivables 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 sell these assets within five years of acquisition. However, the market for certain types of collateral in the Republic of Macedonia is not sufficiently developed and as a result the Bank makes estimates of expected inflows less costs for sale of these assets based on several factors, including independent value assessments. However, actual amounts realized may differ from estimates made by the Management.

4.4 Useful life of depreciable assets

Management regularly reviews the useful lives of depreciable assets at each reporting date. Management estimates that the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying amounts of such assets are analysed in Notes 25 and 26. However, the factual results may differ due to the technological obsolescence, especially in the IT equipment and software segment.

Notes to the financial statements (continued)

5 Segment reporting

Segment reporting is performed under Bank's operating segments, as prescribed by the regulations of the National Bank of the Republic of Macedonia. Operating segment is a component of the Bank's activities for which the following conditions are met:

- perform activities as a result of which income is derived income and expenses incurred;
- Bank's Supervisory Board reviews the operating results in the separate operating segment on a regular basis (at least semi-annually) in order to assess performance and to make decision on future business activities in this segment;
- certain financial information related to segment is available.

Bank discloses information separately for each major operating segment. An operating segment is considered significant if any of the following quantitative criteria are met:

- segment income (includes income from transfers between segments) participate with 10% or more in total income of the bank;
- absolute amount of profit or loss of the segment represents 10% or more of the higher absolute amount between: a) the total profit of all operating segments of the Bank which showed profits, or b) the total loss of all operating segments of the Bank that showed loss;
- segment assets participate with 10% or more in total assets of the Bank.

The Bank should show information about the concentration of its business activities towards certain significant customers. Significant client is the one from which the bank achieves 10% or more of total income or total expenditure of the Bank. As at 31 December 2012 and 2011 the Bank has no significant customers.

The Bank should present an analysis of its business activities according to geographical areas where they are executed, for the following geographic areas:

- Member States of the European Union;
- other European countries outside the European Union;
- countries outside Europe, members of the Organization for Economic Cooperation and Development (OECD);
- Other countries.

Notes to the financial statements (continued)

Segment reporting (continued)

Operating segments

In Denar thousand

	Retail customers	Corporate banking	Investment banking	Other (Government and Non-profit institutions that serve households)			Unallocated	Total
2012								
Net interest income /(expense)	18,718	245,495	-	-	-	9,985	-	274,198
Net income /(expenses) from fees and commission	45,580	67,332	-	-	-	1,288	-	114,200
Net income from trading	-	-	-	-	-	-	(205)	(205)
Other operating income	-	4,608	-	-	-	-	34,003	38,611
Income realized between segments	-	-	-	-	-	-	-	-
Total income per segment	64,298	317,435	-	-	-	11,273	33,798	426,804
Allowance for impairment of financial assets, net	(9,765)	(28,425)	-	-	-	3,299	-	(34,891)
Impairment loss of non-financial assets, net	-	-	-	-	-	-	(7,915)	(7,915)
Amortisation and depreciation	-	-	-	-	-	-	(33,174)	(33,174)
Other expenses	-	-	-	-	-	-	(302,980)	(302,980)
Total expenses per segment	(9,765)	(28,425)	-	-	-	3,299	(344,069)	(378,960)
Financial performance per segment	54,533	289,010	-	-	-	14,572	(310,271)	47,844
Income tax								(1,717)
Profit/(loss) for the financial year								46,127
Total assets per segment	1,185,060	4,523,146	-	-	-	459,110	-	6,167,316
Unallocated assets per segment	-	-	-	-	-	-	709,670	709,670
Total assets	1,185,060	4,523,146	-	-	-	459,110	709,670	6,876,986
Total liabilities per segment	3,693,199	2,018,084	-	-	-	132,031	-	5,843,314
Unallocated liabilities per segment	-	-	-	-	-	-	62,408	62,408
Total liabilities	3,693,199	2,018,084	-	-	-	132,031	62,408	5,905,722

Notes to the financial statements (continued)

Segment reporting (continued)
Operating segments (continued)

In Denar thousand

	Retail customers	Corporate banking	Investment banking	Other (Government and Non-profit institutions that serve households)	Unallocated	Total
2011						
Net interest income /(expense)	29,664	218,948	-	-	(2,249)	246,363
Net income /(expenses) from fees and commission	44,138	63,149	-	-	1,246	108,533
Net income from trading	-	-	-	-	(611)	(611)
Other operating income	-	4,421	-	-	-	33,077
Income realized between segments	-	-	-	-	-	-
Total income per segment	73,802	286,518	-	-	(1,003)	387,362
Allowance for impairment of financial assets, net	(272)	(44,430)	-	-	74	(44,628)
Impairment loss of non-financial assets, net	-	-	-	-	(9,466)	(9,466)
Amortisation and depreciation	-	-	-	-	(37,575)	(37,575)
Other expenses	-	-	-	-	(280,687)	(280,687)
Total expenses per segment	(272)	(44,430)	-	-	74	(327,728)
Financial performance per segment	73,530	242,088	-	-	(929)	15,006
Income tax					(299,683)	(691)
Profit/(loss) for the financial year						14,315
Total assets per segment	1,233,527	4,770,324	-	-	72,936	6,076,787
Unallocated assets per segment	-	-	-	-	770,864	770,864
Total assets	1,233,527	4,770,324	-	-	72,936	6,847,651
Total liabilities per segment	3,754,358	1,913,280	-	-	191,900	5,859,538
Unallocated liabilities per segment	-	-	-	-	69,803	69,803
Total liabilities	3,754,358	1,913,280	-	-	191,900	5,929,341

