HALKBANK

2013

Annual Report

RISING TO THE TOP

HALKBANK

Growth is never by mere chance; it is the result of forces working together.

CORPOR
PROFILE

HALKBANK

HALKBANK AD SKOPJE

A recognized brand for a costumer oriented, innovative, trust worthy and growing bank on the Macedonian market.

SHAREHOLDING STRUCTURE

The Bank gained the capacity of a legal entity with its registration in the Register of the District Commercial Court becoming a legal entity existing and operating under a license issued by the Governor of the National Bank of the Republic of Macedonia offering its main services and products such as savings, domestic and foreign payment operations, e-banking, corporate and retail loans, fast money transfer through Western Union, issuing VISA, MasterCard, Maestro credit cards.

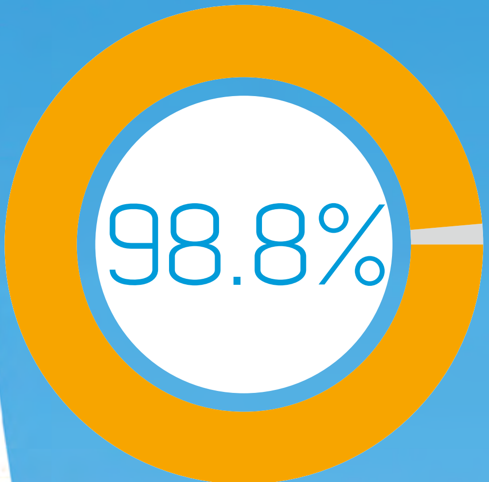
At the moment the total nominal capital of HALK BANK A.D. Skopje is divided into 289.369 ordinary shares, from which 98,8% belongs to Turkiye Halk Bankası AŞ Ankara.

Attached is the Shareholders structure of the Bank.

Shareholders Structure	Number of shares	Amount of the Share MKD	Shareholding %
Türkiye Halk Bankası A.Ş.	285.836	2.858.360.000,00	98,8
Other Shareholders	3.533	35.330.000,00	1,22
Total	289.369	2.893.690.000,00	100

The ordinary shares provide to their holders the following rights:

- voting right, where one ordinary share provides one vote in the Bank's Assembly;
- dividend right in accordance with the decision of the Bank's Assembly ;
- right to a payment from the balance of the Bank's liquidation, i.e. bankruptcy estate.



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HALKBANK AD SKOPJE IN BRIEF

HALKBANK A.D. Skopje is a steadily growing brand which operates with a global vision through innovative products and services.

HALKBANK TURKEY (TURKIYE HALK BANKASI A.Ş.)

Turkiye Halk Bankası A.Ş. is the main shareholder of HALKBANK AD Skopje with participation of 98.8% from the bank's ownership. Founded in 1938, HALKBANK is one of the largest banks in the Turkish banking market. HALKBANK today is a steadily growing, 75-year-old brand that ranks among the longest established, pioneering and respected in progressing Turkey. As of the end of 2013, HALKBANK operates with a global perspective, through 872 domestic and 5 overseas branches, 1 overseas representative office, 2,961 ATMs, telephone and internet banking platforms, mobile banking applications; the Bank's innovative products and services provide customers with an unparalleled banking experience. Some 48.9% of HALKBANK 's outstanding shares are publicly held and the Bank boasts the highest return on equity (ROE) among its peers thanks to its highly efficient use of capital.

SME Bank of Turkey:

- Trademark in SME banking,
- Historical banking relationship,
- Recognised and respected brand name,
- Wide range of specially designed products,

Prominent position in the Turkish banking sector:

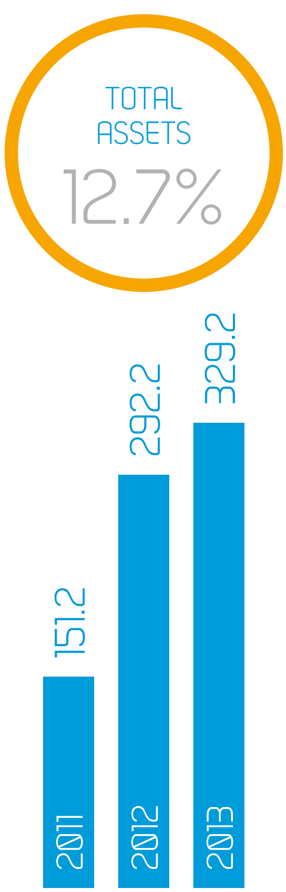
- Sixth largest bank in Turkey in terms of assets,
- Sixth largest network in Turkey with 862 branches (including special transaction centers and offices) nation wide, has at least one branch in every city in Turkey,
- Strong and stable deposit base,
- Effective alternative delivery channels,
- Widespread customer base,
- Strong position in all sectors of banking with established banking practices,
- Strong capitalisation,
- Nationwide and International credibility,

HALKBANK AD, SKOPJE

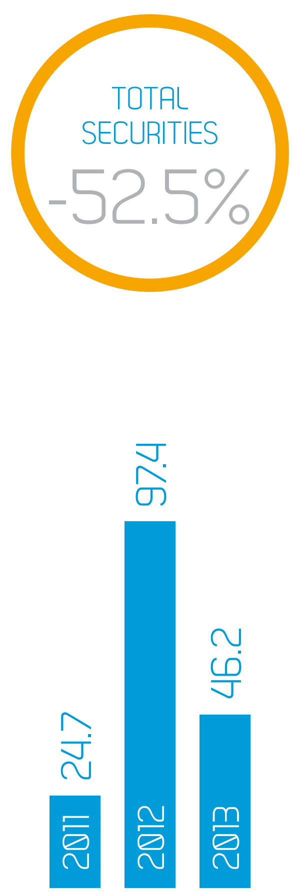
HALKBANK AD, Skopje was established on 15.03.1993 as a joint stock company to perform universal banking operations in the Republic of Macedonia, including deposit collection, corporate and retail lending, foreign exchange operations, domestic and foreign payments, trading of fixed income instruments, and trade finance.
Innovation in new products and services is one of HALKBANK 's strongest features. Being the first downscaling bank, creating products and services for micro clients made HALKBANK AD Skopje the leader in broadening the vision of the banking system in Macedonia. Another step forward, regarding banking services on the Macedonian market, is the beginning of using credit authorization, which was firstly implemented by HALKBANK AD Skopje.
Wanting to get closer and provide fast and affordable service to its clients, HALKBANK AD Skopje established the principal of multifunctional branch efficiency and became the first bank that changed the mode of operating from product oriented to client oriented. Focusing up front on four areas: strategy, organizational structure, branch efficiency and sales process, has made HALKBANK AD Skopje the first bank that reoriented its servicing process from teller to seller. In addition, HALKBANK AD Skopje was the developer of tailor-made products in the banking system in Macedonia.
HALKBANK AD Skopje is using a marketing approach which is generating more satisfied clients by introducing the principal of client relationship, building firm and long lasting relationship with its clients. The bank pioneered in establishing its own card processing system – first on the Macedonian market which offers contactless payment to their clients, followed with the launching of Master Card PayPass. As a solution for every day company's activities such as handling a lot of coin and currency, HALKBANK AD Skopje developed cash collection service, in order to handle it securely and efficiently. Additionally, HALKBANK AD Skopje was the first bank in Macedonia that comprehended the importance of cash management strategies, establishing convenient cash management solutions tailored to meet client's needs and give them maximum control over their business finances.
Within the Macedonian market, HALKBANK AD Skopje has also initiated the raise of fast and quality services by implementing innovative processes in its business, such as cards bonus program, new upgraded ATMs and POS machines, new improved E-Banking model, international systems of quality management EN ISO 9001 and becoming the first Macedonian agent of Western Union Money Transfer System.
The Bank has a wide national and international network consisted of 30 operating branches in Macedonia, a representative office in Belgrade-Serbia and correspondent relationships with many foreign banks.
HALKBANK A.D. Skopje has a significant reputation and recognition as a trustable, customer oriented, innovative and growing bank on the Macedonian market. The image of the bank is being fulfilled by the perception of a company that is, as well, social and eco responsible. Since its presence in Macedonia, HALKBANK AD Skopje has constantly given its support to many socially concerned segments, sports, culture and environment. Among the already mentioned, the bank has also been enjoying long term relationships with international financial institutions in providing long term development funds to the Macedonian economy.

KEY FINANCIAL INDICATORS

HALKBANK 's Net Loans increased from EUR 147 million to EUR 221 million as of year-end 2013.



in milion EUR.



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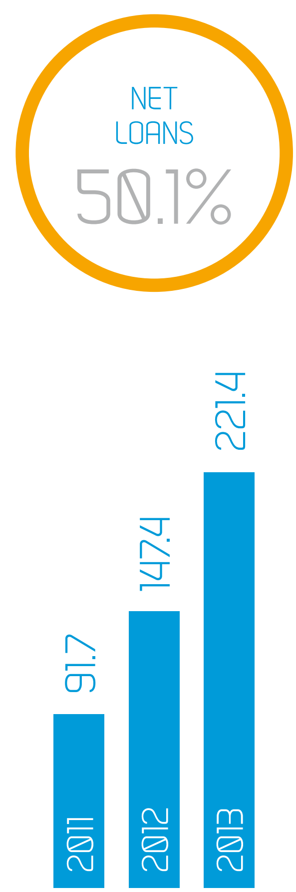


in milion EUR.

in 000 EUR	2012	2013	Change %
Total Assets	292,215	329,238	12.7
Liquid Assets	32,265	45,806	42.0
Net Loans	147,445	221,362	50.1
Securities	97,355	46,244	-52.5
Total Deposits	209,068	230,935	10.5
Shareholders' Equity	55,898	58,181	4.1
Net Interest Income	8,177	12,074	47.7
Net Fee and Commission Income	1,162	1,967	69.2
Net Profit	516	2,374	360.2
Key Ratios (%)			
Net Interest Margin	3.1	4.1	
Cost/Income Ratio	83.1	72.4	
Net Fee Income/ Operating Expenses	14.0	18.4	
NPL Ratio	3.6	2.5	
Loans/Assets	50.5	67.2	
Net Loans/Deposits	70.5	95.9	
Securities /Assets	33.3	14.0	
RoE	1.1	4.2	
RoA	0.2	0.8	
Capital Adequacy Ratio (CAR)	26	18	

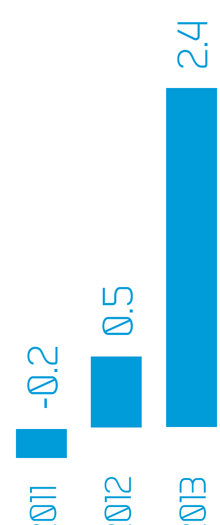
DEPOSITS
10.5%

SHAREHOLDERS EQUITY
4.1%

NET INCOME
360.2%

in milion EUR.

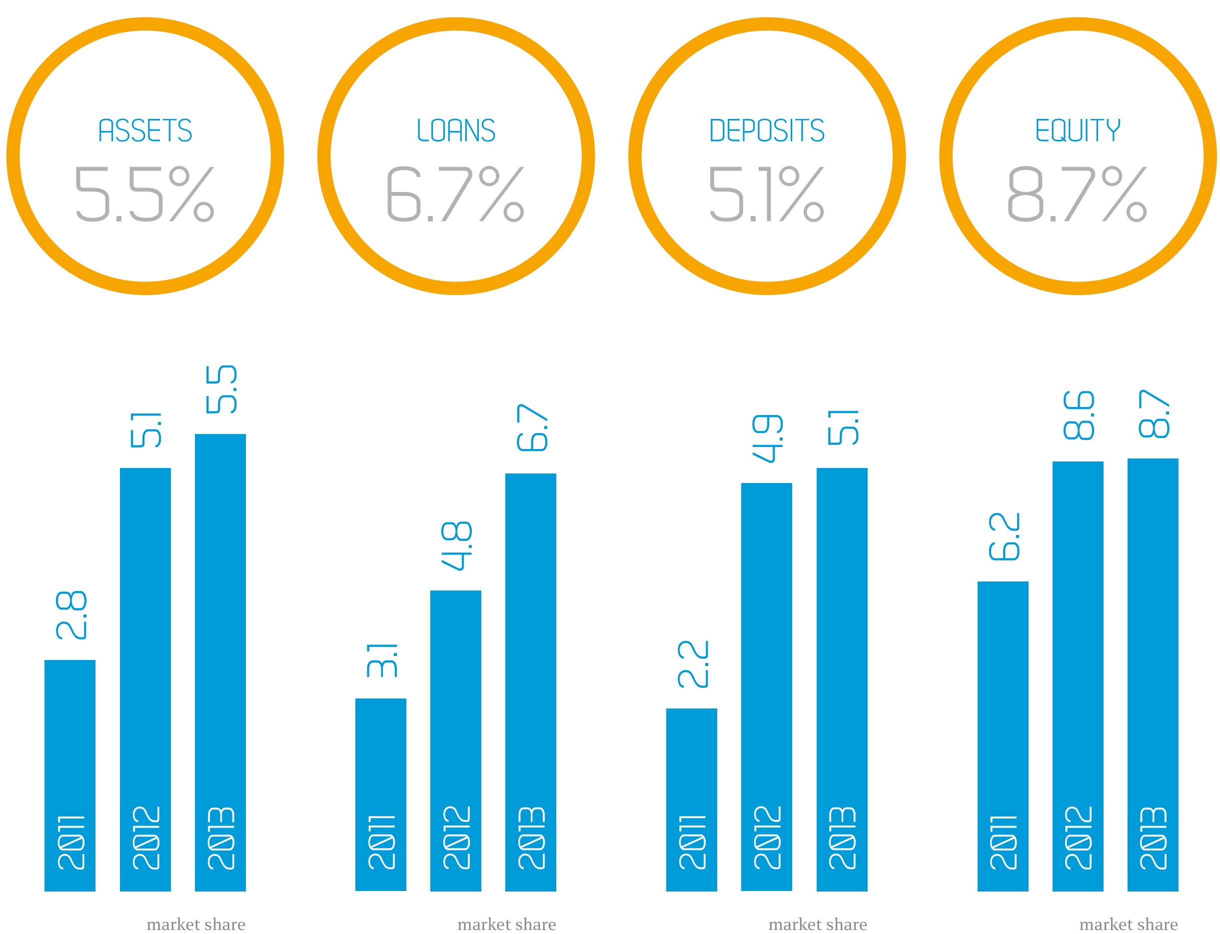
in milion EUR.



in milion EUR.

HALKBANK 'S POSITION IN THE SECTOR

HALKBANK sustained its strong growth in 2013 while continuing to increase the profit and Return on equity.



Market Share %	2013	2012
Assets	5.5	5.1
Loans	6.7	4.8
Deposits	5.1	4.9
Equity	8.7	8.6
Profit	6.3	2.2

HALKBANK MILESTONES

1993

HALKBANK AD, Skopje was established on as a joint stock company, in that time as IK Banka

1998

Became the first Western Union authorized agent in Macedonia

2002

HALKBANK AD Skopje became partner with KfW/IPC in financing micro, small and medium enterprises

2003

Partnership with KfW/Bankakademie Frankfurt in financing small businesses

2004

Became the first bank which implemented E-banking on the Macedonian market and was awarded as Bank of the year by Macedonian Chamber of Commerce

2005

Introduced the International Quality Management System EN ISO 9001:2000 thus becoming the first bank in Macedonia certified with International Quality Management

2006

Introduced the prestigious ISO Standard for Information Security Management ISO 27001:2005, thus becoming one of the few banks in South-eastern Europe that have incorporated this certificate

2007

Awarded “The Best Bank in Macedonia for 2007” by the “Finance Central Europe” magazine from London

2008

Established its’ own POS Terminal Network for VISA Payment Cards and first launched VISA GOLD Credit Card

2009

Relocation of HALKBANK Head Office, moving in one of the top business buildings in Macedonia; became the first Bank in Macedonia which offers E-commerce services for VISA CARD holders

2011

HALKBANK purchased the majority of the shares in IK Banka amounting to 91,6%; completed the rebranding process and enlarged its’ principal of equity

2012

HALKBANK acquired Ziraat Bank AD Skopje and opened the first VIP Corporate Branch on the Macedonian market

2013

Officially opened the first Macedonian representative banking office in Belgrade, Serbia and was the first Macedonian bank which launched MASTER CARD PayPass contactless payment cards

HALKBANK 'S VISION, MISSION, TARGETS AND CORPORATE VALUES

OUR VISION

To be the region's one of the leading banks, able to execute all the requirements of universal banking while asserting a strong presence in retail services.

OUR MISSION

To be a leading bank while fulfilling all the requirements of universal banking and being strong in retail products and services as well and to continuously create added value for customers, shareholders, and employees by effectively carrying out all its banking services with an awareness and understanding of its social responsibilities and duties.

OUR TARGETS

- HALKBANK AD Skopje – one of the leading banks in Macedonia,
- A bank of choice from Corporate, SMEs and retail customers,
- An institution that is recognizable by high skill, well-motivated and trained personnel
- Creating added value for customers, shareholders and employees by effectively carrying out all banking services,
- Growing steadily while sustaining profitability,
- Being an aware bank that has understanding of social responsibilities and duties while contributing to the development of the banking sector and capital markets.