Notes to the financial statements (continued)

Segment reporting (continued)

Geographic segments

	In Denar thousand							
	The Republic of Macedonia	EU member countries	Europe (other)	OECD members countries	Other	Other insignificant geographic segments	Non-allocated	Total
<u>2012</u>								
Total income	426,686	118	-	-	-	-	-	426,804
Total assets	6,496,454	290,000	90,532	-	-	-	-	6,876,986
<u>2011</u>								
Total income	391,529	(4,167)	-	-	-	-	-	387,362
Total assets	6,204,998	603,199	39,454	-	-	-	-	6,847,651

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

6 Net interest income / (expenses)

	2012	2011
Interest income		
Cash and cash equivalents	40,305	9,670
Loans and advances to banks	65	4,084
Loans and advances to customers	416,977	408,514
Securities available-for-sale	-	22,706
Total interest income	457,347	444,974
Interest expenses		
Due to banks	1,361	2,899
Due to customers	167,958	179,882
Borrowings	13,731	15,817
Other liabilities	99	13
Total interest expenses	183,149	198,611
	274,198	246,363

7 Net fee and commission income / (expenses)

	2012	2011
Fee and commission income		
Loans	39,813	34,696
Payment's operations		
- in the country	62,785	58,238
- abroad	20,709	23,385
Letter of credit and guarantees	8,709	9,267
Brokerage operations	2,414	3,355
Commission and fiduciary activities	-	24
Other	434	1,437
Total fee and commission income	134,864	130,402
Fee and commission expenses		
Loans	1,441	2,618
Payment operations		
- in the country	12,887	12,101
- abroad	2,341	3,268
Brokerage operations	555	414
Other	3,440	3,468
Total fee and commission expenses	20,664	21,869
Net fee and commission income/(expenses)	114,200	108,533

8 Net income/ (expenses) from securities held for trading

	2012	2011
Profit / (loss) from fair value changes of debt securities, net		
- realized	-	(59)
- unrealized	(496)	(854)
Income from dividends from trading assets	291	302
	(205)	(611)

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

9 Dividend income

	2012	2011
Dividend from equity instruments available-for-sale	5,497	4,421
	5,497	4,421

10 Other operating income

	2012	2011
Income from sale of foreclosed assets	11,427	3,945
Rent Income	4,716	344
Collected previous written off receivables	2,067	4,228
Income according Supervisory Board's Decision	1,096	1,849
Other	2,238	3,564
	21,544	13,930

During 2012, the Bank has sold foreclosed assets for the amount of Denar 95,725 thousand (2011: Denar 20,497 thousand) with total carrying value of Denar 84,298 thousand (2011: Denar 18,147 thousand) (Note 24). The Bank realized capital gain of Denar 11,427 thousand from this transaction (2011: gain in the amount of Denar 3,945 thousand and loss in the amount of Denar 1,595 thousand).

11 Impairment loss of financial assets, net

	2012	2011
<i>Charge / (recovery) for:</i>		
Cash and cash equivalents (Note 18)	78	(43)
Loans and advances to banks (Note 20)	(200)	(100)
Loans and advances to customers (Note 21)	24,541	38,124
Securities available – for – sale (Note 22)	87	33
Other receivables (Note 23)	11,274	4,591
Special reserve and provisions (Note 30)	(889)	2,023
	34,891	44,628

12 Impairment losses of non – financial assets, net

	2012	2011
<i>Charge / (recovery) for the year</i>		
Foreclosed assets (Note 24)	7,915	9,466
	7,915	9,466

13 Staff costs

	2012	2011
Short – term employee benefits		
- Salaries	87,111	83,711
- Mandatory contribution for social and health insurance	41,590	39,805
	128,701	123,516
Other		
- Employee expenses based on collective contracts	1,075	2,052
-Provisions for technological redundancy	804	-
	1,879	2,052
	130,580	125,568

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

14 Amortisation and depreciation

	2012	2011
Amortisation of intangible assets (Note 25)		
Software purchased from external suppliers	5,423	5,438
Other intangible assets	1,027	853
	6,450	6,291
Depreciation of property, plant and equipment (Note 26)		
Construction objects	7,787	7,874
Transport vehicles	1,695	1,750
Furniture and office equipment	6,022	9,062
Other equipment	8,841	10,429
Other items of property and equipment	537	494
Investment in property and equipment under lease	1,842	1,675
	26,724	31,284
	33,174	37,575

15 Other operating expenses

	2012	2011
Materials and services	76,010	72,315
Expenses for rent	33,782	33,548
Insurance premiums on deposits	26,150	22,206
Expenses for litigation	11,969	2,848
Administrative and marketing expenses	8,415	11,352
Other taxes and contributions	4,533	1,987
Insurance premiums on property and employees	3,105	3,169
Contractual expenses	3,296	-
Loss from sale of foreclosed assets	-	1,595
Loss from sale of property and equipment	-	1,120
Other	5,140	4,979
	172,400	155,119

16 Income tax

Income tax components	2012	2011
Current income tax	1,717	691
Deferred income tax	-	-
	1,717	691

Reconciliation

Following is the reconciliation of the total income tax in the Statement of comprehensive income for the years ended 31 December 2012 and 2011.