OUR CORPORATE VALUES

- Customer oriented
- Respect and Relationship
- Trust
- Innovation
- Social responsibility awareness
- Reliability Rationalism
- Teamwork
- Productivity
- Transparency
- Sensitivity
- Self-confidence
- Openness to change
- Sharing of knowledge and experience

HALKBANK 'S STRATEGIES

- Expanding the scope of innovative products and services in order to ensure customer satisfaction
- Offering superior products and services to the real sector,
- Embracing a high-quality, customer-oriented service approach using direct marketing and continuously taking care of our clients,
- Effecting a high level of productivity in all business processes in order to achieve a rich product line, transaction and system security, rapid and high-quality transactions, and competitive pricing,
- Ensuring continuous development and motivation of employees via carrier route system through investment in education, training and further development,
- Keeping up with the world banking trends and be the first bank to implement world trends in the Macedonian market.

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SUPERVISORY BOARD CHAIRMAN'S ASSESSMENT

CEO'S ASSESSMENT

CHAIRMAN'S ASSESSMENT

I am very pleased to welcome you to HALKBANK AD Skopje's Annual Report which presents the information regarding a successful year in our journey towards growth and sustainability in the Macedonian market.

The world is becoming more decentralized, not only in terms of consumption, but increasingly in terms of production, resources, knowledge and power. Power is shifting from traditional institutions towards individuals, communities and businesses. Distributed networks and collaboration are more important than ever, not only to address global issues, but also to create and capture value in a world of more demanding clients. This is why HALKBANK is always cherishing client satisfaction and business cooperation.

The ability to anticipate opportunities and effectively respond to threats is critical for organizations to grapple with new challenges. In today's globally interdependent environment, risks, no longer isolated by industry or geography, are becoming complex in nature and global in consequence. Therefore, managing and mitigating risk is a necessity for survival and a driving force in a company's success in this diverse, competitive and fragile marketplace.

The year 2013 was a year of strengthening the relations among the countries, which is why Macedonia and Turkey made their cooperation even firmer, continuing a solid business cooperation not just between the countries but between the business entities as well. The banking sector in Macedonia has weathered the global financial crisis relatively well, and monetary stability has been sustained.

In the year 2013, the Board of HALKBANK AD Skopje was content with the significant progress the Bank has made, on a number of strategic fields that have set the bases for a stable future growth in revenue, profitability and shareholders' value.
One of the most notable advances was the growth in terms of market share and profit. Through steady development and continuous support to business and retail clients, the bank has made substantial achievements in the industry of its conduct.
Our management team has a comprehensive strategy

for growth and achieving customer satisfaction. This strategy is supported by the pillars of reliability, efficiency, innovation, full responsibility and competitiveness. We have been following prudent approach to achieve our targets. Having a clear and creative strategy has become one of the biggest competitive advantages for HALKBANK AD Skopje.

We are keenly focused on the performance of the company and we are determined to see steadily continuing improvement. The compact size of the Board gives us a unity of purpose and collective possession of the bank's direction and performance. The Board is strongly committed to seeing the bank's absolute and relative performance be a source of pride for all our shareholders and employees.

It has been a good year – indeed a pivotal year – in which our plans of broadening and strengthening of our platforms and the deepening of our customer experience began to take shape. Our focus for 2014 is unequivocal and unchanged: ensuring that our dialogue with our management team will produce the right conditions for delivering strong performance for you, our shareholders, business partners, clients and associates – performance that will validate your confidence in HALKBANK AD Skopje.

Last year, was considered as a year in which Macedonian banking sector was rigid, in general. Within such an environment, HALKBANK AD Skopje offered a significant financial support to Macedonian companies, which reflected in helping the development of the Macedonian economy as well.

In addition, social responsibility practices took part in HALKBANK AD Skopje's main activities. Within this context, understanding the full impact of our business activities is extremely important.

In this report we aim to provide a deeper understanding of the many aspects of our business, including performance, long-term prospects, governance and how we create and deliver value to our stakeholders.

The presented data in pages ahead are of great importance for all of us. They represent the extremely appreciated success our bank has accomplished throughout the year 2013.

Our expectations and projections are firmed in the line of achieving steady and high accomplishments in the year ahead as well.

Respectfully,
Mehmet Hakan Atilla
President of the Supervisory Board
HALKBANK AD Skopje

CEO'S ASSESSMENT

Dear Shareholders, Business Partners and Associates,

It has been three successful and fruitful years since HALKBANK entered to the Macedonian market. Our main priority, from the very beginning, is given to providing assets and resources for productive Macedonia. Our profitability and operational success represent a moving power for the growth and development of this country. During this period of time, we have actively worked in accordance with our main values, vision and mission. We have contributed and raised the value of the national economy by offering fast, innovative and quality services to our clients and business partners.

The year 2013 has passed in moments of growth and success for our Bank. We continued with the investments in the branch network, technology, human resources and in the segment of social responsibility. As a result of our efficient and successful work, we have increased our profit in almost five times compared to the previous year. Our continuous strategy of supporting the real sector helped us achieve this despite the uncertainties in the world economy. Within such an environment, having followed our strategic objectives and by having the support of our parent Bank, Türkiye Halk Bankası AŞ, we have successfully completed several important projects.

In the year 2013, our credit portfolio was increased by 50%, from 147.4 to 221.4 Million EUR. This represents 1/3 of the total loan growth on the market. On the other side, we successfully managed the quality of the credit portfolio by decreasing the rate of NPLs from 3.6% in 2012 to 2.5% in 2013. This percentage is notably below the average of the sector. Also, the deposits grew by 15% by which we confirmed the reliability of our institution.

The opening of the representative office in Belgrade is a step forward not only for HALKBANK AD Skopje, but for the whole banking industry in Macedonia. By opening this unit, we took an important step towards HALKBANK's promotion in the Balkans and we also became a pride for our country by being the precedent for Macedonian banking system in establishing a representative office outside the country's borders.

In order to make our services and products more available, we have enlarged our branch network, reaching a number of 30 branches. The commitment to strengthen our performances and to grow effectively led us to open 3 new branches in Macedonia, and to renovating several of the existing ones as well. We also continued with the transformation from sub-branches to branches, with the purpose of creating and offering a service that fits the image of the Bank.

The establishment of a modern card processing center, led to integration of 3630 latest technology POS Terminals, which gave us the opportunity to become leaders in introducing the credit cards „bonus program " and „ PayPass " services on the Macedonian market. These activities, along with the increase of the number of ATM's to 69, brought us closer to achieving our aim which is being closer to our clients and maximizing the service quality.

In 2013, while we were making big investments, through efficient cost management, we made a profit of 2.4 Million EUR. This represents a 6.5% of the total profit within the sector.

By intensive training programs and employment of new personnel, we have strengthened our work

HALKBANK

team and reached the number of 377 employees. The year 2013, among else, has been characterized with plenty of serious trainings provided in Macedonia and Türkiye Halk Bankası AŞ, as well. We executed training programs that supported the implementation of the successful models applied by our parent bank in Turkey- country acknowledged as one with highest level of work competition.

As for the year ahead, we have started with execution of next important projects related to the new Internet banking platform and to the new modernized branch concept implementation.

Regarding the social responsible activities we have started a partnership development program, beginning with the general sponsorship for the Macedonian Basketball Team and with supporting the Turkish Cultural Center - Yunus Emre's handmade courses.

I am happy to say that all the success so far, has been a result of a strong team effort and it is a source of pride for all of us. This encourages us to continue our growth in the future, proportionally with the values we bring to the society and the support we offer to the economy. Since the true success of one company is not valued only by its financial reports, we have shown another positive side and interest which was presented through the support of social and cultural activities. We continued the cooperation with many educational and cultural institutions, giving our generous support.

I would like to thank all our employees who worked with us determinedly, to show gratitude to our parent bank and to express enormous respect and appreciation to all our stakeholders for their support, trust and loyalty. To all of our business partners and clients, I wish success and long-term cooperation with HALKBANK AD Skopje.

We move forward to 2014 focused on creating sustainable and steady growth for the Bank in all areas.

Yours Sincerely,
Necdet Palakci
Chie Executive Director
HALKBANK AD Skopje

ACTIVIT 2013

HALKBANK

REVIEW OF ACTIVITIES IN 2013

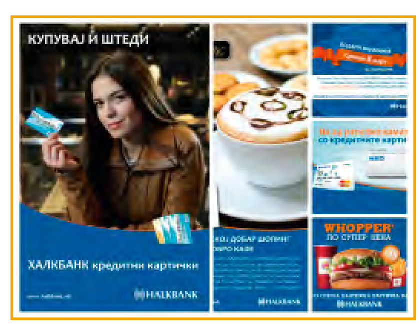
- Corporate and SME Banking
- Retail Banking
- Deposits
- Alternative Distribution Channels
- Treasury Management
- International Banking
- Operations
- IT and Technical Support
- Branch Network
- Human Resources
- Public Relation

PIONEERING PRODUCTS

New credit card product on the Macedonian market – HALKBANK is the first to introduce contactless Master Card Pay Pass in Macedonia. Leading message: "Pay in movement"

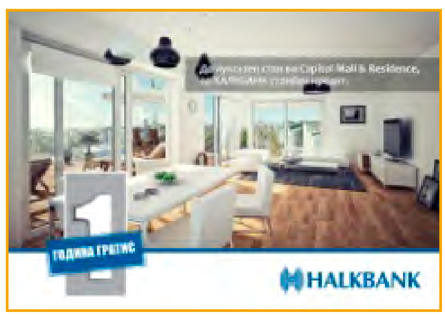
Promoting new conditions of consumer loans.
"Make the right choice"; "Open up your fantasy"; "Make the right move"

Summer loan with competitive price and conditions, to serve the summer needs of the nation. "Just pick up your destination. Go on vacation!"

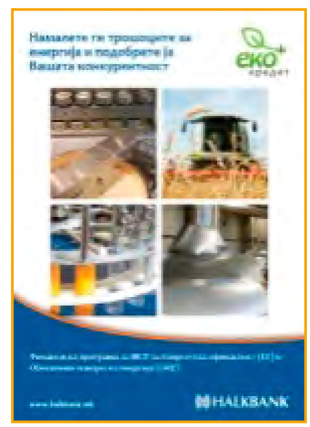


Introducing Bonus program.
"Buy and save"

New Year related, consumer loan with promotional period and interest rate. Credit Card as a gift. “Give a present with a smile”



Costumed Housing Loan to promote the sale of residential space in Capitol Mall through the exquisite conditions from HALKBANK. “ 1 Year Gratis”



Promoting GGF, ECO credit for SMEs. “ Decrease the energy costs and improve your competitiveness”

Product promotion for savings in trustable and stable bank. “Saving is a good habit”

Pay Pass, reminding campaign with promotional interest rate for promo period of time.

Spring conditions for our consumer loans

ACTIVITIES IN 2013

HALKBANK increased its ongoing support to the Corporate and SME's client while remaining committed to its customer-oriented approach.

CORPORATE AND SME BANKING

Customer-service oriented approach

Largest portion of the Bank's activities in 2013 comprised Corporate and SME banking. With dynamic organization specifically tailored for working with Corporate and SMEs, HALKBANK AD Skopje contributed to the economy through financing the SMEs and corporate client, the driving force of the Macedonian economy.

After re-branding of the bank, since April 2011, HALKBANK AD Skopje has become a solution partner for Corporate and SMEs clients, facilitating their access to financial requirements and information, and provides imparted support to its customers on the back of a wide product range.

Strategic orientation during 2013 of the Bank was to proceed spreading its business with legal entities, primary SMEs in all business segments.

57% of total growth of loan portfolio of legal entities in Macedonia, belongs to HALKBANK AD Skopje

Progressive and successful marketing strategy of the Bank influenced the growing of SMEs and Corporate loan portfolio for 65,50% in 2013.

Successful lending in 2013 can confirm the fact that in 2013 the Bank achieved significant growth of the SMEs and Corporate loan portfolio in the Republic of Macedonia. From the total growth of loan portfolio of legal entities in Macedonia, 57% belongs to HALKBANK AD Skopje. With this increase the Bank reached 6th place in the banking sector of the Republic of Macedonia by the size of the loan portfolio of legal entities and has a market share of 5.52%.

Namely, growth of the Bank is not just in cash exposure to the Corporate and SME client but also in the part of non-cash exposure and reached portfolio of 36.3 million EUR which was increasing in significant 142% in 2013.

Decreasing of NPL's Corporate and SME's portfolio

Success and profitability of HALKBANK in 2013 is also result of successful collection of loans, placed guarantees and letters of credit. Amount of non-performing loans in 2013 decreased for 1.60 % compared with 2012. The percentage of nonperforming loans in total portfolio in 2013 participates with 1.84%, compared to 2012, the percent was 3.09 %. This is important indicator of the quality of SME and Corporate loan portfolio.

Corporate banking for corporate clients in specialized Corporate Branch

Since October 2012, HAKBANK AD Skopje has been offering a special opportunity for managing and working with corporate clients.

Opening the Corporate branch and primary raising the equity of the Bank give us opportunity to extend cooperation with some of the 100 biggest companies in Republic of Macedonia according to their turnover. This contribute tripled increase cooperation with corporate client i.e in 2013 the Bank was already cooperating with more than 30% of the biggest companies in the country.

Just for one year operating, the branch reached loan portfolio of 54.8 million EUR that represents 44% of the total loan portfolio of legal entities in HALKBANK AD Skopje.

HALKBANK AD Skopje supports Corporate and SME's with credit lines from other institutions

During 2013, HALKBANK AD Skopje continued using credit lines from other financial institutions among which:

- EIB credit line, realized through MBRD for Financing of micro, small and medium enterprises and priority projects of the legal entities from Republic of Macedonia in amount of 100 million EUR;
- Green for Growth Fund Southeast Europe (GGF) for financing projects in the area of energy efficiency, thereby helping the enterprises in Macedonia to reduce energy consumption and energy expenses;
- EBRD credit line - WeBSEFF is a Credit Line Facility made attainable by the European Bank for Reconstruction and Development (EBRD) and the European Union (EU) to provide loans of up to 2 million EUR to companies in the Western Balkans with significant energy saving potential or the potential for utilization of renewable energy sources. The loans should help reduce your energy costs and increase your competitiveness.
- Credit line from MBRD for financing projects –investment of micro and SME's client;
- FIOOM credit line for startup business up to 1.000.000,00 MKD.

Simplify the credit processes

Thanks to the experience and support of Halkbank Turkey, in HALKBANK AD Skopje new tools for credit analysis were introduced, which provides a complete picture of the client's financial conditions and assessment of its operations. Furthermore with introducing the credit limit tool facilitates, the decision making process, simplifying the approval of cash and noncash exposures to the clients and significantly increase the efficiency of operation of branches with clients.

The Bank will continue supporting SME and Corporate clients

The success achieved in 2013 will be an additional incentive for HALKBANK AD Skopje to continue with dynamic organization specifically tailored for working with Corporate and SMEs client, offering a broad range of products fulfilling the needs of the client, increasing their competitiveness in the economy which was the key generator of the growth.

in milion EUR.


ALKBANK

57% of total growth of loan portfolio of legal entities in Macedonia, belongs to HALKBANK AD Skopje

ACTIVITIES IN 2013

HALKBANK AD Skopje increases its ongoing support to the retail clients with variety of new products and intelligent solutions promoting to the market customer care and consistency before pricing

RETAIL BANKING

With direct marketing activities and promotions reaching to final customer

HALKBANK AD Skopje is Bank that gives equal importance to small, medium and corporate clients as well as to retail clients while being fully oriented to intelligent solutions and creating customer satisfaction.

Retail marketing team organized in head office and in branches, during 2013 was oriented especially to direct marketing activities in Public companies, Corporate and SME's clients, with purpose of creating close connections with their employees. This approach had successful outcome and result toward net increase of retail portfolio.

Third bank in banking sector in terms of net increase of retail portfolio

The year 2013 was very successful for HALKBANK AD Skopje in the very increasingly competitive retail banking market. HALKBANK AD Skopje with its 30 branches during 2013 very efficiently met all customers' needs and therefore with quality service the Bank managed to be in the third place in terms of net growth of retail loan portfolio among another banks in Macedonia.

HALKBANK AD Skopje for the year 2013 had EUR 25.5 million net increase of the retail portfolio with retail loans, overdrafts and credit cards. HALKBANK AD Skopje successfully meets client's expectations in retail banking by offering wide product/service range with enhanced characteristics and alternative selling channels. This contributed to further strengthening of its position in retail segment.

Compared with the market, HALKBANK AD Skopje increased market share of retail portfolio constantly month by month and finished with 6,70% market share which was incensement for 1,06% for year 2013. HALKBANK AD Skopje in terms of retail portfolio finished year 2013 on fifth place among all other banks in R. Macedonia.

Analyzed by product HALKBANK AD Skopje had the biggest market share with consumer loans - 11,58%, Eco loans - 8,20%, overdrafts - 6,35% at the end of year 2013.

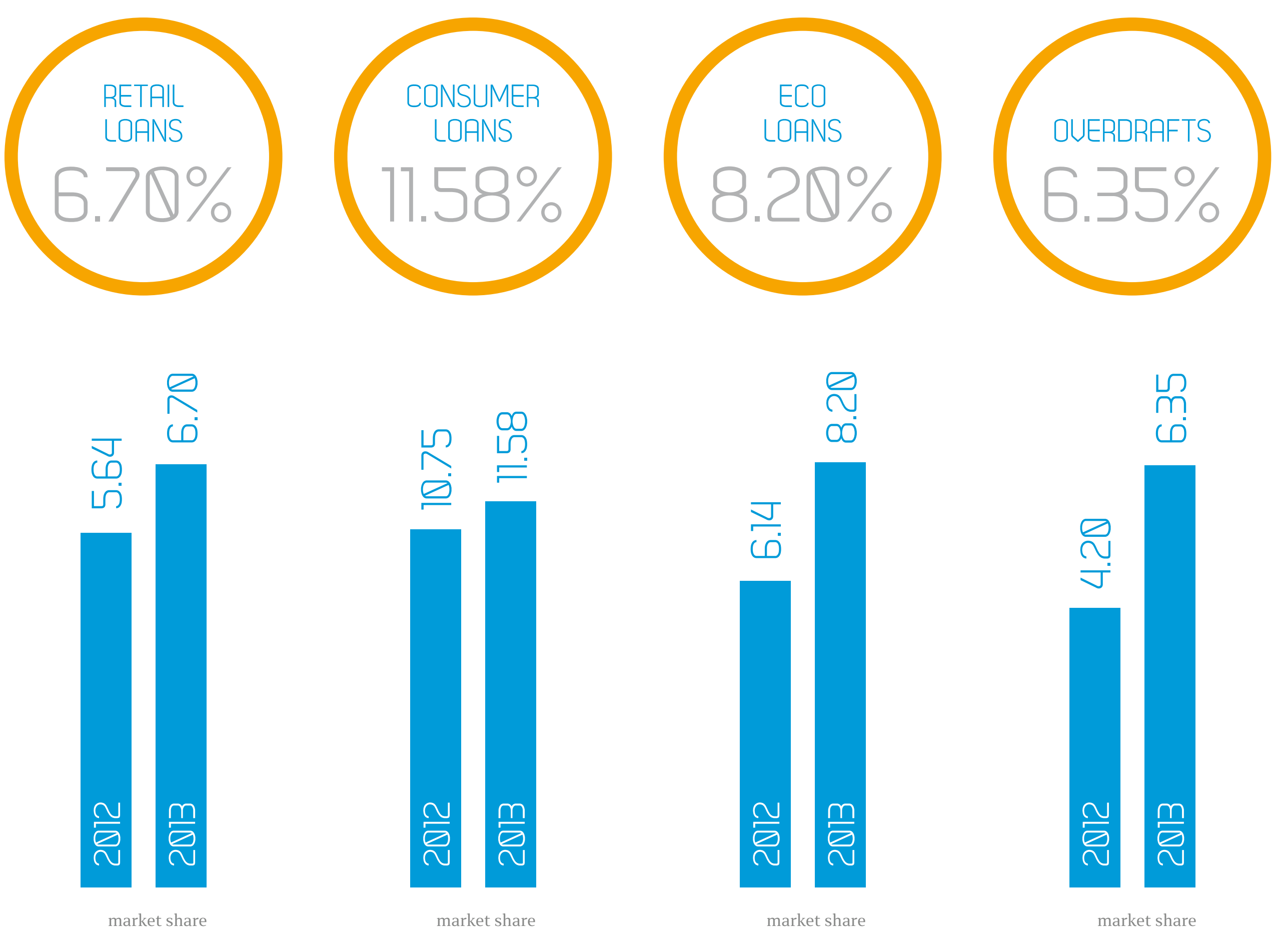
On the retail lending side, HALKBANK AD Skopje performed in line with the market trend and maintained to achieve increased market position with Net increase

Market Share of Retail Loans (in EUR)	31.12.2012	31.12.2013
Retail Loans - Halkbank	76.223	101.894
Retail Loans - Sector	1.352.484	1.521.448
Market share %	5,64%	6,70%

Market share of consumer loans (in EUR)	31.12.2012	31.12.2013
Consumer Loans - Halkbank	58.233	75.987
Consumer Loans - Sector	541.793	656.032
Market share %	10.75%	11.58%

Market share of ECO loans (in EUR)	31.12.2012	31.12.2013
ECO Loans - Halkbank	2.706	3.847
ECO Loans - Sector	44.101	46.892
Market share %	6.14%	8.20%

Market share of Overdrafts (in EUR)	31.12.2012	31.12.2013
Overdrafts - Halkbank	3.288	5.277
Overdrafts - Sector	78.320	83.146
Market share %	4.20%	6.35%



ACTIVITIES IN 2013

of retail portfolio of 25.5 million EUR. In 2013, the structure of the lending portfolio continued to favor the balanced approach, maintaining and improving the ratio of secured lending versus unsecured loans, which is a strategy that HALKBANK AD Skopje has started especially since second half of 2013.

During 2013 HALKBANK AD Skopje concluded 39.036 agreements for retail products from which 4.736 new overdrafts, 25.892 agreements for credit cards, 8.408 agreements for loans from which biggest number are consumer loans, mortgage loans ECO loans and housing loans.

With intelligent solutions and close relations with clients to steady NPL ratio

In line of excellent customer care and providing intelligent solution for every retail costumer HALKBANK AD Skopje also decreased NPL ratio during year 2013 from 4,36% in the beginning of the year and ending with ratio of 3,44%. NPL retail products amount has increased for only 181 thousand EUR during year 2013.

Products targeting variety of clients profile

During the 2013 year HALKBANK AD Skopje offered wide range of products in several campaigns with attractive interest rates and different product solutions in consumer, housing and mortgage loans:

- Products for targeting public administration, INC, financial institutions and education;
- Products targeting employees on part time employment agreements in companies with foreign investors;
- Loan with possibility for subsidization of interest by the flat's seller or merchandiser of any kind of goods;
- for new building facilities from investor City Plaza DOO Skopje with option of subsidized interest for first year by City Plaza Skopje.
- Housing loans from MBPR credit line for home improvement
- Housing loans for new building facilities from investor Cevahir Group A.D. Skopje
- Consumer loans designed exclusively for union members of public administration, judicial authorities and citizens association
- Retail loans with attractive interest rates for union members of education, science and culture

NPL Ratio in Retail Loans (%)	31.12.2012	31.12.2013
HALKBANK AD Skopje	4.36%	3.44%
Sector	6.76%	6.13%

ACTIVITIES IN 2013

HALKBANK AD Skopje increased the deposit base and number of new client with committed work and new products and services

DEPOSIT AND CASH MANAGEMENT

Increased level of customer satisfaction with new products and services

With the wide range of products and professional service that is offered to clients, HALKBANK AD Skopje continues its growth safely and stable. During the 2013 HALKBANK AD Skopje continued working on improving the products and services, in order to offer better quality products, prompt and quality services to the clients. In the context of the current situation in the country and the increased caution by the customer, special attention is paid to the competitiveness of the interest rates and the professional service.

With opening new branches during the 2013 year HALKBANK AD Skopje is trying to be closer to the customers to satisfy their needs and requirements. Opening of corporate branch has given us chance in working with best companies in the country which brought increasing of sight deposits.

HALKBANK by believing in its abilities, experiences, relying on its own stability and reliability in 2013 year continued to organize campaigns and to launch new products for savings.

Stable deposit base as generator for loan increase and stable liquidity

The growth of the deposit base, especially of the long-term deposits represents a stable source of continued loan expansion of the Bank.

In 2013 HALKBANK AD Skopje continued to grow and to extend products and services for saving for our clients, maintaining liquidity through stable deposit base.

The growth of individual's deposits, especially term deposits are growing despite the trend of decreasing of the interest rates in the market and the low level of employment in the country. This can be explained with increased trust in the banking sector, the lack of alternatives for investment in the country and depreciation of real estate's price.

Growth of deposits from non-financial entities is located on 4th place

Comparing with the competition HALKBANK AD Skopje in 2013 by growth of deposits from non-financial entities is on 4th place, i.e. legal entities on 2nd place and individuals on 6th place.

HALKBANK AD Skopje in the growth of the deposits of non-financial entities participate with 10.07%, whereby with 34.14% of legal entities and with 5.62% of individuals. While the market has grown only with 5.68%, HALKBANK AD Skopje has grown with 14.59%.

By the end of 2013 compared to 2012, the market share increased from 3.9% to 4.2% from the deposits in the banking sector.

HALKBANK in 2013 year continued with the trend of increasing its deposit base. So in 2013 year, the deposits grew for 15.26% and in the part of legal entities they increased for 19.30% while for individuals for 11.76%.

Comparing with 2012 when the increase of the deposits was 98.22% in 2013 year, this increase was more moderate and in accordance with the given targets and budgets, the strategy was to focus on reducing of the total costs and also the costs of interest. With this strategy growth of the deposits continued, but at the same time contributed to decrease the average interest rate of the deposits.

Increased number of the transactions for 47.62%

Through the attractive packages of the products that we offer on the Macedonian market and through the aggressive campaigns in 2013 year, the number of the customer accounts in HALKBANK increased by 17.52% or 18,800 new accounts .

All this contributed to the increase in the number of transactions for 47.62% comparing with the last year.

Through the promotion of the e-banking service that we offer, we try to be available to the customers at any time and any place, whether we have nearby branch or not. We have increased number of transaction through e-Bank for 79.36% if we compare year 2012 to year 2013.

With this service, our customers have the opportunity from any place, at any time with very low prices, to perform their transactions. We have a positive trend in the area of increasing the use of ATM transactions. The percentage of using the ATM is 23,01% of all transaction and the number of transaction comparing with the last year is increased for 49.08% . This positive increase is due to the increasing network of ATM-s and increased number of debit and credit cards.

ACTIVITIES IN 2013

MasterCard Pay Pass was a successful continuation of the technology and product improvement towards fully commitment of customer needs

ALTERNATIVE DISTRIBUTION CHANNELS AND PAYMENT CARDS

Positive implications from the technology improvement

In the previous 2013, the card operations were directly affected from the positive results of the implemented project by the Alternative distribution channels and Payment Cards department, related with the migration to new In house processing center within the bank which was a great technological progress. In June 2012 the Bank established new in house processing center that is directly connected with MasterCard and VISA, and provides full processing services for Card Payment Systems (issuing and acquiring).
With implementing of the new card payment system, HALKBANK AD Skopje, for the first time on the market, introduced the bonus system that is related with the chip of the credit card that was one of the reasons that contributed to increasing of attractiveness of credit cards in 2013. For each transaction that is performed with HALKBANK AD Skopje credit card on HALKABANK AD Skopje POS network, cardholder gains bonus points as a chip money and the same can be used for normal purchase on HALKBANK AD Skopje bonus partner merchants. Payment's on installments was another feature which additionally contributed for the competitiveness of our credit cards on the market, which positively influenced to the number of credit cards too.

Innovations increased the market share of HALKBANK Credit Card's

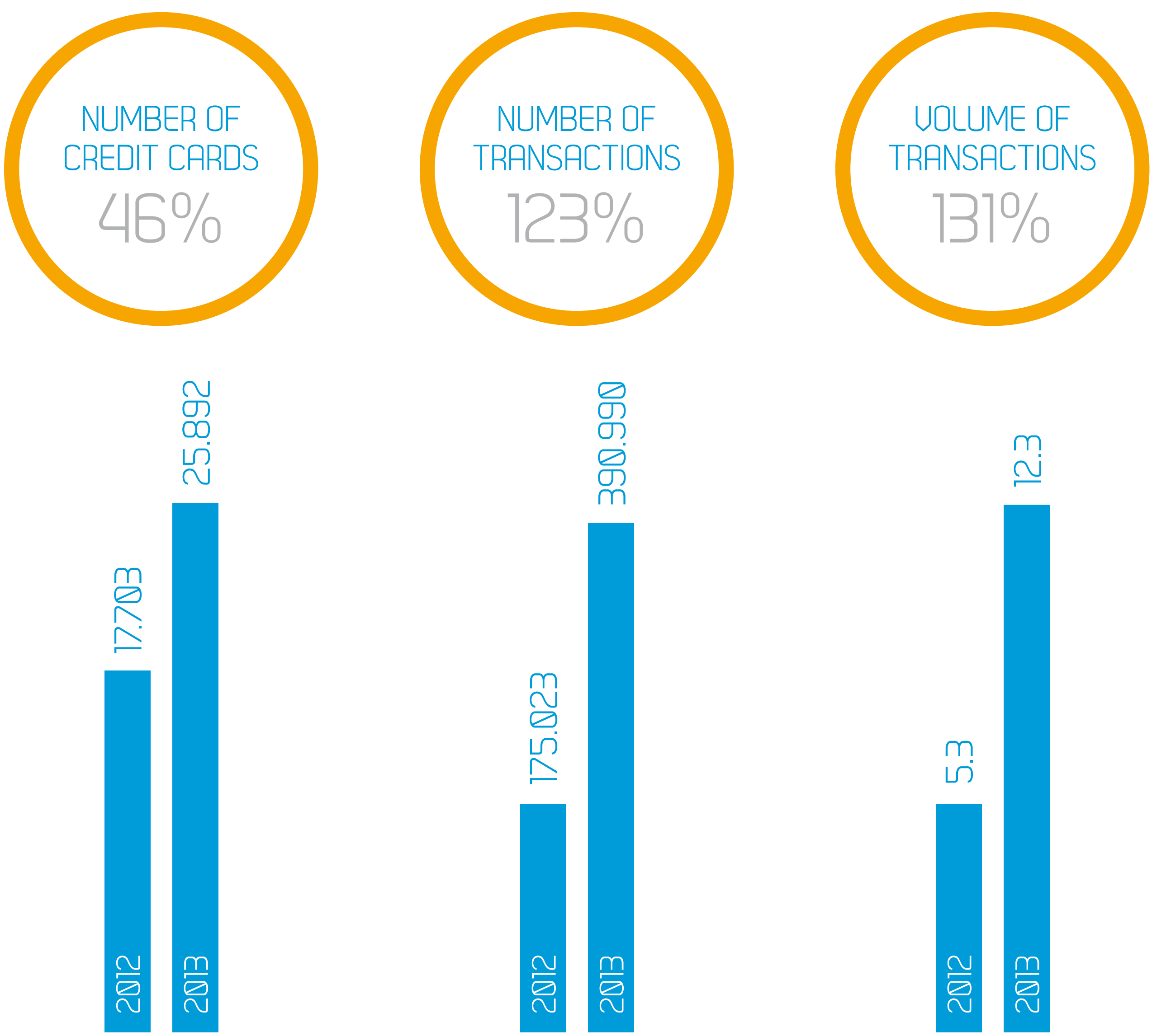
Innovations in 2013 continued with the implementation of the contactless technology by which HALKBANK became first bank in Macedonia that presented contactless payment with MasterCard PayPass credit card on the market. This feature enabled clients to be more secure and safe and made the transactions with just touching the card on the POS terminal that supports contactless payment.

Implemented innovations as competitive advantages on the market directly contributed for the increase of the number of credit cards where from around 18.000 credit cards we reached to around 26.000 credit cards on the market thus the market share from 6% increased to almost 9% that consequently almost doubled the volume and transactions comparing with 2012. From around 175.000 to 340.000 in terms of transactions and from around 5 million EUR to 12.milion EUR in terms of volume.

Number of credit cards		
	2012	2013
	17.703	25.892

Number of transactions with HALKBANK AD Skopje credit cards		
	2012	2013
	175.023	390.990

Volume of transactions with credit cards in EUR		
	2012	2013
	5.329.950	12.304.922



in milion EUR.

Number of POS terminals		
	2012	2013
	1610	3630

Number of transaction on POS terminals		
	2012	2013
	694.244	2.393.140

Volume of transactions on POS terminals		
	2012	2013
	12.274.967	41.575.219

New POS terminals attract the attention of the Merchants, and the market share reached from around 5% to 11%.

The increased number of issued contactless credit cards, easy handling with POS terminals and the speed of processing of transactions attract the attention of the merchants that directly depend on that so the demand for contactless POS terminals technology contributed for increasing of POS network. In 2013 HALKBANK AD Skopje became the first and leader in the market in terms of number of installed contactless POS terminals.

During 2013, HALKBANK AD Skopje increased the number of POS terminals from around 1.610 in 2012 to 3.630, 225% more compared with previous year. A market share compared with 2012 increased from 5% to 11%.
Increased number of installed POS terminals and new introduced attractive features including bonus and payment on installments on transactions contribute to almost tripled number and volume of transactions on HALKBANK AD Skopje's POS terminals, from around 700.000 number of transactions in 2012 to around 2.400.000, and from around 12 million EUR, to 42 million EUR in terms of volume.

Innovations as a main trigger for the success

Following the experience from 2013 the bank will continue to be a leader in the implementation of unique technology and products which will firstly satisfy the customer needs and contribute for the merchant – customer relations which finally will be additional trigger for positive changes in the overall banking sector.

HALKBANK

Innovation as a main trigger for the success. Increased number of installed POS terminals and new introduced.