	2012	2011
Effect from expenses / (profit) for the current income tax for the year	1,717	691
	1,717	691

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

17 Earnings per share

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

	2012	2011
Profit attributable to shareholders	46,127	14,315
Less: Dividends for preference shares	-	-
Net – profit attributable to holders of ordinary shares	46,127	14,315
<i>Weighted average number of ordinary shares</i>	907,888	907,888
Basic earnings per share (Denar per share)	51	16

18 Cash and cash equivalents

	At 31 December		At 1 January
	2012	2011	2011
Cash in hand	156,988	165,786	128,592
Account and balances with the NBRM, except for obligatory foreign currency reserves	455,392	351,100	421,404
Current accounts and deposits with foreign banks	298,992	215,153	186,477
Current accounts and deposits with domestic banks	58,163	25,213	27,602
Term deposits with a maturity period less than, or equal to three months	82,090	231,376	88,823
Other short – term highly liquid assets	911	603	674
Treasury bills traded on the secondary market	499,539	-	-
Government bills traded on the secondary market	427,675	-	-
(Allowance for impairment)	(1,132)	(1,063)	(1,110)
<i>Included in cash and cash equivalents for the purpose of the Statement of cash flows</i>	1,978,618	988,168	852,462
Obligatory foreign currency reserves	169,846	211,051	189,986
Restricted deposits	222	215	923
(Allowance for impairment)	(2)	(2)	-
	2,148,684	1,199,432	1,043,371

	2012	2011
Movement of allowance for impairment		
As of 01 January	1,065	1,110
Allowance for impairment for the year (Note 11)		
- additional allowance for impairment	3,210	2,804
- (release from allowance for impairment)	(3,132)	(2,847)
Effect of exchange rate difference	(9)	(2)
As of 31 December	1,134	1,065

As of 31 December 2012 the cash and cash equivalents are in amount of Denar 402,406 thousand (2011: Denar 400,620 thousand) which represent obligatory reserve in Denars..

Based on the Decision on obligatory reserve issued by the National Bank of the Republic of Macedonia, 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 in Denars and Euro is determined by NBRM in an indicative calendar of fulfilment periods of the obligatory reserve for the current year.

Cash and cash equivalents (continued)

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

The Bank fulfils the reserve requirement in Denar on average basis. 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.

The interest rate for the reserve requirement in Denar during 2012 was 1% p.a. (2011: 2% p.a.). During 2012 and 2011, the interest rate for the reserve requirement in foreign currency was 0.1% p.a.

As at 31 December 2012, the treasury bills issued by the NBRM mature within in 28 days with interest rates of 3.65%- 3.73% p.a.

Government bills issued by the Ministry of Finance mature withing 3 months wit interest rates of 3.9%- 4% p.a.

Restricted deposits in the amount of Denar 222 thousand (2011: Denar 215 thousand) represent a guarantee fund in other financial institutions (2011: guarantee fund in other financial institutions).

19 Securities held for trading

	At 31 December		At 1 January
	2012	2011	2011
Equity instruments in non-financial local institutions	7,050	7,546	8,460
	7,050	7,546	8,460
<i>Quoted</i>	7,050	7,546	8,460
	7,050	7,546	8,460

20 Loans and advances to banks

	2012		At 31 December 2011		At 1 January 2011	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Term deposits, maturity over three months						
- domestic banks	-	-	20,000	-	30,000	-
Total loans and advances to banks before allowance for impairment	-	-	20,000	-	30,000	-
(Allowance for impairment)	-	-	(200)	-	(300)	-
	-	-	19,800	-	29,700	-

Movement of allowance for impairment of loans and advances to banks is as follows:

	2012	2011
Movement of allowance for impairment		
As at 01 January	200	300
Allowance for impairment for the year (Note 11)		
- additional allowance for impairment	100	200
- (release of allowance for impairment)	(300)	(300)
As at 31 December	-	200