ACTIVITIES IN 2013

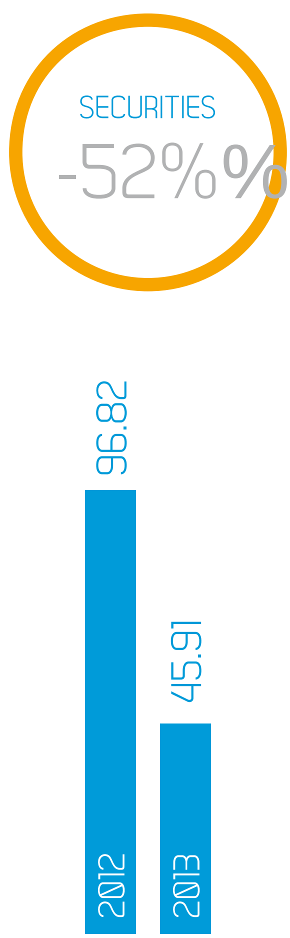
Proactive Treasury strategies increase profitability and growth momentum

TREASURY MANAGEMENT

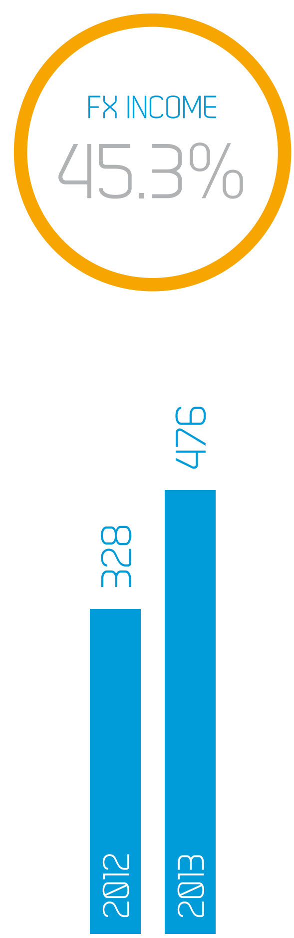
During 2013 all treasury activities were fulfilled properly and in stable mode, securing optimal treasury management (liquidity and all ratios included). Treasury activities we can overlook during 2013 are as follows: Sales activities, Fx trading and MM (international market), Interbank Fx and MM trading (domestic market) and Trading with securities (domestic T-bills, T-bonds, T-notes).

Sales & Fx trading

Total turnover of Fx sales with clients compared with 2012 was increased for 12% in 2013, to EUR 244.5 millions.
Total net income for 2013, from Fx trading (sales with clients and closing Open Currency Position) was increased from 2012 for 45.3% to EUR 476 thousand.
Bank ranking was on 6th place with 4.29% share in sector for 2013.



in milion EUR.



in thousand EUR.

Description (in EUR millions)	2012	2013
Total	96.82	45.91
T-bills	69.92	27.62
T-notes	23.90	13.33
Bonds	3.00 – EUROBOND	4.96 – T-bonds

Securities trading

Total securities portfolio (T-bills, T-notes and T-bonds) in 2013 compared with 2012 decreased for 52%.
Decreased change of portfolio investment during 2013, was primary linked with bank`s orientation to more aggressive credit activities as crucial benefit for real economy in Macedonia (over 34% credit participation in sector for 2013) and accordingly reaction relate to continuous decrease of interest rates of securities in 2013 (- 50 b.p.)

Market share of the bank during 2013 was stable around 9-10% in sector, at average ponder rate for all maturities up to 2Y, at ~3.5%, compared with 2012 when was 20-21% share within the sector, at average ponder rate at for all maturities up to 2Y, at ~4.00%.

Perspectives

- Derivatives (hedging and investment strategies) in scope of global (cross selling) services for clients and bank portfolio
- Fx investments in securities (portfolio and structured products)
- Trading e platforms (white label trading)
- Official interbank Fx market maker

ACTIVITIES IN 2013

In order to act as a solution partner in foreign trade, HALKBANK cooperates with domestic and international financial institutions to provide the SMEs access to affordable financing

INTERNATIONAL BANKING

Correspondent Banking

Due to continuous increasing of branch network in 2013 as well as customer oriented approach of the staff, HALKBANK AD Skopje successfully manages a broad correspondence network of more than 400 banks in 50 countries.
Consequently, HALKBANK's customers active in the foreign trade sector conduct their transactions in a secure and efficient manner via Bank's extensive correspondent bank network.
In 2013, HALKBANK AD Skopje continued to deliver high-quality service in the business of international banking.
Accordingly, the Bank assigns limits to domestic and foreign banks and other Financial Institutions based on review of their credit worthiness, periodically.

Communications with Financial Institutions

The Bank continued to cooperate with a significant number of Financial Institutions to offer medium and long-term financing to clients that import capital goods from abroad.
During 2013 HALKBANK AD Skopje held several meetings with senior representatives of reputable Financial Institutions.

Borrowings from Financial Institutions

In 2013, HALKBANK AD Skopje continued its success in securing foreign funding from Financial Institutions despite the fluctuations in the financial markets.
The bank disbursed loans financing renewable energy, energy efficiency investments as well as increasing of the competitiveness of SMEs.

Trade Finance

The Bank performs foreign trade finance and other interbank credit transactions through widespread correspondents' network.
Bank delivers commercial banking products and services to its clients

The Bank continued to cooperate with a significant number of Financial Institutions to offer medium and long-term financing to clients that import capital goods from abroad.

including domestic and cross-border payments, financing of international trade.
Distinguishing itself with its expert staff and innovative approach, HALKBANK AD Skopje acts as a solution partner by developing customized products.

Foreign Representative Office

In line with the strategy to expand banking business in the Balkan region, HALKBANK AD Skopje opened a Representative Office in Belgrade, Serbia during 2012 and in 2013 continued to observe the banking system in this neighboring country. This step of the bank, makes HALKBANK AD Skopje gain a comparative advantage over other banks that operate in Macedonia.

ACTIVITIES IN 2013

2013 has been successful year for domestic payments. Despite the growth of number of transactional accounts for clients, significant growth in the number of non-cash transactions processed through the e-banking system was achieved

OPERATIONS

Significant growth in opened transaction accounts

The number of active transactional account opened in HALKBANK AD Skopje at the end of the year 2013 was 126.132 compared to the end of the year 2012, when the number of active accounts was 107.332.This presents growth of 17.52%

Growing numbers in all channels

In terms of transactions it is particularly important the growth in the number of transactions processed through the e-banking system, which shown by categories is 72.39% for natural persons and 81.35% for legal entities. The share of transactions processed through the e-banking system in the total number of transactions is 16.05% for legal entities and 9.62% for natural persons.
Domestic payments transactions have been increased by 44% from 1.666.565(2012) to 2.393.637(2013) transactions on yearly basis.

Internet banking

Regarding the e-banking it is important to mention that during 2013, 3.460 new users of e-banking were recorded and compared to 2012 when there were 2.241 new users shows growth of 54.40%.
The number of newly registered users of electronic banking in 2013 is 35.42% of the total number of registered users as of 31.12.2013 (total number 9.769).

During 2013, 3.460 new users of e-banking were recorded and compared to 2012 this represents a growth of 54.40%.

Cash center

Cash center of HALKBANK, bank for the clients performs: transport of cash, processing of domestic and foreign currencies, transfer of foreign currencies abroad in correspondent banks, buying and selling domestic and foreign currencies banknotes, filling of ATM with cash, taking cash from clients' premises with special transport company and depositing to the client accounts. Also, delivering coins to clients for daily usage.

Western Union

HALKBANK is agent for Western Union fast money transfer. With implementation of new software WUPOS of WU all location of the bank can perform faster now.

Foreign operations

For cross-border foreign payments, the bank uses accounts of correspondent banks. The bank has network of more than 400 correspondent banks, 29 accounts in 16 first class banks through the world, thus can serve its clients very efficiently with low cost for international payments.

International payments increased by 54% from 9.808 (2012) to 15.140 (2013) payments on yearly basis.

ACTIVITIES IN 2013

The new investments in new products and infrastructure will support the accelerated growth of the Bank

IT AND TECHNICAL SUPPORT

In the beginning of 2013 HALKBANK introduced MasterCard PayPass contactless cards, first in the Macedonian banking system. By combining the PayPass contactless cards and contactless support on the HALKBANK POS network, the Bank helped promote quick micropayments on the Macedonian market.

New Internet banking system

In the continuous effort to improve the services of the bank and bring them closer to the customer, the Bank started a project for replacing the current e-banking system and introducing a new system with higher security, better usage and mobile device support.

The annual growth of processed transactions per month from January 2012 to December 2012 of 59 % initiated the major project for replacement of the central storage system and SAN network. The new system improved performance and responsiveness of all systems. This replacement enabled the continued growth of processed transaction per month, which from Januar 2013 compared to December 2013 was 62 %.

By optimizing and renegotiating the terms and quality of telecom services to the bank, the increase of the bank extent of data links towards the branches caused increased customer satisfaction and decrease of total costs of 20% per year.

More efficient infrastructure through virtualization

In order to improve service quality, system availability and lower power consumption and maintenance cost HALKBANK introduced a server virtualization environment.

The continuous activities to increase the security of the card Payment system through the Implementation of the PCI-DSS standard helped to preserve the pace as the fastest growing Bank in the Payment Cards market in the country.

62 %. Growth of processed transactions permonth, from January 2013 compared to December 2013.

ACTIVITIES IN 2013

HALKBANK A.D. Skopje's branch network includes 30 modern branches in 16 biggest cities of Macedonia and 1 representative office in Belgrade Serbia

HALKBANK'S BRANCH NETWORK

Extensive Branch Network

In 2013 HALKBANK continued to operate through extensive branch network with a high quality service approach.

HALKBANK's branch network includes 30 Branches in Macedonia from which 23 branches, 1 corporate branch, 2 industrial zone branches and 4 satellite branches. From the total number of branches 15 are located in the capital city Skopje and 15 in other cities of the country.

Opening of the new branches and Reorganization continued

In 2013 HALKBANK extended its branch network by opening 3 new branches in Skopje-Gjorche Petrov, Veles and Kocani. Within the project of reorganization of the satellite branches, in 2013 Neokom satellite branch in Skopje was transformed to branch. The process of reorganization of the branches will continue in 2014.

Representative office in Belgrade Serbia

Our Bank's representative office in Belgrade Serbia was opened in December 2012. Opening a representative office of our Bank represents a milestone for the Macedonian Banking Sector. Main mission and objective of the representative office is to research the market and mainly to link the companies which are cooperating with Macedonian or Turkish companies.

ATM network increased to 69 ATM's

The trend of increasing the number of issued cards set the need for enlargement of ATM network. After the implementing of new card payment system new features were introduced in our ATM network in order to improve services to the clients and make easier way to approach to their account and make all necessary services on ATM instead of entering branch. At the end of 2013 the Bank reached the number 69 ATMs compared with 48 in 2012.

HALKBANK

Opening a representative office in Belgrade, represents a milestone for the Macedonian Banking Sector.

From the total number of branches 15 are located in the capital city Skopje and 15 in other cities of the country.

ACTIVITIES IN 2013

This year has once again produced challenges and we are looking forward to continue to build upon our successes in 2014 as well

HUMAN RESOURCES, ORGANIZATION AND TRAINING DEPARTMENT

Activities of the Department

Having in mind that the employees are the major and crucial part for any company's growth and success, HALKBANK AD Skopje continuously strives for achieving higher level of satisfied, dedicated, responsible, productive and motivated employees, providing them continuous trainings, broad range of professional career opportunities and a modern working environment. Hence, the 2013 has proved to be extremely eventful with some significant areas of achievement regarding the newly opened Branches employees, Trainings, Policy Development, Branches Performance Management System, Improving processes and procedures, regular MIS Reporting, as well as Recruitment, Selection and Induction activities, Maintaining Employee Database, Manpower Planning, etc.

During 2013 HALKBANK has revised its policies and practices especially by implementing the New Systematization of positions and salaries for the Branches Staff and the Head Office Staff of the Bank, Categorization of Branches, revising and implementing the new Annual Vacation procedure, implementing the new Disciplinary Procedure and Disciplinary Committee and initiated and conducted Branches Staff satisfaction and support Survey.

Number of staff, educational background and gender balance

During 2013 HALKBANK family grew for 3%, i.e. from 366 to 377 employees, 232 (62%) of which female and 145 (38%) male employees. At the end of year 2013, the average age of the staff was 34 and a half. Of the Bank's personnel, 305 employees (81%) are University degree holders, 16 employees (5%) are Master degree holders and the remaining 56 employees (14%) are High school graduate holders.

Career and Personal Development Days and Internship programs

HALKBANK continued its activities by cooperating with the high ranked Universities in Republic of Macedonia and their students in 2013 as well, having a dual objective of promoting the Bank to potential candidates for recruiting purposes and undertaking corporate social responsibility activities. As part of these efforts the Bank continued the cooperation between the Faculties and the Bank continued providing Internship programs up to 3 months for high GPA students

and giving them the opportunity to grow and broaden their skills and build a network in a dynamic environment designed to support a long-term career objectives. Additionally, during the reporting year the Bank participated in Career and Personal Development Day event at St's "Cyril and Methodius University", Economy Faculty.

Internal and External Trainings

According to the implementation of the Annual plan for 2013 and the adopted strategy for this year, the Bank during the period January - December 2013, held activities for improvement of its working operations, through the organization of internal and external trainings, such as: Credit Analysis Training, Training on Advanced Analysis of Financial Reports, Customer Service Training, Operations Training, Training for new employees (within the framework of the training are: Training for the anti-money laundering and financing terror, Information security, Introduction to IT environment, Training in the part of the Operations, Marketing (Corporate Clients , SME's and Retail), Payment cards, Public Relations, Human Resources Management, Quality control, Branch functioning, Training for the Implementation of the Decision of Teblig, Training for Operational Managers and Operation Senior Officers, Training for Banking Services Officers, Turkish language courses, Training for Health and Safety on the work place, First Aid Training, Training for Authorized Auditors.

ACTIVITIES IN 2013

We are a bank that is steadily promoting consistent support and social welfare, presented through involvement in many social and cultural activities

PUBLIC RELATIONS

Social responsibility

A very important aspect of HALKBANK's activities is the support of Macedonian culture, education, sport and other social aspects.

In the past 2013 year, HALKBANK AD Skopje cooperated with several educational and academic institutions in different projects with the same purpose, elevating the continuous progress of the education program for residential and foreign students in Macedonia. We have supported several ceremonials that were organized by Balkan University, American College and NOVA- Private Elementary and High Schools.

In line with the general contribution of our mother bank, HALKBANK AS Turkey, to the cultural center of YunusEmre, HALKBANK AD Skopje has given its sponsorship to this institution here in Macedonia as well. We are proud to be the ones who support the youth cultural education, creative work and manual production of many young talents. Furthermore, we also add our participation in the Turkish Theater.

Our social responsibility was emphasized by the given care to three socially concerned institutions in the passing year. We have built up a friendship relationship with three dorms in Skopje: “11 Oktomvri”, “25 Maj” and “SOS Detsko Selo”. By providing a modest donation, HALKBANK AD Skopje initiated many beautiful smiles and happy faces of these wonderful children.

Supporting different business segments

HALKBANK AD Skopje has taken part in different business organizations and conferences that had a development and educational character such as: sponsorship for the legal conference in Macedonia; activities within the national chamber of commerce; North West chamber of commerce; health institutions and educational unions.

Expos and outdoor stands

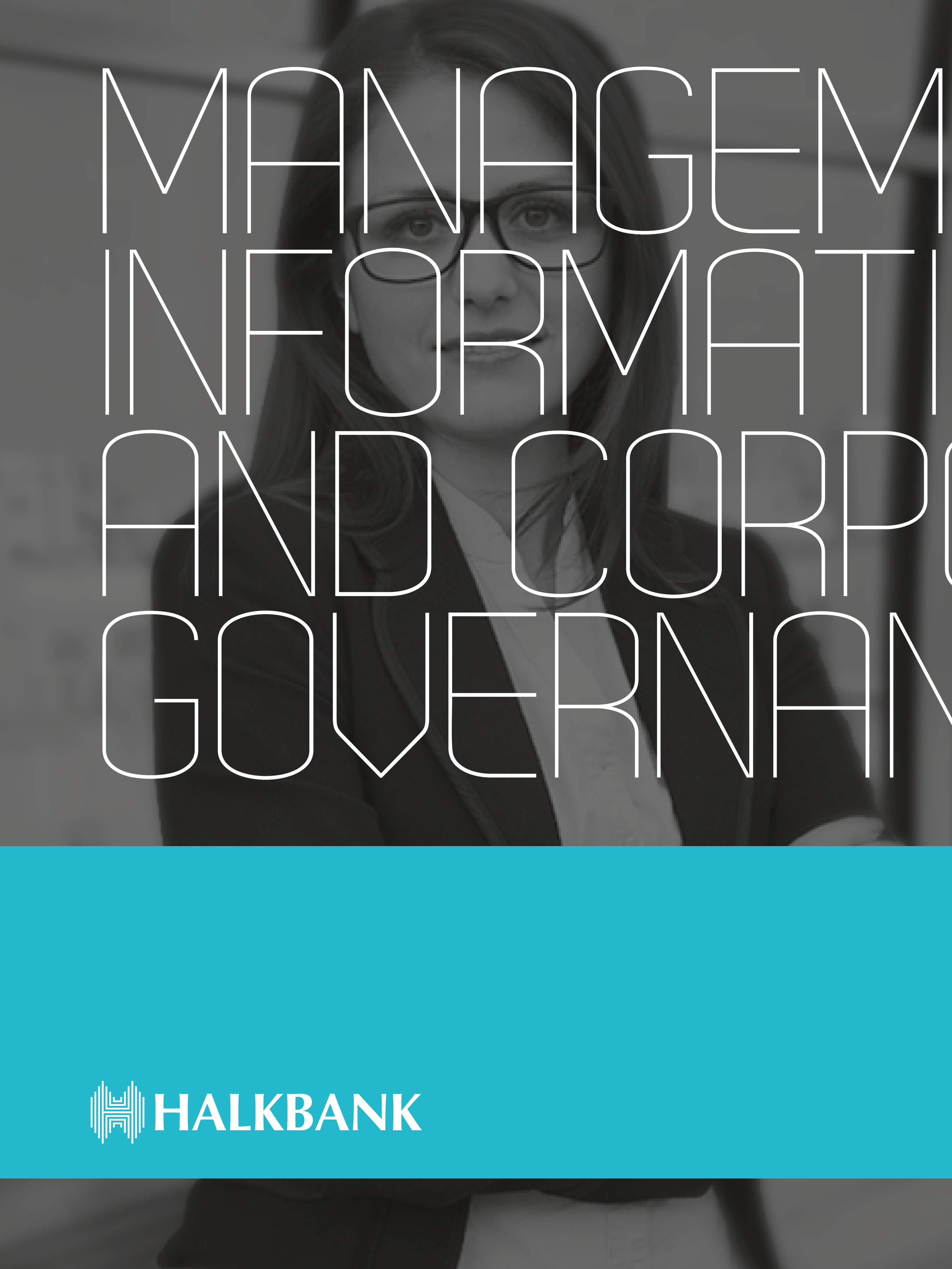
In the year 2013, HALKBANK AD Skopje emphasized its presence through several presentations. We attended the traditional BANKEXPO in Skopje, Macedonia; the traditional EXPO for Turkish products and companies in Macedonia; outdoor stands for promotion within shopping malls such as City Mall and Capitol.