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

21 Loans and advances to customers

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

	2012		At 31 December 2011		At 1 January 2011	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Non – financial institutions	1,334,213	1,667,214	1,700,806	1,029,582	1,625,765	1,038,507
Non – profit institutions that serve households	238	29,358	52	13,329	18,737	4,219
Financial institutions, apart from banks	900	-	5,113	-	-	-
Households						
housing loans	4,957	162,907	2,240	143,397	2,404	114,876
consumer loans	102,920	558,917	103,299	592,110	100,913	516,102
car loans	19,926	59,069	20,440	95,622	21,497	133,295
mortgages	12,311	155,766	12,541	143,071	22,519	113,935
credit cards	24,654	88,086	27,327	94,594	28,370	99,154
other loans	131,132	11,392	129,497	11,008	103,866	5,159
Current maturity	731,569	(731,569)	668,343	(668,343)	406,304	(406,304)
Total loans and advances to other customers before allowance for impairment	2,362,820	2,001,140	2,669,658	1,454,370	2,330,375	1,618,943
(Allowance for impairment)	(235,887)	(244,007)	(242,080)	(213,277)	(135,629)	(290,516)
	2,126,933	1,757,133	2,427,578	1,241,093	2,194,746	1,328,427

As at 31 December 2012 the non-performing loans included in loans and advances to customers amounted to Denar 370,425 thousand (2011: Denar 361,555 thousand). Unrecognized interest relating to these loans amounted to Denar 100,574 thousand (2011: Denar 81,433 thousand).

As at 31 December 2012, part of the loans receivables in the gross amount of Denar 302,336 thousand (2011: Denar 125,753 thousand) are pledge as collateral for the MBDP credit line (Note 29).

	2012	2011
Movements of allowance for impairment, individual basis		
Balance at 01 January	455,357	426,145
Allowance for impairment for the year (Note 11)		
- additional allowance for impairment	121,743	259,883
- (release of allowance for impairment)	(97,202)	(221,759)
Effect of exchange rate differences	(4)	(7)
(Written off receivables)	-	(8,905)
Balance as at 31 December	479,894	455,357

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

Loans and advances to customers (continued)

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

	At 31 December		At 1 January
	2012	2011	2011
First class instruments for guarantee			
- Cash deposits (in depot and/or restricted bank accounts)	96,792	90,677	107,059
Guarantees from individuals	1,083,085	1,086,227	814,297
<i>Property pledge</i>			
- Property for own use	848,266	814,627	568,470
- Property for operating activities	1,656,044	1,333,896	1,406,283
Property pledge	165,329	244,842	329,031
Other types of guarantees	22,081	66,958	121,995
Unsecured	12,469	31,444	176,038
	3,884,066	3,668,671	3,523,173

22 Securities available-for-sale

	At 31 December		At 1 January
	2012	2011	2011
<i>Debt securities</i>			
Treasury bills	-	998,356	638,790
Government bills	-	59,735	59,340
	-	1,058,091	698,130
Unquoted	-	1,058,091	698,130
<i>Equity instruments</i>			
Equity instruments issued by banks	24,828	24,828	24,828
Other equity instruments	133,922	132,822	132,578
	158,750	157,650	157,406
Quoted	107,518	106,418	103,078
Unquoted	51,232	51,232	54,328
Total investment in financial instruments available – for – sale before allowance for impairment	158,750	1,215,741	855,536
(Allowance for impairment)	(73,706)	(73,619)	(76,681)
	85,044	1,142,122	778,855

The movement of the allowance for impairment for financial assets available – for – sale is as follows:

	2012	2011
Movements of allowance for impairment		
As at 01 January	73,619	76,681
Allowance for impairment for the year (Note 11)		
- additional allowance for impairment	87	33
- (release of allowance for impairment)	-	-
(Written off receivables)	-	(3,095)
As at 31 December	73,706	73,619

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

23 Other receivables

	At 31 December 2012	At 31 December 2011	At 1 January 2011
Trade receivables	16,763	10,887	7,029
Prepaid expenses	2,704	6,415	6,245
Fees and commission receivables	9,855	6,407	4,469
Income tax receivables	1,550	2,674	1,299
Receivables from the employees	149	65	16
Other receivables			
- Bad and doubtful receivables from related parties for sale of foreclosed assets	36,507	36,507	36,507
- Materials and petty inventory	7,899	8,803	7,466
- Receivables for overpaid personal income tax	4,199	4,199	4,199
- Bad and doubtful receivables from litigations and notary expenses	6,992	6,940	4,439
- Bad and doubtful receivables from legal entity	3,605	3,605	3,605
- Bad and doubtful receivables from employees for shortages	13,679	7,341	7,341
- Receivables in foreign currencies from Money Gram	7,472	6,339	6,601
- Other	14,475	12,619	10,674
Total other receivables before allowance for impairment	125,849	112,801	99,890
(allowance for impairment)	(81,827)	(70,911)	(66,404)
Total other receivables less allowance for impairment	44,022	41,890	33,486
		2012	2011
Movement of allowance for impairment			
As at 01 January		70,911	66,404
Allowance for impairment for the year (Note 11)			
- additional allowance for impairment		14,526	7,984
- (release of allowance for impairment)		(3,252)	(3,393)
Effect of exchange rate differences		(14)	-
(Written off receivables)		(344)	(84)
As at 31 December		81,827	70,911

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

24 Foreclosed assets

	Land	Buildings	Equipment	Residential facilities and apartments	Other	Total
Cost						
At 01 January 2011	8,339	172,051	38,901	60,354	60,567	340,212
Additions	9,953	146,316	16,435	39,029	400	212,133
(sold during the year)	(53)	(1,417)	(2,822)	(14,266)	(76)	(18,634)
(transfer in own assets)	-	-	-	-	(400)	(400)
At 31 December 2011	18,239	316,950	52,514	85,117	60,491	533,311
At 01 January 2012	18,239	316,950	52,514	85,117	60,491	533,311
Additions	1,526	25,863	673	23,707	-	51,769
(sold during the year)	-	(72,910)	(10)	(19,026)	-	(91,946)
(transfer in own assets)	-	-	-	-	-	-
At 31 December 2012	19,765	269,903	53,177	89,798	60,491	493,134
Impairment						
At 01 January 2011	-	9,951	9,186	573	41,517	61,227
Impairment losses during the year	-	3,553	1,448	-	4,465	9,466
(sold during the year)	-	-	(14)	(473)	-	(487)
(transfer in own assets)	-	-	-	-	-	-
At 31 December 2011	-	13,504	10,620	100	45,982	70,206
At 01 January 2012	-	13,504	10,620	100	45,982	70,206
Impairment losses during the year	103	2,452	1,086	2,496	1,778	7,915
(sold during the year)	-	(7,648)	-	-	-	(7,648)
(transfer in own assets)	-	-	-	-	-	-
At 31 December 2012	103	8,308	11,706	2,596	47,760	70,473
Current carrying value						
At 01 January 2011	8,339	162,100	29,715	59,781	19,050	278,985
At 31 December 2011	18,239	303,446	41,894	85,017	14,509	463,105
At 31 December 2012	19,662	261,595	41,471	87,202	12,731	422,661

As at 31 December 2012, the Bank's foreclosed assets are with total carrying value of Denar 422,661 thousand. Their fair value at 31 December 2012 amounts to Denar 466,180 thousand. These assets include property with net carrying amount of Denar 55,915 thousand, for which at 31 December 2012 the Bank is in no possession of property deeds. This property is located in cadastre regions with incomplete records of property deeds. The Bank has other appropriate ownership documents (ownership certificates, sale and purchase agreements and construction agreements) in accordance with the provisions on Law on Ownership. Subsequently and up to date of this Report, the Bank provided property deeds for part of the abovementioned foreclosed assets with net carrying value of Denar 15,927 thousand.

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

25 Intangible assets

As at 31 December 2012 and 2011, intangible assets consist of acquired software from external suppliers and other internally developed intangible assets. Movements of carrying values for the reviewed periods are as follows:

	Acquired software from external suppliers	Other intangible assets	Intangible assets under development	Total
Cost				
At 1 January 2011	39,875	4,266	-	44,141
Increase through new acquisitions	1,110	862	-	1,972
Transfer from property and equipment under development	2,894	-	-	2,894
At 31 December 2011	43,879	5,128	-	49,007
At 1 January 2012	43,879	5,128	-	49,007
Increase through new acquisitions	1,372	926	1,788	4,086
Transfer from property and equipment under development	124	-	-	124
At 31 December 2012	45,375	6,054	1,788	53,217
Amortisation and impairment				
At 1 January 2011	21,502	1,066	-	22,568
Amortisation for the year	5,438	853	-	6,291
At 31 December 2011	26,940	1,919	-	28,859
At 1 January 2012	26,940	1,919	-	28,859
Amortisation for the year	5,423	1,027	-	6,450
At 31 December 2012	32,363	2,946	-	35,309
Current carrying value				
At 1 January 2011	18,373	3,200	-	21,573
At 31 December 2011	16,939	3,209	-	20,148
At 31 December 2012	13,012	3,108	1,788	17,908