Co-promotional activities

Our clients are our partners. We are building a mutual relationship for growth and success with every one of them. Growing together is much more significant than growing individually.

In this course of action, we have created many co-promotional activities and campaigns that had a simple objective, to promote each other's businesses and sales. Together, in front of the customers, we have presented ourselves together with many companies in the fields of supermarkets, shopping malls, boutiques, construction and real estate services, dairy industries, techno markets, touristic agencies, hospitals and health institutions etc.

We are proud to be the ones who support the youth cultural education, creative work and manual production of many young talents



MANAGEM
INFORMATI
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HALKBANK

ENT
ON
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SUPERVISORY BOARD

MANAGEMENT BOARD

ORGANIZATIONAL STRUCTURE

REPORT OF SUPERVISORY BOARD

CORPORATE GOVERNANCE REPORT

SUPERVISORY BOARD

1 Mehmet Hakan Atilla
President of Supervisory Board

Mehmet Hakan Atilla was born in 1970 in Ankara. He graduated on the Department of Economics, Faculty of Economics and Administrative Sciences at Gazi University. He joined HALKBANK in 1995 as an assistant specialist in the Research, Development and Planning Department and proceeded to work as a specialist in the Commercial Credit Cards, and Cash Management Departments. Then held the title of supervisor and department manager in the Strategic Planning Department. Atilla was head of the Financial Institutions and Investor Relations Department between June 22, 2007 and November 11, 2011 before being appointed as the current deputy general manager responsible for International Banking on November 11, 2011. Since May 2011 he was appointed as Supervisory Board Member of HALKBANK AD Skopje.

2 Erol Göncü
Member of Supervisory Board

Born in Siirt in 1964, Erol Göncü is a graduate of the Middle East Technical University Department of Mathematics. He began his career at Pamukbank on October 3, 1988 as a systems analyst and went on to hold the positions of service manager and department manager. He has been working as a deputy general manager in charge of Information Systems and Technical Services at HALKBANK since June 9, 2005. Since May 2012 he was appointed as Supervisory Board Member and Audit Committee Member of HALKBANK AD Skopje.

3 Atalay Tarduş
Member of Supervisory Board

Atalay Tarduş was born in 1969 in İzmir and graduated from the Department of Economics, Faculty of Economics and Administrative Sciences at Middle East Technical University in 1992. He began his career at Pamukbank as assistant inspector on August 10, 1992 and also served as inspector, marketing director and director of a loans unit at the same bank. Tarduş served as manager between November 12, 2004 and November 21, 2005, commercial branch manager from November 22, 2005 to June 26, 2008, and as a regional coordinator between June 27, 2008 and August 3, 2011. He has been working as deputy general manager of corporate and commercial marketing since August 4, 2011 at HALKBANK. Since May 2012, he was appointed as Supervisory Board Member and Audit Committee Member of HALKBANK AD Skopje.

3 4 5 6 7

4 Burak Balcı
Member of Supervisory Board

Burak Balci was born in 1970 in Elazig. He graduated from Bilkent University Industrial Engineering Department. He began his career as an Assistant Specialist at Pamukbank in 1993. He became Branch Manager in 1998. After the merger Pamukbank-HALKBANK in 2004 he became Head of Department within HALKBANK in 2009. Since April 2010 he has served as Head of Corporate Loans Department. On May 2012 he was appointed as Supervisory Board Member of HALKBANK AD Skopje.

5 Ali Ulvi Sargon
Member of Supervisory Board

Ali Ulvi Sargon was born in 1966 in Ankara .He graduated from Ankara University, Faculty of Political Science Management Department. He began his career as an Auditor at Turkiye Is Bankasi in 1989. He became Branch Manager in 1999 at Garanti Bankasi AS .Since 2002 he was Vice President of Asset Management Department at Pamukbank. After the merger Pamukbank-HALKBANK he became Senior Vice President of Risk Management Department within HALKBANK in 2004 . Since May 2012 he was appointed as Supervisory Board Member of HALKBANK AD Skopje.

6 Boris Petrovski
Independent Member of Supervisory Board

Boris Petrovski was born in 1950 in Bitola. He graduated from Ss. Cyril and Methodius University, Faculty of Law in Skopje. He began his career as Junior Legal advisor in LVK Lozar in 1975. He became Branch Manager in 1992 at IK Banka Bitola Branch. Between 2001 and 2011 he was Deputy General Manager and General Manager at IK Banka AD Skopje. Since May 2011 he was appointed as Supervisory Board Member of HALKBANK AD Skopje.

7 Sonja Petrusheva
Independent Member of Supervisory Board

Sonja Petrusheva was born in 1964 in Skopje .She graduated from Ss. Cyril and Methodius University, Faculty of Law in Skopje. She began her career as Lawyer in 1995. As a Lawyer between 2007-2009 she participated in the process of share purchase between IK Banka and DHB Holland. Since 2009 she was appointed as Supervisory Board Member and Audit Committee Member of HALKBANK AD Skopje.

MANAGEMENT BOARD

1 Necdet PALAKCI
Chief Executive Director

Mr. Necdet Palakci has graduated from the University of Marmara, Turkey in the field of International Relations, and has also received a Masters Degree at the same University in International Banking in English language. The beginning of the banking career of Mr. Palakci starts from 13.08.1990 in Pamuk Bank Turkey as management trainee, where he was engaged on various positions, mainly in the area of corporate, commercial and SME sales. Afterward in his career he is appointed as Head of corporate sales responsible of various regions in Turkey, and later he is designated as a branch manager of Topkapi and Merter commercial branches in Istanbul. His last position was corporate branch manager in Istanbul, Turkey. Since 25.06.2012, Mr. Palakci is being appointed as the Chief Executive Director of Halkbank AD Skopje, where he manages the Bank during its growth and expansion of the Bank in the Macedonian banking sector and in the region, as well as leading the organization through structural changes like the taking over of Ziraat Bank AD Skopje to Halkbank AD Skopje and opening a representative office in Belgrade, Serbia. During this period of time the bank has accomplished many significant achievements..

2 Erturk SUMER
Executive Director

Mr. Sumer's educational background is in the area of economy, graduating at the Business Administration and Finance Department at the University of Istanbul. In the early stages of his career, he worked in Garanti Bankasi A.S. as Internal Auditor and Operations Manager. The next challenge throughout the career of Mr. Sumer is the position of Chief Audit Executive and Ass. General Manager in Demir – HALKBANK, based in Rotterdam, Netherlands. At the time when Demir Halk decided to become the major shareholder of IK Banka, Mr. Sumer has been engaged on the project of integration activities between both banks. In 2009, the Supervisory Board appoints Mr. Sumer as Executive Director, Member of the Executive Board of former IK Banka. During his professional career development he has attended various seminars amongst receiving a professional certification as Certified Internal Auditor. The support and expertise of Mr. Sumer became crucial during changing times in the bank, the acquisition of IK Bank i.e. the shares from DHB by HALKBANK Turkey, the rebranding to HALKBANK AD Skopje, eventually successfully managing the acquisition of Ziraat Bank AD Skopje to HALKBANK AD Skopje.

1 2 3 4

3 Tomche TASEVSKI
Executive Director

As a graduate in Financial – Accounting and Banking Management at the Faculty of Economics, Ss. Cyril and Methodius, Mr. Tasevski's career starts at Ljubljanska Banka in the field of loan sales, and further continues on more strategic positions as Head of Client Relationship Department in Almako Bank and Deputy General Manager in Savings House Moznosti respectively. In meantime, after a short stint in former IK Banka as a Credit Department Manager, Mr. Tasevski returns as Operative Director and Corporate Division Manager in the early 2002 year, supporting and coordinating the processes and employees while building a strong business clients network and loan portfolio of the Bank. In 2009, Mr. Tasevski is being promoted as an Executive Director, Member of the Executive Board of IK Banka. After the rebranding of the bank, Mr.Tasevski remains within the Executive Board of HALKBANK AD Skopje. In 2009, Mr. Tasevski is being promoted as an Executive Director, member of the Executive Board of IK Banka and designated as a President of the Risk Management Board.

4 Turhan ADEMI
Executive Director

After graduation in the area of Financial-accounting and banking department at the Faculty of Economics in Skopje, Mr. Ademi starts his career in JIK Banka at the credits and liquidity division of Skopje Branch. His professional career starts ascending in 1994, by the time he is active in IK Bank 1999, gains various positions as a Manager of credit, treasury and liquidity division, Manager of the Brokerage department; as well as Acting Manager of IK Banka Branch Office Bitola. Important highlight in this period from 1995 to 1996 is the position of the Acting General Manager of IK Bank. Further milestone in Mr.Ademi's rising career is the position of Senior Vice President at Ziraat Banka AD Skopje from 1999-2001. Shortly after, in March 2001 he is being promoted as a General Manager which among other responsibilities includes membership of the Risk Management Board. After the successful acquisition of Ziraat Bank AD Skopje by HALKBANK AD Skopje, Mr. Ademi's current professional challenge and responsibility is the position of Executive Director and a member of Executive Board of HALKBANK AD Skopje.

MANAGEMENT BOARD AND SENIOR MANAGEMENT

1 **Tomche TASEVSKI**
Executive Directorr

2 **Turhan ADEMI**
Executive Director

3 **Erturk SUMER**
Executive Director

4 **Necdet PALAKCI**
Chief Executive Director

5 **Ayse NUR AYREMIZ**
Division Manager

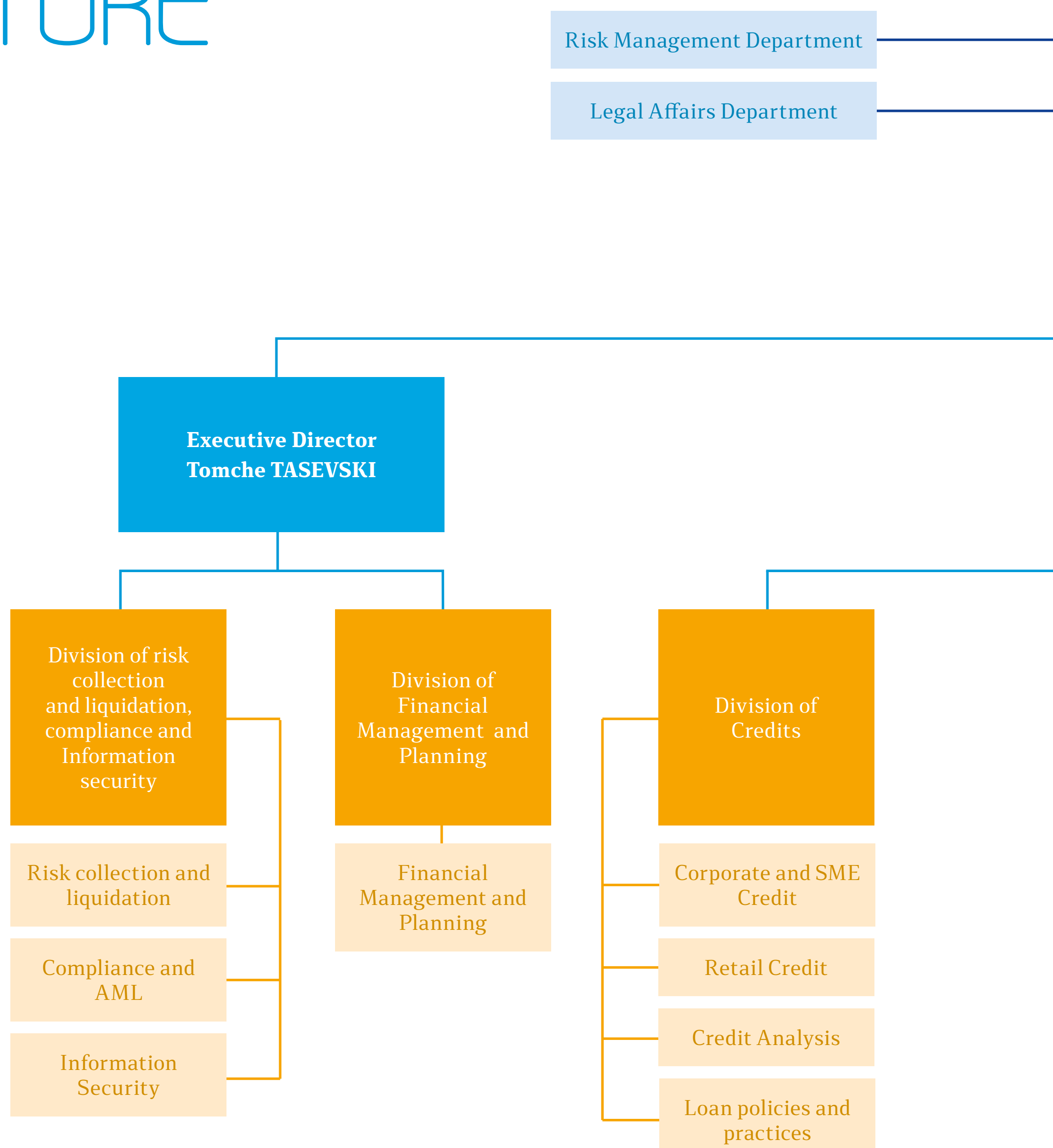
6 **Bojan STOJANOSKI**
Division Manager

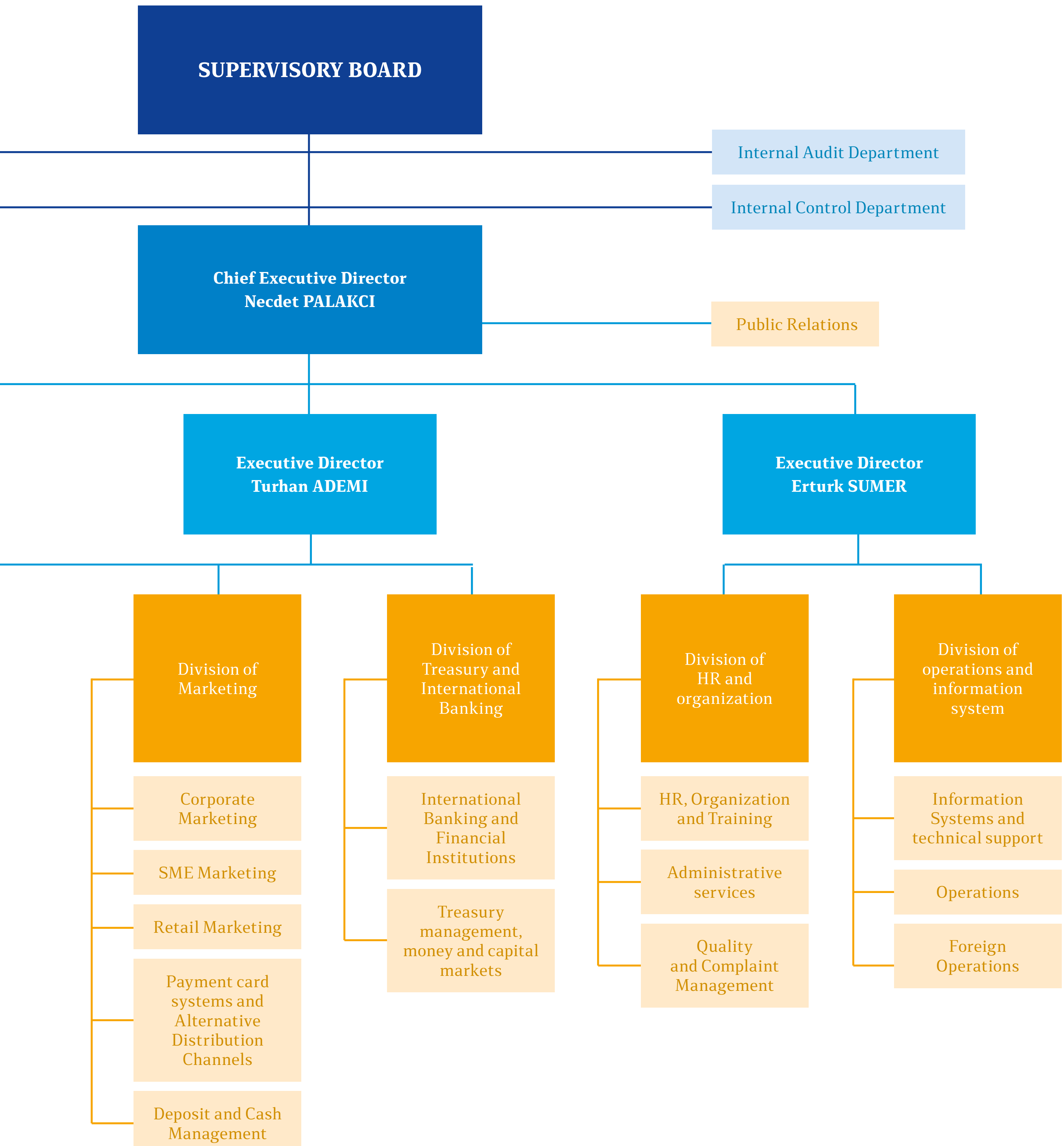
7 **Aleksandar ILJOV**
Division Manager

1 2

3 4 5 6 7

ORGANIZATIONAL STRUCTURE




SUPERVISORY BOARD
Internal Audit Department
Internal Control Department
Chief Executive Director Necdet PALAKCI
Public Relations
Executive Director Turhan ADEMI
Executive Director Erturk SUMER
Division of Marketing
Corporate Marketing
SME Marketing
Retail Marketing
Payment card systems and Alternative Distribution Channels
Deposit and Cash Management
Division of Treasury and International Banking
International Banking and Financial Institutions
Treasury management, money and capital markets
Division of HR and organization
HR, Organization and Training
Administrative services
Quality and Complaint Management
Division of operations and information system
Information Systems and technical support
Operations
Foreign Operations

CORPORATE GOVERNANCE

The corporative management in the bank represents collection of mutual relations between the Board of Directors, the other persons with special rights and responsibilities executing managerial function in the Bank, the Supervisory Board, the shareholders of the Bank and the other interested persons.