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

26 Property, plant and equipment

A. Reconciliation of the net carrying value

	Buildings	Transport	Furniture and office equipment	Other equipment	Other items of property and equipment	Property, plant and equipment under construction	Investments in intangible assets under lease	Total
Cost								
At 1 January 2011	315,325	7,429	109,149	52,053	4,909	2,918	8,134	499,917
Additions	-	2,632	5,258	1,781	172	6,948	522	17,313
Transfer from property and equipment under construction	3,071	336	486	369	290	(5,951)	1,399	-
(Disposal and write off)	(4,148)	(62)	(17,639)	(1,931)	-	-	-	(23,780)
Transfer in intangible assets	-	-	-	-	-	(2,894)	-	(2,894)
At 31 December 2011	314,248	10,335	97,254	52,272	5,371	1,021	10,055	490,556
At 1 January 2012	314,248	10,335	97,254	52,272	5,371	1,021	10,055	490,556
Additions	-	131	5,624	1,030	225	894	2,211	10,115
Revaluation of buildings	9,328	-	-	-	-	-	-	9,328
Transfer from property and equipment under construction	-	-	452	892	-	(1,404)	60	-
(Disposal and write off)	(8,729)	(1,747)	(2,909)	(1,174)	-	-	-	(14,559)
Transfer in intangible assets	-	-	-	-	-	(124)	-	(124)
Other transfer	-	-	-	-	-	(346)	-	(346)
At 31 December 2012	314,847	8,719	100,421	53,020	5,596	41	12,326	494,970
Accumulated depreciation								
At 1 January 2011	67,528	3,759	93,563	26,332	1,462	-	4,101	196,745
Depreciation for the year	7,874	1,750	9,062	10,429	494	-	1,675	31,284
(Disposal and write off)	(2,953)	(62)	(17,640)	(1,755)	-	-	-	(22,410)
At 31 December 2011	72,449	5,447	84,985	35,006	1,956	-	5,776	205,619
At 1 January 2012	72,449	5,447	84,985	35,006	1,956	-	5,776	205,619
Depreciation for the year	7,787	1,695	6,022	8,841	537	-	1,842	26,724
Revaluation of buildings	2,501	-	-	-	-	-	-	2,501
(Disposal and write off)	(2,118)	(1,224)	(2,909)	(1,174)	-	-	-	(7,425)
At 31 December 2012	80,619	5,918	88,098	42,673	2,493	-	7,618	227,419
Net carrying value								
At 01 January 2011	247,797	3,670	15,586	25,721	3,447	2,918	4,033	303,172
At 31 December 2011	241,799	4,888	12,269	17,266	3,415	1,021	4,279	284,937
At 31 December 2012	234,228	2,801	12,323	10,347	3,103	41	4,708	267,551

Notes to the financial statements (continued)
As at and for the year ended 31 December 2012
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Property, plant and equipment (continued)

As at 31 December 2012 and 2011 the Bank has no pledge over its property and equipment.

The appraisal of buildings is made by an independent appraiser at 31 December 2012, according to which the Bank has recorded increase in buildings in net carrying amount of Denar 6,827 thousand and recognised the same amount as increase in the revaluation reserves within the Bank's equity.

During 2012, the Bank has disposed valued buildings in net carrying amount of Denar 6,611 thousand. The Bank has transferred the revaluation reserve for disposed buildings in amount of 5,496 Denar thousand to retained earnings/ (accumulated losses).

27 Due to banks

	2012		At 31 December 2011		At 1 January 2011	
	Short – term	Long – term	Short – term	Long – term	Short – term	Long – term
Current accounts						
- Domestic banks	1,562	-	79	-	217	-
	1,562	-	79	-	217	-
Term deposits						
- Domestic banks	27,611	-	89,662	-	27,654	-
- Foreign banks	-	-	-	-	92,777	-
	27,611	-	89,662	-	120,431	-
	29,173	-	89,741	-	120,648	-

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

28 Due to customers

	2012		At 31 December 2011		At 1 January 2011	
	Short – term	Long – term	Short – term	Long – term	Short – term	Long – term
<i>Non – financial companies</i>						
- Current accounts	638,373	-	607,115	-	560,436	-
- Demand deposits	1,186	-	908	-	1,693	-
- Term deposits	252,379	15,211	438,992	14,360	346,568	-
- Restricted deposits	105,272	15,608	77,902	15,297	67,664	-
- Other deposits	-	-	2,052	-	410	-
	997,210	30,819	1,126,969	29,657	976,771	-
<i>Government</i>						
- Current accounts	15,331	-	12,880	-	6,568	-
- Demand deposits	819	-	819	-	833	-
- Term deposits	-	-	70,273	-	10,000	-
	16,150	-	83,972	-	17,401	-
<i>Non – profit organizations that serve households</i>						
- Current accounts	45,897	-	32,175	-	20,674	-
- Term deposits	67,568	-	73,140	-	87,830	-
- Restricted deposits	105	-	1,727	-	433	-
	113,570	-	107,042	-	108,937	-
<i>Financial companies, apart from banks</i>						
- Current accounts	4,188	-	11,178	-	9,168	-
- Term deposits	54,075	297,516	149,956	241,805	305,910	206,305
- Restricted deposits	851	136	8,466	236	8,306	73
	59,114	297,652	169,600	242,041	323,384	206,378
<i>Households</i>						
- Current accounts	549,353	-	444,407	-	404,697	-
- Demand deposits	182,466	-	219,150	-	244,697	-
- Term deposits	1,809,326	969,523	1,455,707	1,457,951	1,485,090	509,737
- Restricted deposits	68,854	93,558	71,377	88,482	82,668	77,644
	2,609,999	1,063,081	2,190,641	1,546,433	2,217,152	587,381
<i>Non – residents, apart from banks</i>						
- Current accounts	19,673	-	19,931	-	18,445	-
- Demand deposits	926	-	925	-	2,132	-
- Restricted deposits	5,126	-	4,425	-	3,424	-
	25,725	-	25,281	-	24,001	-
Current maturity	822,350	(822,350)	1,006,911	(1,006,911)	435,726	(435,726)
	4,644,118	569,202	4,710,416	811,220	4,103,372	358,033