What marked the year 2013 was the change of HALKBANK's Charter and its adjustment with the Law in Banks. The amendments and addendums of the Statute of HALKBANKAD Skopje adjusted the Bank's statute with the regulatory changes of the Law on Banks and, adjustment of the Statute with the adopted organizational scheme of the Bank as well as the need for the increased number of people having special rights and obligations.

Shareholders Assembly

In the course of 2013, 1 (one) General Shareholders' Assembly was held.

On the General Shareholders Assembly held on 14.06.2013 it was decided on adoption of: the Annual Report for 2012 and the written opinion of the Supervisory Board, the Annual Account of the Bank for 2012, the Financial Statements of the Bank for 2012, prepared in compliance with the accounting regulations of Republic of Macedonia, the International Financial Reporting Standards and the International Accounting Standards, audited by the audit company, the Report of the Audit Company for 2012 and the written opinion regarding the same by the Supervisory Board; enactment of a Decision on distribution of the profit for the year ending on 31 December 2012; review of the Annual Report on the operation of the Supervisory Board in 2012 by separate members and collectively; review of the Annual Report on the operation of the Internal Audit Division for 2012 and written opinion by the Supervisory Board; revision of the Corporative Management Code, adoption of a Decision on selection of an audit company, adoption of Business Policy and Financial Plan of the Bank for 2013, as well as adoption of the List of net debtors of HALK BANKA AD Skopje.

Audit Committee

In the course of 2013, the Audit Committee held 4 meetings at which the Financial Statements (MIS report), the external auditor's report related to the audit of the Financial Statement for 2012 were reviewed, the results of the Quality Management System were monitored, the accounting policies were reviewed, the quarterly and semi-annual reports of the Internal Audit Division for 2012 were reviewed, the new regulation on implementation of activities of the Internal Audit Division was reviewed, the Annual Audit Plan for 2013 was approved, the issues related to the personnel in the Internal Audit Division were closely monitored, the Annual Report of the Audit Committee for 2012 was approved, the quarterly reports of the Compliance, AML and Financing Terrorism Division were reviewed, the Compliance Programme for 2013 was reviewed, the quarterly reports on antimony laundering were reviewed, as well as the quarterly reports of the Risk Management Board.

Risk Management Board

Pursuant to the Law on Banks and the amendments of the Statute of HALKBANK AD Skopje, the Risk Management Board consists of six (6) members, their mandate being 2 years. The members of the Risk Management Board are appointed from among the persons with special rights and responsibilities that are employed in the bank. All members of the Risk Management Board have an adequate experience in the area of finance and banking. The Risk Management Board carried out its activities pursuant to the operation plan being drafted in the beginning of each year, in order to provide greater efficiency of the Board's operation in regard to timely obtaining quality information and materials for holding of meetings. Depending on the relevance of certain events, apart from the items set in the plan, another items were also being reviewed during the meetings.

Supervisory Board of the HALKBANK AD Skopje:

Within the frames of the legally defined competences and main acts which regulate the Business Policy of the Bank and its main objectives the Supervisory Board performed its duties during the year 2013. Its duties were determined in line with Bank's strategy, giving suggestions and directions for undertaking measures and activities for successful maintenance of Bank's position in the banking system, following of the trends and news, improvement of the collection of the claims, harmonization of its performance with the market needs, etc.

All members of the Supervisory Board gave active and significant contribution in the functioning of the Board. The decisions of the Supervisory Board were made in a transparent and documentary manner, based on a complete and objective assessment. According to the principles of good corporate management, the Supervisory Board realized good cooperation with the Management Board, Risk Management Committee, Audit Committee and the Internal Audit, without its participation in the daily management of the Bank. This manner of operation of the Supervisory Board contributed to stable, safe and efficient management and appropriate supervision over the Bank's bodies and their operation.

The table no.1 portrayed the list of the Supervisory Board Members (SBM).

All listed Members of the Supervisory Board have knowledge and qualifications necessary to carry out their obligations and have the substantial and practical knowledge of Bank activity, taking into account its specificity. The selection of the Members of the Supervisory Board reflects care for diversity of their professional experience, knowledge and skills.

All Supervisory Board members listed in the table were focused in implementation of internal credit rating, system and the qualitative classification of loan customers which was an important turning point in managing the quality of credit risk management and also served as a basis for advanced corporate governance tools in the coming years.
All the Supervisory Board Members hold university degrees with manager capacity. Moreover, the Supervisory Board Members are

very active in the economic and legal life of Macedonia and Turkey.

Executive Management Board of HALKBANK AD Skopje:

During the year 2013, the Executive Management Board was in permanent coordination with the Supervisory Board of the Bank on a very comprehensive manner that made all operational process of the bank transparent. In compliances with the adapted organizational scheme where the rights and responsibilities were distributed to every single Executive management board member who monitored daily activities of particular divisions, departments and branches of the Bank. In general, on daily basis they were monitoring the activities and work results of the organizational units of the Bank and on quarterly bases measured performances of branches and sub-branches of the Bank.

The Executive Management Board of HALKBANK AD Skopje is composed by four members who represents the Bank and manages in its regular activities.

The table no.2 portrayed the list of the Executive Management Board Members (EMBM).

On the regular meetings, within its powers the Management Board has taken a number of actions and adopted a number of work instructions, procedures, guidelines, plans, rulebooks and performed modifications, supplements and corrective measures.

The Executive Management Board in 2013 focused its work towards stable, compliant and effective operation of the Bank by rising the position of the bank in the banking sector in Macedonia, through planning of new products and services as well as development of the existing through its own business units, by increasing the network of branches, increasing the volume of the card operations and E-Banking, reducing the operational costs, while constantly taking care of the compliance of the work of the Bank through harmonization of its regulations and operations with the laws and bylaws.

table no.1	Licensed on	Member till	Title
1. Mehmet Hakan Atilla	05.07.2011	on going	PSBM (*president)
2. Burak.Balci	03.07.2013	on going	SBM
3. Ali Ulvi Sargon	03.07.2013	on going	SBM
4. Erol Goncu	03.07.2013	on going	SBM
5. Atalay Tardus	03.07.2013	on going	SBM
6. Boris Petrovski	05.07.2011	on going	ISBM (independent)
7. Sonja Petrusheva	17.12.2013	on going	ISBM (independent)

table no.2	Licensed on	Member till	Title
1. Necdet Palakci	25.06.2012	on going	CED
2. Turhan Ademi	28.07.2010	on going	ED
3. Erturk Sumer	29.01.2013	on going	ED
4. Tomce Tasevski	06.08.2013	on going	ED

The Executive Management Board in 2013 focused its work towards stable, compliant and effective operation of the Bank

FINANCI
REPORT

HALKBANK

FINANCIAL STANDING, PROFITABILITY AND DEBT-SERVICING CAPABILITY

THREE-YEAR SUMMARY FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STANDING, PROFITABILITY AND DEBT-SERVICING CAPABILITY

COMPOSITION OF ASSETS

As a result of its activity in 2013, the Banks's total assets grew by 12,6% to reach EUR 328.856 thousand.

The Bank's major placement categories consist of loans (EUR 221.006 Thousand, 67.20% of assets), cash and cash equivalents (EUR 73.389 or 22.32%) securities portfolio (EUR 18.662Thousand or 5.67 % of assets) while the share of other assets stands at 4.81%.

The interest bearing assets amount 91.5% of the total assets (in 2012 it amounted 93.1% of the total assets).

The interest paying liabilities amount 77.6% of the total liabilities (in 2012 it amounted 77.5% of the total liabilities).

The loans – deposits ratio at the end of 2013 amounts 95.7% (in 2012 this ratio was 70%). The deposits indicator include deposits from clients and deposits from banks for the calculation of this ratio.

The main reason is the higher increase of the deposits from clients (50%) compared to the credits (15%).

The major increase as of year-end 2013 compared to the previous year where registered in loans (EUR 73.859 thousand).

The Banks non performing loans stand at EUR 5.796 Thousand as of yearend 2013 and non –performing ratio is 2.5% (2012 3.6%)

COMPOSITION OF LIABILITIES

The Bank's resources consist primarily of deposits (EUR 230.935 thousand; 70,15% of liabilities), non deposit resources (EUR 36.922 thousand; 11.24 % of liabilities) and shareholders' equity (EUR 58.180 thousand; 17,67 % of liabilities) while the share of other liabilities stands at 0,94%.

The breakdown of total deposits (including banks), the largest single resource item for the Bank, by category reveals that the time deposits, which constitute 54% of total deposits, increased by EUR 11.223 thousand; foreign currency deposits, which constitute 42,20 % of total deposits, decreased by EUR 1.630 thousand and the MKD deposits which constitute 57,80% of total deposits, increased by EUR 23.497 thousand;
The share of demand deposits in total deposits stands at 23,11%

MKD accounts, with a share of 57.80%, constituted the majority of the Bank's deposits while foreign currency accounts made up the remaining 42.20% of deposits.
The total client deposit base of

the Bank (excluding banks) as on 31.12.2013 amounts EUR 203.466 Thousand and marked a growth of 15% compared to 2012.

Pursuant to the distribution by sectors, the client deposit base of the Bank on 31.12.2013 is as follows:

Deposits of non-financial companies in the amount of EUR 64.744 Thousand or 31.82%
Deposits of financial companies (excluding banks) in the amount of EUR 22.306 Thousand or 10.96%
Deposits of population in the amount of EUR 103.820 Thousand or 51.03%
Deposits of public sector in the amount of EUR 206 Thousand or 0.10%
Deposits of non-profitable institutions in amount of EUR 8.729 Thousand or 4.29%
Deposits of non-residents in amount of EUR 3.661 Thousand or 1.8%
Regarding the term structure of the deposit base:

The short-term deposits participate with 82% , in the amount of EUR 166.992 Thousand

The long-term deposits participate with 18%, in the amount of EUR 36.474 Thousand

COMPOSITION OF PROFITS

The Bank closed the 2013 fiscal year with the net profit of EUR 2.374 Thousand, a 360.2% increase compared to year-end 2012. The major income and expense items that constituted the profit for the period are discussed below:

Interest income from assets placements, the Bank's most important source of income, stands, at EUR 18.764 Thousand as of end of the year.

Loans contributed EUR 16.415 thousand, or 87,48% of interest income; securities contributed EUR 2.061 thousand, or 10.98% of interest income; while interest income from banks contributed EUR 288 thousand, 1,53% of interest income.

The interest income from loans increased by EUR 5.068 Thousand; interest income from the securities portfolio increased by EUR 400 Thousand and the interest income from banks increased by EUR 115 Thousand compared to the previous year.

The largest item comprising the Bank's interest expenses was interest paid to deposits with EUR 5.791 thousand and 86,56% share of the total. The interest expense paid to funds borrowed is EUR 769 thousand, 11,49% as share.

The Bank's net interest income as of the end of the year is EUR 12.074 Thousand.

Net fee and commission income increased by EUR 805 thousand from the previous year and reached EUR 1.965 thousand.

The Bank set aside provisions of EUR 1.364 Thousand against its loans and other receivables for its activities in 2013.

Personnel expenses, which constitute a major portion of the other operating expenses of EUR 10.692 Thousand, increased by of the previous year for EUR 1.244 and reached EUR 4.377 thousand.

As a result of its activities in 2013, the Bank earned pre-tax profit EUR 2.404 Thousand and, after provisioning EUR 30 Thousand for taxes, a net profit of EUR 2.373 Thousand. The Bank maintained its sustainable profitability in 2013.

SOLVENCY

Deposits were the most important resource for the Bank and acted as an efficient instrument for covering short-term debts, due to the breadth of the depositor base and their strong structure. The existing customer base is the most important factor the Bank relies on for the procurement of the necessary resources.

The 2013 year-end capital adequacy ratio of the Bank is 18,08 % (2012: 26,34 %)

In 2013 HALKBANK Skopje, continued its efforts to increase the quality of its assets while diversifying its existing and alternative funding sources

THREE-YEAR SUMMARY FINANCIAL INFORMATION

In EUR Thousand	2011	2012	2013
Cash and Cash Equivalents	22,297	32,265	45,806
Total Securities	24,704	97,355	46,244
Net Loans	91,731	147,445	221,362
Other Assets	12,490	15,151	15,826
Total Assets	151,223	292,215	329,238
Deposits(b)	89,239	209,068	230,935
Other borrowed Funds (b)	23,238	25,284	36,992
Other Liabilities	1,696	1,965	3,129
Shareholders Equity	37,050	55,898	58,181
Total Liabilities	151,223	292,215	329,238

HALKBANK

Halkbank A.D. Skopje

Financial Statements

As of and For the Year Ended 31 December 2013

With Independent Auditors' Report Thereon

(Convenience Translation of Financial Statements and

Related Disclosures and Footnotes Originally Issued in Macedonian)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Supervisory Board of HALKBANK AD Skopje

Report on Financial Statements

We have audited the accompanying financial statements of HALKBANK AD – Skopje, which comprise the Bank's separate statement of financial position as of 31 December 2013 and the statement of profit or loss and comprehensive income, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the stand alone financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with regulation of National bank of Republic of Macedonia, 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 stand alone financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

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statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the stand-alone 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 give a true and fair view of the financial position of HALKBANK AD – Skopje as at 31 December 2013, and its financial performance and its cash flows for the year than ended in accordance with the regulations prescribed by the National Bank of the Republic of Macedonia.

Report on Other Legal and Regulatory Requirements

Annual Report prepared by the Management in accordance with the requirement of the Company Law, article 384

Management is responsible for the preparation of the Annual Accounts and Annual Report of the Bank, which were approved by the Supervisory Board of the Bank on 17 April 2014.

As required by the Audit Law, we report that the historical information presented in the Annual Report prepared by the Management of the Bank in accordance with article 384 of the Company Law is consistent in all material respects with the financial information presented in the Annual Accounts and audited Financial Statements of the Bank, as of and for the year ended 31 December 2013.

General Manager
Ljube Gjorgjievski

Certified Auditor
Ljube Gjorgjievski

PricewaterhouseCoopers REVIZIJA DOO Skopje
23 April 2014,
Skopje

HALKBANK

INCOME STATEMENT FOR THE PERIOD 1 JANUARY 2013 TO 31 DECEMBER 2013

			In '000 MKD
	Note	Current year 2013	Previous year 2012
Interest income		1,154,210	810,644
Interest expense		(411,511)	(307,788)
Net interest income / (expenses)	6	742,699	502,856
Fee and commission income		205,997	134,323
Fee and commission expenses		(85,028)	(62,855)
Net fee and commission income/(expenses)	7	120,969	71,468
Net trading income	8	(327)	10,204
Net income from other financial instruments recorded at fair value	9	-	-
Foreign exchange gains / (losses), net	10	29,199	20,101
Other operating income	11	16,407	11,483
Share of profit from associates	24	-	-
Impairment losses of financial assets, net	12	(81,899)	(65,566)
Impairment losses of non – financial assets, net	13	(19,487)	(1,831)
Personnel expenses	14	(269,238)	(192,661)
Depreciation and amortization	15	(90,554)	(75,337)
Other operating expenses	16	(299,914)	(247,379)
Share of loss from associates	24	-	-
Profit/(Loss) before taxation		147,855	33,338
Income tax	17	(1,864)	(1,612)
Profit/ (loss) for the year from continuing operations		145,991	31,726
Profit / (loss) from group of assets and liabilities held for sale *		-	-
Profit / (loss) for the year		-	-
Profit / (loss) for the year, attributable to *:			
Shareholders of the Bank		145,991	31,726
Non-controlling interest		-	-
Earnings per share:	41		
basic (losses) / earnings per share (in Denar)		505	148
diluted earnings / (losses) per share (in Denar)		505	148
* Only for consolidated financial statements			

The Notes on page 8 to 118 are consistent part of these Financial Statements
Translation of the report originally issued in Macedonian

			In '000 MKD
	Note	Current year 2013	Previous year 2012
Profit/ (loss) for the year		145,991	31,726
Other gains/ (losses) in the period not presented in the Income Statement (before taxation)		-	-
Revaluation reserve for assets available-for-sale		-	-
- unrealized net-changes in fair value of assets available for- sale		-	(819)
- realized net-gains/ (losses) from assets available-for sale, reclassified in the Income Statement		-	-
Revaluation reserve for instruments for hedging cash flow risk		-	-
Revaluation reserve for foreclosed assets		-	-
- revaluation reserve at the date of the foreclosure of the asset		-	-
- decrease in the revaluation reserve , reclassified in the Income Statement		-	-
- unrealized net-changes in fair value of instruments for hedging of cash flows		-	-
- realized net-gains/(losses) from instruments for hedging of cash flows, reclassified in the Income Statement		-	-
Reserve for instruments for risk protection from net investments in foreign operations		-	-
Reserve of foreign exchange differences from investment in foreign operations		-	-
Participation in other gains/ (losses) in associates not presented in the Income Statement	24	-	-
Other gains/(losses) not presented in the Income Statement		-	-
Income tax from other gains/(losses) not presented in the Income Statement	17	-	-
Total other gains/ (losses) in the period not presented in the Income Statement		-	-
Comprehensive income/ (loss) for the year		145,991	30,907
Comprehensive income/ (loss) for the year, attributable to *:		-	-
Shareholders of the Bank		145,991	30,907
Non-controlling interest		-	-
* Only for consolidated financial statements			

HALKBANK

BALANCE SHEET AS AT 31 DECEMBER 2013

	Note	Current year 31.12.2013	Previous year 31.12.2012
			In '000 MKD
Assets			
Cash and cash equivalents	18	4,514,263	7,046,818
Assets held for trading	19	-	64,797
Financial assets at fair value through profit and loss upon initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Loans and advances to banks	22.1	7,682	18,758
Loans and advances to customers	22.2	13,594,376	9,051,175
Investments in securities	23	1,147,915	859,981
Investments in associates (recorded according to "equity method")	24	-	-
Income tax receivables (Current)	30.1	-	1,089
Other receivables	25	120,670	85,066
Pledged assets	26	-	-
Foreclosed assets	27	132,027	149,905
Intangible assets	28	28,560	34,162
Property, plant and equipment	29	682,882	647,836
Deferred tax assets	30.2	-	-
Non-current assets held for sale and disposal group	31	-	-
Total assets		20,228,375	17,959,586
Liabilities			
Trading liabilities	32	-	-
Financial liabilities at fair value through profit and loss upon initial recognition	33	-	-
Derivative liabilities held for risk management	21	-	-
Due to banks	34.1	1,689,691	1,999,003
Due to customers	34.2	12,515,445	10,858,588
Debt instruments issued	35	-	-
Other borrowed funds	36	2,275,446	1,555,057
Subordinated liabilities	37	-	-
Special reserve and provisions	38	17,961	11,354
Income tax liabilities (Current)	30.1	373	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	150,725	97,861
Liabilities directly associated with disposal group	31	-	-
Total liabilities		16,649,641	14,521,863
Equity and reserves			
Share capital	40	2,893,690	2,893,694
Share premium		325,854	325,854
Treasury shares		-	-
Other equity instruments		-	-
Revaluation reserves		-	4,976
Other reserve		129,882	128,612
Retained earnings/ (Accumulated losses)		229,308	84,587
Total equity and reserves attributable to the shareholders of the Bank		3,578,734	3,437,723
Non-controlling interest*		-	-
Total equity and reserves		3,578,734	3,437,723
Total equity and liabilities		20,228,375	17,959,586
Contingent liabilities	42	6,464,550	4,669,032
Contingent assets	42	-	-

The financial statements have been approved by the Bank's Supervisory Board on 17 April 2014 and were signed on behalf of the Bank by the Board of Directors.

Necdet Palakci Chief Executive Officer	Erturk Sumer Executive Officer	Turhan Ademi Executive Officer	Tomce Tasevski Executive Officer

STATEMENT OF CHANGES IN EQUITY AND RESERVES FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

	Equity				Revaluation reserve					Other reserves			Retained earnings					
In MKD thousands	Share capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve from AFS	Revaluation reserve from foreclosed assets	Reserve for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controlling interest *	Total equity and reserves
1 January 2012 (previous year)	1,884,150	325,854	-	-	5,795	-	-	-	-	74,420	-	-	-	-	(11,478)	2,278,741	-	2,278,741
Restatement of opening balances																		
1 January 2012 (previous year), corrected	1,884,150	325,854	-	-	5,795	-	-	-	-	74,420	-	-	-	-	(11,478)	2,278,741	-	2,278,741
Total comprehensive income for the year																		
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	31,726	-	-	31,726	-	31,726
Other gains/(losses) not recognised in the Income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets available for sale	-	-	-	-	(819)	-	-	-	-	-	-	-	-	-	-	(819)	-	(819)
Changes in fair value of instruments for hedging cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of instruments for hedging net-investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/(losses) of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/ (liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized gains/ (losses) recognized directly in equity	-	-	-	-	(819)	-	-	-	-	-	-	-	-	-	-	(819)	-	(819)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	31,726	-	-	31,726	-	31,726
Transactions with the shareholders, recognized directly in equity and reserves:						-												
Share issued in the period	1,009,544	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,009,544	-	1,009,544
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes in equity and reserves – Covering of losses	-	-	-	-	-	-	-	-	-	(11,478)	-	-	-	-	11,478	-	-	-
Covering losses from prior years	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to Retained earning	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquired reserves from Ziraat Bank	-	-	-	-	-	-	-	-	-	65,670	-	-	59,199	-	-	124,869	-	124,869
Acquired gain/(loss) from Ziraat Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,338)	(6,338)	-	(6,338)

STATEMENT OF CHANGES IN EQUITY AND RESERVES FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013 (CONTINUING)

	Equity				Revaluation reserve					Other reserves			Retained earnings					
In MKD thousands	Share capital	Share premium	(Treasury shares)	Other equity instruments	Revaluation reserve from AFS	Revaluation reserve from foreclosed assets	Reserve for risk mitigation	Foreign exchange reserves on investment in foreign operations	Other revaluation reserves	Statutory reserve	Capital component of hybrid financial instruments	Other reserves	Available for distribution to shareholders	Limited for distribution to shareholders	(Accumulated losses)	Total equity and reserves, attributable to the shareholders of the Bank	Non-controlling interest *	Equity
Transactions with the shareholders, recognized directly in equity and reserves																		
As at 31 December 2012 (previous year)/ 1 January 2013 (current year)	2,893,694	325,854	-	-	4,976	-	-	-	-	128,612	-	-	90,925	-	(6,338)	3,437,723	-	3,437,723
Total comprehensive income for the year																		
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	145,991	-	-	145,991	-	145,991
Other gains/(losses) not recognized in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in fair value of financial assets available for sale	-	-	-	-	(4,976)	-	-	-	-	-	-	-	-	-	-	(4,976)	-	(4,976)
Changes in fair value of instruments for hedging cash flow risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in fair value of instruments for hedging net-investments in foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains/(losses) of foreign operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets/ (liabilities) recognized in equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other gains/(losses) not recognized in the income statement)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total unrealized gains/ (losses) recognized directly in equity	-	-	-	-	(4,976)	-	-	-	-	-	-	-	-	-	-	(4,976)	-	(4,976)
Total comprehensive income/ (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	145,991	-	-	145,991	-	145,991
Transactions with the shareholders, recognized directly in equity and Reserves:																		
Share issued in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of statutory reserve	-	-	-	-	-	-	-	-	-	1,270	-	-	-	-	-	1,270	-	1,270
Allocation of other reserves	-	-	-	-	-	-	-	-	-	-	-	-	(31,726)	-	-	(31,726)	-	(31,726)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in equity and reserves – distribution of gains	-	-	-	-	-	-	-	-	-	-	-	-	30,456	-	-	30,456	-	30,456
Other changes in equity and reserves	(4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4)	-	(4)
Acquired gain/(loss) from Ziraat Bank	-	-	-	-	-	-	-	-	-	-	-	-	(6,338)	-	6,338	-	-	-
Transactions with shareholders, recognized directly in equity and reserves	(4)	-	-	-	-	-	-	-	-	1,270	-	-	(7,608)	-	6,338	(4)	-	(4)
As at 31 December 2013 (current year)	2,893,690	325,854	-	-	-	-	-	-	-	129,882	-	-	229,308	-	-	3,578,734	-	3,578,734

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

			In '000 MKD
	Note	Current year 31.12.2013	Prior year 31.12.2012
Operating cash flows			
Profit/(Loss) before taxation		147,855	33,338
Adjusted for:			
Minority share, included in the consolidated income statement *		-	-
Depreciation of:			
Intangible assets	15/28	22,923	22,352
Property plant and equipment	15/29	67,631	52,985
Capital gain from:			
Disposal of intangible assets		-	-
Disposal of property plant and equipment	11	(493)	(57)
Disposal of foreclosed assets	11	(143)	-
Capital loss from:			
Disposal of intangible assets	16	14	-
Disposal of property plant and equipment		-	-
Disposal of foreclosed assets		-	-
Interest income	6	(1,154,210)	(810,644)
Interest expense	6	411,511	307,788
Trading income, net	8	327	(10,204)
Impairment losses of financial assets, net			
Additional impairment losses	12	152,125	140,788
Release of impairment losses	12	(70,226)	(75,222)
Impairment losses of non-financial assets, net			
Additional impairment losses	13	19,487	1,831
Release of impairment losses		-	-
Special reserve:			
Additional provisions	38	18,132	11,993
Release of provisions	38	(11,388)	(4,376)
Dividend income	11	(4,165)	(3,815)
Share of profit /(loss) of associates		-	-
Other adjustments		779	-
Interest received		1,143,693	811,492
Interest paid		(396,606)	(251,730)
Profit/(loss) from operations before changes in operating assets		347,246	226,519
Increase)/decrease of operating assets:			
Assets held for trading		61,433	110,193
Derivative assets held for risk management		-	-
Loans and advances to banks		11,076	2,815
Loans and advances to customers		(4,610,518)	(2,889,865)
Pledged assets		-	-
Foreclosed assets		(1,467)	(21,855)
Obligatory deposit in foreign currency		52,086	(319,656)
Obligatory deposit held with NBRM according to special regulations		-	-
Other receivables		(38,776)	(10,740)
Deferred tax assets		-	-
Non-current assets held-for-sale and disposal group		-	-

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STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013 (CONTINUING)

			In '000 MKD
	Note	Current year 31.12.2013	Prior year 31.12.2012
Increase/(decrease) in operating liabilities:			
Trading liabilities		-	-
Derivative liabilities held for risk management		-	-
Deposits from banks		(309,310)	1,988,771
Deposits from other customers		1,642,839	3,932,064
Other liabilities		52,789	(631)
Liabilities directly associated with disposal group		-	-
Net cash flow from operating activities before tax		(2,792,527)	3,017,615
(Paid)/Return of income tax		-	-
Net cash flow from operating activities		(2,792,527)	3,017,615
Cash flow from investing activities			
(Purchase of investment securities)		(1,593,388)	(1,940,370)
Proceeds from sale of investment securities		1,302,249	1,384,993
(Outflow for investment in associates and investment in subsidiaries)		-	-
Inflow from investment in associates and investment in subsidiaries		-	-
(Purchase of Intangible assets)		(17,321)	(11,299)
Inflow from disposal of intangible assets		-	-
(Purchase of Property, plant and equipment)		(108,098)	(121,898)
Inflow from disposal of Property, plant and equipment		4,519	496
(Outflow for Non-current assets held for sale)		-	-
Inflow from Non-current assets held for sale		-	-
(Other outflows from investing activities)		-	-
Other inflows from investing activities		4,165	3,815
Net cash flow from investing activities		(407,874)	(684,263)
Cash flow from financing activities			
(Repayment of issued debt investment securities)		-	-
Inflow from issued debt investment securities		-	-
(Repayment of other borrowed funds)		(1,043,190)	(1,735,839)
Proceeds from other borrowed funds		1,762,690	1,864,182
(Repayment of subordinated liabilities)		-	-
Proceeds from subordinated liabilities		-	-
Inflows from issued shares/equity instruments during the period		-	-
(Purchase of treasury shares)		-	-
Disposed treasury shares		-	-
(Dividend payment)		-	-
(Other outflows from financing activities)		-	-
Other inflows from financing activities		(4)	-
Net cash flow from financing activities		719,496	128,343
Effect from provision for impairment of cash and cash equivalents		436	1,419
Effect from foreign exchange differences of cash and cash equivalents		-	-
Net increase/(decrease) of cash and cash equivalents		(2,480,469)	2,463,114
Cash and cash equivalents as at 1 January		6,442,922	2,265,109
Cash and cash equivalents acquired from Ziraat Bank as at 30 September 2012		-	1,714,699
Cash and cash equivalents as at 31 December	18	3,962,453	**6,442,922**

NOTES TO THE FINANCIAL STATEMENTS

1. Introduction

(a) General Information

Halkbank AD, Skopje ("the Bank") is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The address of the registered office of the Bank is:

Blvd. „Sv. Kiril i Metodij" No.54

1000 Skopje

Republic of Macedonia

During 2011, the Bank has changed its name from Izvozno Kreditna Banka AD Skopje to Halkbank AD Skopje, as a result of a change in the ownership structure of the Bank.

The Bank is authorized to perform all banking activities in accordance with the law. The main activities include retail and corporate lending, receiving deposits, performing payment operations in the country and providing mediation in foreign currency for its customers.

The Bank's shares are traded on the Macedonian Stock Exchange AD Skopje, on the open market, with ticker IKB and ISIN CODE (MKIKBA101015).

The Bank has no investments in subsidiaries and associates.

The total number of employees of the Bank on December 31, 2013 and 2012 amounted to 366, or 377 employees, respectively.

Members of the Board of Directors during the financial year and until the date of this report are as follows:

Members of the Board of Directors

Mr. Necdet Palakci – Chief Executive Officer

Mr. Erturk Sumer - Executive Officer

Mr. Turhan Ademi - Executive Officer

Mr. Tomce Tasevski - Executive Officer

Members of the Supervisory Board during the financial year and until the date of this report are as follows:

Supervisory Board

1. Mr. Mehmet Hakan Atila, Chairman of the Supervisory Board
2. Mr. Atalay Tardus, Member of the Supervisory Board
3. Mr. Erol Gondzu, Member of the Supervisory Board
4. Mr. Burak Baldzi, Member of the Supervisory Board
5. Mr. Ali Ulvi Sargon, Member of the Supervisory Board
6. Mr. Boris Petrovski, Member of the Supervisory Board
7. Mrs. Sonja Petrusheva, Member of the Supervisory Board

The financial statements were approved by the Supervisory Board on 17 April 2014 and were signed on their behalf by the Board of Directors

HALKBANK

1. Introduction (continuing)

(a) General Information (continuing)

Acquisition of Ziraat Bank AD Skopje

The Shareholders Assembly of HALKBANK AD Skopje on February 24, 2012 has adopted a decision on starting the process for merger of Ziraat Bank AD Skopje to HALKBANK AD Skopje and authorized the Supervisory Board and the Management Board of HALKBANK AD Skopje to adopt and sign the necessary decisions and other documents in the process of the merger.

According to Chapter IV paragraph 1 sub point 17.4 of "The decision to issue licenses to banks", to the merger permit request, the merging banks had submitted a Merger Agreement between the Supervisory Boards of the acquiring and acquired bank to the National Bank of Macedonia (NBRM).

The main objective of the acquisition is a continuation of the performance of banking activities in the country through a larger bank, instead of performing the same activity via two distinct legal entities which are owned by the Republic of Turkey.

In accordance with the received decision from NBRM No. 7422 from 10 September 2012 and the decision to delete the entity issued by the Central Registry of Macedonia under archive number 30120120029887 from 1 October 2012 and the Decision of registration of change under archive number 3012012009885 from 1 October 2012, a deletion of Ziraat Bank AD Skopje from the Trade Registry has been performed, and a status change was entered - merger of Ziraat Bank AD Skopje as a company that joined the Halkbank AD Skopje as a company that acquires, by transfer of all assets and liabilities.

In the absence of specific guidance in the Methodology for recording and valuation of accounting items and preparation of financial statements ("the Methodology"), and in the International Financial Reporting Standards ("IFRS") on which the Methodology is based, which would specifically refer to the above described transaction of legal transformation (status change) of entities under common control, the Bank's Management considered the requirements of the Methodology and IAS 8 related to the Accounting policy, changes in management assumptions and correction of misstatements. When selecting the appropriate accounting policy, the Management had in mind the fact that both banks are ultimately state-owned by Republic of Turkey and the risks and benefits of the beneficial owner are not changed. Considering the fact that the transaction is a business change under common control, the method of recording by carrying amount was applied. As a result:

- The Assets and liabilities of the acquired entity were recorded at carrying value. There was no need for further adjustments in order to harmonize the accounting policies.
- The income statement reflects the operations of the two entities from the date of acquisition or from October 1, 2012.
- Considering that the acquisition is a non-monetary transaction, the following assets, liabilities, capital and reserves are not shown in the cash flow statement for the year ended December 31, 2012.