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

29 Borrowings

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

	2012		At 31 December 2011		At 1 January 2011	
	Short – term	Long – term	Short – term	Long – term	Short – term	Long – term
Banks						
Residential	23,221	575,288	2,304	228,141	32,972	288,522
Non – residential	-	-	28	15,375	71	46,129
	23,221	575,288	2,332	243,516	33,043	334,651
Government						
	-	2,312	-	2,312	-	2,312
	-	2,312	-	2,312	-	2,312
Financial companies, apart from banks						
	-	-	-	-	834	68,488
	-	-	-	-	834	68,488
Current maturity						
	107,640	(107,640)	77,727	(77,727)	172,789	(172,789)
	130,861	469,960	80,059	168,101	206,666	232,662

B. Borrowings liabilities according to lender

	2012		At 31 December 2011		At 1 January 2011	
	Short – term	Long – term	Short – term	Long – term	Short – term	Long – term
<i>Domestic sources:</i>						
Banks	23,221	575,288	2,304	228,141	32,972	288,522
Government	-	2,312	-	2,312	-	2,312
	23,221	577,600	2,304	230,453	32,972	290,834
<i>Foreign sources:</i>						
Banks	-	-	28	15,375	71	46,129
Financial companies, apart from banks	-	-	-	-	834	68,488
	-	-	28	15,375	905	114,617
Current maturity						
	107,640	(107,640)	77,727	(77,727)	172,789	(172,789)
	130,861	469,960	80,059	168,101	206,666	232,662

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

Borrowings (continued)

B. Borrowings liabilities according to lender(continued)

The details for borrowings according to contracts made are the following:

Credit line	Currency	Date of signing the contract/ annex	interest rate	Year the contracts reach maturity
Old loan agreement (frame agreement for participation in the program of small and medium enterprises for non-current and current assets and frame loan agreement for participation in the program of small and medium enterprises)	MKD/EUR	08.12.2005; 29.07.2004	5.00%	In agreement with the end borrowers
Sub –loan agreement for use of funds from ZKDF	MKD/EUR	06.07.2011	0.50%	In agreement with the end borrowers
Loan agreement for support of micro, small and medium enterprises from Special loan fund (PKF)	MKD/EUR	18.10.2011	3.00%	In agreement with the end borrowers
Frame loan agreement for participation in the development program from Italian credit line (IKL)	EUR	Contract 29.07.2004, Annex no.3; 20.09.2011	3.00%	In agreement with the end borrowers
Frame loan agreement for participation in the program of small and medium enterprises and priority projects II from EIB credit line -50,000,000 EUR and Frame loan agreement for participation in the program of small and medium enterprises and priority projects III - 100,000,000 EUR	EUR	14.12.2011; 12.07.2012	1.00%	2014-2020

As collateral for these borrowings the Bank has signed statement for rights and obligations of the signatories of bill of exchange and has lien part of its loan receivables (note 21).

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

30 Special reserve and provisions

	Special reserve and off-balance credit exposure	Pension provisions and other employee benefits	Total
At 1 January 2011	5,035	-	5,035
Additional provisions during the year			
used provisions during the year	11,928	-	11,928
(release of provisions during the year)	(9,905)	-	(9,905)
Effect of exchange rate differences	(6)	-	(6)
At 31 December 2011	7,052	-	7,052
At 1 January 2012	7,052	-	7,052
Additional provisions during the year			
used provisions during the year	8,297	804	9,101
(release of provisions during the year)	(9,186)	-	(9,186)
Effect of exchange rate differences	(1)	-	(1)
At 31 December 2012	6,162	804	6,966

31 Other liabilities

	At 31 December		At 1 January
	2012	2011	2011
Received advances	19,229	23,427	16,099
Trade payables	17,267	23,419	20,910
Liabilities based on income allocation	4,993	5,075	3,028
Liabilities based on share clearance	443	2,907	2,907
Financial lease liabilities	876	1,280	-
Deferred income from the previous year	1,968	245	627
Income tax liabilities	-	-	413
Fee and commission liabilities	-	-	17
Other	10,666	6,399	7,563
	55,442	62,752	51,564

During 2011, the Bank signed a Contract for purchase of three vehicles under lease from a domestic leasing company. The total amount of the lease according to the Contract amounts to Euro 21,257. In accordance with the provisions from the Contract, the repayment is divided into 36 equal monthly instalments starting from 1 December 2011 till 1 November 2014. The residual value of the vehicles with the payment of the last instalment is equal to zero.

32 Share capital

As at 31 December 2012 and 2011, total share capital of the Bank amounts to Denar 907,888 thousand and is comprised of 907,888 authorized and fully paid ordinary shares. The nominal value per share is Denar 1,000.

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

	At 31 December		Share capital	Voting right in %	
	2012	2011	At 1 January 2011	At 31 December 2012	At 1 January 2011
Teteks AD Tetovo and related parties	402,009	401,444	401,444	44%	44%
European Bank for Reconstruction and Development	226,972	226,972	226,972	25%	25%

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

33 Commitments and contingencies

	At 31 December		At 1 January
	2012	2011	2011
Guarantees			
- in Denar	255,812	264,235	238,300
- in foreign currency	40,713	47,245	49,289
- in Denar with foreign clause	19,241	33,090	38,734
Performance guarantees			
- in Denar	16,296	13,929	28,372
- in foreign currency	-	6,766	11,878
- in Denar with foreign clause	-	1,296	1,296
Uncovered letter of credit			
- in foreign currency	6,677	6,475	7,339
Unused overdraft for current accounts	65,325	66,962	70,968
Unused overdraft of credit cards	63,063	74,123	61,775
Contingencies for crediting and unused credit limits	128,908	111,764	137,590
Other commitments and contingencies (covered and uncovered)	417	425	414
Issued covered collateral	39,270	24,065	8,948
Covered letter of credit	589	2,052	410
Total commitments and contingencies before the special reserve	636,311	652,427	655,313
(Special reserve) (Note30)	(6,162)	(7,052)	(5,035)
	630,149	645,375	650,278

Contingent liabilities for loans and unused credit limits are in amount of Denar 128,908 thousand (2011: Denar 111,764 thousand) and relate to limits of unused revolving loans. These agreements have fixed limits and are usually approved for the period of one year. These commitments represent off-balance credit risk exposures and in the Balance sheet only fees and commissions and allowance for potential impairment are recognized until they are cancelled or due. Commitments included in this Note are irrevocable.

Litigations

At 31 December 2012, proceedings against the Bank amount in total Denar 85,244 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 analysed 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 reporting date, there are no capital commitments that have been recognized in the financial statements.

34 Fiduciary activities

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

The Bank manages assets for the benefit of third parties intended for government bills and bonds, or for the approval of loans to customers. These assets are not owned by the Bank and have not been recognized in the Statement of financial position. The Bank is not exposed to credit risk from these placements.

As at 31 December 2012 the total amount of assets for the benefit of third parties is in amount of Denar 29,568 thousand (2011: Denar 29,082 thousand).

35 Pension plans

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

36 Related party transactions

According to the Law on Banks, 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.

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

Related party transactions (continued)

As at 31 December 2012 and 2011 the balances and volume of transactions with related parties and key management personnel of the Bank and its related parties, are as follows:

Statement of financial position

	Key management personnel	Other related parties	Total
At 31 December 2012			
Assets			
Current accounts	527	720	1,247
Loans and advances			
- Consumer loans	2,332	222	2,554
- Other loans and advances	3,224	46,256	49,480
(Allowance for impairment)	(71)	(31,077)	(31,148)
	6,012	16,121	22,133
Liabilities			
Deposits	42,989	45,954	88,943
Borrowings			
Other liabilities	-	252	252
	42,989	46,206	89,195
Commitments			
Issued guarantees	-	1,009	1,009
Other commitments	2,173	815	2,988
(Special reserve)	(23)	(7)	(30)
	2,150	1,817	3,967
At 31 December 2011			
Assets			
Current accounts	901	76	977
Loans and advances			
- Consumer loans	2,982	521	3,503
- Other loans and advances	3,356	60,595	63,951
(Allowance for impairment)	(95)	(32,112)	(32,207)
	7,144	29,080	36,224
Liabilities			
Deposits	45,224	249,981	295,205
Borrowings	-	15,404	15,404
Other liabilities	-	3,764	3,764
	45,224	269,149	314,373
Commitments			
Issued guarantees	-	1,677	1,677
Other commitments	2,119	1,337	3,456
(Special reserve)	(34)	(29)	(63)
	2,085	2,985	5,070

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

Related party transactions (continued)

Income and expenses from other related party transactions

	Key management personnel	Other related parties	Total
2012			
Income			
Interest income	654	814	1,468
Fee and commission income	50	1,513	1,563
Other income	10	135	145
	714	2,462	3,176
Expenses			
Interest expense	1,666	2,572	4,238
Allowance for impairment of financial assets, net	(19)	(1,043)	(1,062)
Other expenses	-	24,629	24,629
	1,647	26,158	27,805
2011			
Income			
Interest income	570	2,285	2,855
Fee and commission income	64	2,022	2,086
Other income	-	130	130
	634	4,437	5,071
Expenses			
Interest expense	1,795	10,855	12,650
Allowance for impairment of financial assets, net	33	646	679
Other expenses	21	20,907	20,928
	1,849	32,408	34,257

Expenses for the Bank's Key management personnel

	2012	2011
Short – term employee benefits	28,135	28,366
Other	46	23
	28,181	28,389

During the year ended 31 December 2012, key management compensation amounted to Denar 28,181 thousand (2011: Denar 28,389 thousand), out of which Denar 28,135 thousand (2011: Denar 28,366 thousand) relates to salaries of 33 people with special rights and responsibilities, and Denar 46 thousand refers to the jubilee award paid to a person with special rights and responsibilities.

37 Events after the reporting date

As described in Note 2.10 Foreclosed assets, during June 2012, the National Bank of the Republic of Macedonia has issued a “Decision on amending the Decision on accounting and regulatory treatment of the foreclosed assets”.

As at 01 January 2012, in accordance with the above mentioned Decision, the Bank has recognized impairment loss on foreclosed assets in the amount of Denar 15,703 thousand.



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