1. Introduction (continuing)

(a) General information (continuing)

Acquisition of Ziraat Bank AD Skopje (continuing)

Balance sheet of Ziraat Bank AD Skopje as at 30.09.2012	In '000 MKD
Cash and cash equivalents	1,714,699
Loans and receivables from customers	584,971
Investments in securities	138,372
Income tax receivables (current)	99
Other receivables	2,354
Intangible assets	7,326
Property, plant and equipment	74,489
Total Assets	2,522,310
Due to customers	1,389,517
Provisions and reserves	294
Other liabilities	4,422
Total Liabilities	1,394,233
Share capital	1,009,544
Other reserves	65,672
Retained earnings/(Accumulated loss)	52,861
Total Share capital and reserves	1,128,077
Total Liabilities, Share capital and reserves	2,522,310

Representative office in the Republic of Serbia

On December 14, 2012 a representative office of HALKBANK AD Skopje was established in Belgrade, Serbia.

(b) Basis of preparation of financial statements

Statement of Compliance

The financial statements have been prepared in accordance with accounting standards as adopted by the Decision on the methodology for recording and valuation of accounting items and preparation of financial statements (Official Gazette of RM Nr. 169/10), the Decision amending the Decision on the methodology of recording and valuation of accounting items and preparation of financial statements (Official Gazette of RM Nr. 165/12), the Decision amending the Decision on the methodology of recording and valuation of accounting items and preparation of financial statements (Official Gazette of RM Nr. 50/13), the Decision amending the Decision on the methodology of recording and valuation of accounting items and preparation of financial statements (Official Gazette of RM Nr. 110/13) and the Decision on the types and content of the financial statements of banks (Official Gazette of RM Nr. 169/2010, 152/2011 and 54/2012 and 166/13) and in accordance with the Company Law, Banking Law (Official Gazette of RM Nr.67/07, 90/09 and 67/10 and 26/13), and regulations as prescribed by the National Bank of Macedonia.

The financial statements represent individual / unconsolidated financial statements.

Basis of measurement

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

- financial instruments held for trading are measured at fair value and
- available-for-sale assets are measured at fair value.

HALKBANK

1. Introduction (continuing)

(b) Basis of preparation of financial statements (continuing)

Functional and reporting currency

The financial statements are presented in Macedonian denars (“MKD” or “denar”), which is the functional and presentation currency of the Bank. Except where indicated, financial information is presented in Macedonian Denar.

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are continually reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods if the change affects the future period.

Information concerning the judgment made by management and critical judgments in applying accounting standards that have significant impact on the financial statements are disclosed in note 1(c).

(c) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(i) Transactions in foreign currency

Business changes in foreign currency are translated to denars at exchange rates at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to denars at the exchange rate at the balance sheet date. Gains and losses from foreign exchange differences from monetary items is the difference between amortized cost in local currency to the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in the income statement.

The foreign currencies in which the Bank operates are predominantly in Euro (EUR) and U.S. Dollars (USD). The exchange rates of 31 December 2013 and 2012 were as follows:

	2013	2012
	MKD	MKD
1 EUR	61.51	61.50
1 USD	44.63	46.65

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1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(ii) Interest

Interest income and expense are recognized in the income statement using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering the contractual terms of the financial instrument but not future credit loss impairment. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently.

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

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities measured at amortized cost using an effective interest rate;
- Interest from investments available-for-sale calculated on an effective interest rate.

(iii) Fee and commission

Revenues and expenditures of fees and commissions that are an integral part of the effective interest rate on financial assets and liabilities are included in the calculation of the effective interest rate.

Other fees and commissions, including the financial services provided by the Bank in respect of currency exchange, payment operations in the country and abroad, guarantees, letters of credit and other services are recognized as the related services are performed. When a loan commitment is not expected to result in the withdrawal of loan, the fees for loans is recognized proportionately over the period of payment.

Other fees and commissions expenses relate to financial services the Bank receives and are recognized as an expense as the related service is received.

(iv) Dividend income

Dividends are recognized when the entity has the right to receive payment. Dividends are recognized as part of net trading income or dividend income based on the underlying classification of the instrument.

(v) Rent expenses

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

(vi) Income tax

Income tax expense comprises current tax and is recognized in the income statement.

According to the tax legislation, companies are required to calculate and pay income tax on non-deductible expenses or paid dividends and other distributions of earnings. The rate of income tax is 10% (2012:10%).

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1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(vi) Income tax (continuing)

Income tax on non-deductible expenses

Basis for calculation of income tax is the amount of non-deductible expenses defined by the Law on Income tax, less the amount of tax credits and tax exemptions and incentives.

Income tax paid on dividends and other distributions of profits

Basis for calculation of income tax is the amount of dividends paid and other distribution of profit made in the current year. Taxation of dividends or advances on dividends paid in cash is the day on which the dividend is paid.

(vii) Financial assets and liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits and borrowings of the date they are incurred at historical cost. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) De-recognition

Bank derecognises financial asset when loses the contractual rights to the cash flows from the asset, or it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Each residue of transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

Bank derecognises financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and intends to settle transactions on a net basis or to realize the payments simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Principle of measurement at amortized cost

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

1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(vii) Financial assets and liabilities (continuing)

(v) Principle of measuring at fair value

Fair value of financial assets and financial liabilities is based on quoted market price in an active market. For all other financial instruments fair value is determined using valuation techniques. Valuation techniques include the use of information on recent prices achieved, normal commercial transaction between knowledgeable, voluntary clients (if available), reference to the current market price of another instrument that is essentially the same; analysis of discounted cash flows; and other alternative models for determining the cost.

(vi) Impairment losses

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

The bank allocates impairment according to the *National Bank Decision for credit risk management* (Official Gazette Nr. 17/2008), *Decision amending the Decision on Credit Risk Management* (Official Gazette Nr. 31/2009), *Decision amending the Decision on Credit Risk Management* (Official Gazette Nr. 91/2011) and *Decision amending the Decision on Credit Risk Management* (Official Gazette Nr.127/2012).

The Bank considers evidence of impairment for loans and receivables and securities on an individual basis.

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

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying value of financial assets and the present value of expected cash flows, discounted at the original effective interest rate of assets. Impairment losses are recognized in profit or loss and reflected in an allowance account for impairment of loans and advances. The interest on the impaired asset continues to be recognized through the unwinding of the discount. If in a subsequent period the amount of impairment loss decreases, the impairment loss is reversed through profit or loss.

Impairment losses on investments available-for-sale are recognized by transferring the cumulative loss that is recognized directly in equity of the income statement. The cumulative loss is transferred from equity to the income statement is the difference between the carrying value, less any impairment in value previously recognized in the income statement. Changes in impairment provisions attributable to time value of money are reflected as a component of interest income.

If in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity securities are recognized directly in equity

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1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(vii) Financial assets and liabilities (continuing)

(vii) Determination of fair value through profit or loss

The bank defines financial assets and liabilities at fair value through profit or loss when:

- assets and liabilities are managed, evaluated and reported at fair value;
- designation eliminates or significantly reduces an accounting discrepancy that can occur;
- asset or liability contains an embedded derivative that significantly modifies the cash flows that otherwise would have resulted from contract.

Financial assets designated at fair value through profit or loss includes financial assets held for trading.

(viii) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at the National Bank of Macedonia (“NBRM”), deposits with banks and highly liquid financial assets with original maturities of three or less than three months, subject to insignificant risk of changes in their fair value, and its short-term liabilities.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

(ix) Foreclosed Assets

The foreclosed assets are recognized after legal procedure for foreclosure is performed or acquired after a legal basis for registration of ownership is obtained. The foreclosed assets are recognized at the lower of cost and estimated fair value less costs to sell. At the same time the recognition of the foreclosed asset, the receivable is derecognized from the balance sheet. The Bank estimates the value of foreclosed assets at least once during the year and the foreclosed assets are measured at the lower of the carrying and estimated fair value less costs to sell. When the estimated fair value of the foreclosed asset is lower than its carrying value, impairment loss on foreclosed asset is recognized in the income statement. Assets are derecognised when the asset is sold or when the asset is permanently withdrawn from use. Surplus realized in the sale of the asset is recognized in the income statement on the date of sale.

(x) Trading Assets and Liabilities

Trading assets and liabilities are those assets and liabilities which the Bank acquired mainly with the purpose of selling or buying again in the near future, or keep them as part of a portfolio for profit-in the short term.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the balance sheet and transaction costs are directly recognized in the income statement. All changes in fair value are recognized as part of net trading income in the income statement. Assets and liabilities for trading are not reclassified subsequent to their initial recognition.

(xi) Loans and advances

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

Loans and receivables are initially recognized at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using an effective interest rate.

1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(vii) Financial assets and liabilities (continuing)

(xii) Investments

Investments are initially measured at fair value in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification.

Held to maturity investments

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

Held to maturity investments are carried at amortized cost using an effective interest rate. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity as available-for-sale, and the Bank will not be able to classify investments as held to maturity for the current and next two years.

Available for sale investments

Available-for-sale financial assets are those investments that are neither held for trading nor held to maturity. Available-for-sale investments include treasury bills, bonds issued by state and investments in equity instruments.

Investments available for sale are carried at fair value, except for financial assets that do not have quoted market price and whose fair value cannot be reliably measured is measured at cost less impairment losses.

Interest income is recognized in the income statement using the effective interest rate method. Dividend income is recognized when the Bank will be entitled to receive payment. Gains or losses from exchange rate differences on debt instruments available-for-sale are recognized in the income statement.

Changes in fair value of investments available-for-sale are recognized in equity until the investment is sold or impaired when the amount recognized in equity is transferred in the income statement.

(viii) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent expenditures

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the asset when there are probable future economic benefits for the Bank and its cost can be measured reliably. The cost of daily maintenance of property and equipment are recognized in the income statement as an expense as incurred.

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1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(viii) Property, plant and equipment (continuing)

(iii) Depreciation

Depreciation of property and equipment is calculated on a straight-line method to write off the cost of assets over their estimated useful lives.

Depreciation rates, according to the estimated useful lives for the current and comparative periods are as follows:

	%
Buildings	2,5
Equipment	10 - 25

The method of depreciation, useful lives and residual values are reviewed at each reporting date.

(ix) Intangible Assets

(i) Recognition and measurement

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

(ii) Subsequent expenditures

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the income statement as an expense as incurred.

(iii) Amortization

Amortization is recognized on a proportional basis in a way to write off the cost of assets over their estimated useful lives.

Depreciation rates, according to the estimated useful lives for the current and comparative periods are as follows:

	%
Software	25
Licences	25

The method of depreciation, useful lives and residual values are reviewed at each reporting date.

(x) Assets taken on lease - lessee

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. At the start of the lease, finance leases are recorded at the lower of the fair value amount and the present value of minimum lease payments. Consequently, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in the balance sheet of the Bank.

1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(xi) Impairment of non-financial assets

Non-financial assets of the Bank are reviewed at each date of the balance sheet in order to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit, to which the asset belongs, exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit, to which the asset belongs.

Cash-generating unit is the smallest group of assets that can be identified that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement.

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

An impairment loss of an asset is reversed if there is an indication that the impairment loss recognized for the asset no longer exists and there are changes in the estimates used to determine the recoverable amount.

The increased carrying amount of an asset due to reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation), had not been recognized impairment loss of an asset in previous years.

(xii) Deposits, borrowings, issued debt securities and subordinated debt

Deposits and borrowings are sources of funding for the Bank.

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

Deposits and borrowings are initially measured at cost, representing the fair value of the consideration received plus transaction costs. They are subsequently measured at amortized cost using the effective interest method.

(xiii) Provisions

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

Provision for onerous contracts is recognized when the expected benefits of the contract for the bank are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the present value of the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes an impairment loss on the assets associated with the contract.

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1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(xiv) Employee Benefits

(i) Defined contribution plans

The Bank pays contributions to the pension fund in accordance with the national legislation. Contributions are based on salaries and are paid in the pension funds, which are responsible for payment of pensions. There is no additional liability in respect of these plans. The liabilities for the payment of contributions to defined contribution plans are recognized as an expense in the income statement when they are due.

(ii) Short-term employee benefits

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

The Bank recognizes obligation and expense for the amount expected to be paid as bonus or as a share of the profits if the Bank has a present legal or derived obligation to pay this amount as a result of services rendered in prior periods if the obligation can be estimated reliably.

(iii) Other long-term employee benefits

In accordance with local regulations, the Bank pays an amount of two average salaries to employees at the time of retirement and jubilee awards pursuant to the criteria set forth in the General Collective Agreement.

(xv) Share Capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and stock options are recognized as a deduction from equity.

(ii) Purchase of own shares

When the Bank purchases own shares, the consideration paid, including directly attributable costs, is recognized as a reduction in capital. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. When treasury shares are sold, the amount received is recognized as an increase in capital and surplus or deficit on the transaction is transferred to / from share premium.

(iii) Dividends

Dividends are recognized as a liability in the period when announced.

(xvi) Earnings per share

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share are calculated by dividing profit or loss attributable to holders of ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the profit or loss attributable to holders of ordinary shares and the weighted average number of shares outstanding during the period for the effect of all potential ordinary diluting shares.

1. Introduction (continuing)

(c) Significant accounting policies (continuing)

(xvii) Segment Reporting

An operating segment is a component of the Bank that can be defined or that is engaged either in providing products or services (business segment), or in providing products or services in certain areas (geographical segment) and is subject to risks and rewards different from those of the other segments. The results of operations are regularly reviewed by the Supervisory Board in order to assess performance and make decisions about future business activities for which discrete financial information is available.

Bank primarily reports by business segments. The following main segments are identified: retail banking, corporate banking, working with securities and unallocated. Main information on segments is based on internal reporting structure made by business segments.

(r) Use of estimates and judgments

Variability / uncertainty of accounting estimates

Provisions for loans and advances

Assets carried at amortized cost are evaluated for impairment as described in accounting policy 1 (в) (vii).

The Bank reviews its loan portfolios on a monthly basis to assess impairment. In determining whether an impairment loss should be recognized in the income statement, the Bank assesses whether there are indicators for reduction of the estimated future cash flows of the loan portfolio before the decrease to be identified to individual loans within the portfolio. This evidence may include observable data indicating that there have been adverse changes in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The Bank's management uses estimates based on historical loss experience for assets subject to credit risk characteristics and objective evidence of assets with similar characteristics 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 impairment.

Provisions of equity securities available for sale

The Bank determines impairment loss on equity securities available for sale when there has been a significant or prolonged decline in the fair value below its cost. Determination of what is significant or prolonged requires 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 condition of the issuer, the indicators of the level of industry and sector performance, changes in technology and cash flows from operating and financing activities.

Determination of fair value

The determination of fair value of financial assets and liabilities that do not have quoted market price and whose fair value cannot be reliably measured, valuation techniques presented in accounting policy 1(в)(vii) are used. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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1. Introduction (continuing)

(d) Use of estimates and judgments (continuing)

Significant judgments in applying accounting policies

Significant accounting judgments in applying accounting policies are presented below:

Classification of financial assets and liabilities

The accounting policies of the Bank provide financial assets and liabilities at initial recognition to be classified by categories:

- In classifying certain assets as held for trading, the Bank has determined that it met the definition of financial assets held for trading, presented in the accounting policy 1(в) (vii).
- In classifying certain assets or liabilities as financial instruments at fair value through profit or loss, the Bank has determined that it has met one of the criteria for determining, presented in the accounting policy 1(в) (vii).
- In classifying financial assets as held-to-maturity, the Bank has determined that there is a positive intention and ability to hold to maturity, as required in accounting policy 1(в) (vii).

(e) Changes in accounting policies, accounting estimates and correction of errors

In 2012 the Central Bank published changes in the Decision to the types and content of the financial statements of banks. The changes apply to the section Compliance with legislation and the banks are now required to publish the following information:

Description of non-compliance with the regulations prescribed by the National Bank of the Republic of Macedonia to the solvency and capital adequacy, exposure limits of the bank, investment of the Bank, the bank's liquidity and open currency position.

According to the changes in Methodology in chapter 3.9. Foreclosed and 10.3 Property and equipment, and the Decision on the accounting and regulatory treatment of foreclosures, at initial recognition of the asset an impairment of at least 20% of the value of the asset at the time of recognition is immediately recognized.

Pursuant to the Decision to change the Methodology and the Decision on the accounting and regulatory treatment of foreclosures, changes are applied prospectively.

In 2013 a new Decision was issued for Credit Risk Management (Official Gazette of RM No. 50/13). Significant innovations in this Decision concerning:

- Changes in the classification - introduces monthly obligation for classifying receivables, specifies the elements for assessing the creditworthiness of customers, there are changes in terms of the possibility of inclusion of collateral in determining the present value of expected future cash flows;
- Changes in non-performing receivables - introduced levels of materiality in assigning dysfunctional status for receivables due 90 days, and on the other hand - exclusion from non-performing status can be made if the entire amount that is past due more than 31 days is collected;
- Changes in the ranks of days of delay by categories and changes in the ranks of the percentage of correction by categories.
- Changes in the portfolio of loans. The Bank as of 31.12.2013 does not determine the classification and impairment / provisions on group basis.

1. Introduction (continuing)

(e) Changes in accounting policies, accounting estimates and correction of errors (continuing)

According to the new Decision on credit risk management, the Bank has made changes in the classification and identification of impairment and allowance on an individual basis, and the corresponding calculation thereof as of 31.12.2013.

According to the Decision amending the Decision on Risk Management (Official Gazette of RM No. 165/12), banks have an obligation to establish a process of determining the internal capital. They should implement a process to identify measure and evaluate individual material risks in order to establish the necessary internal capital to cover risks. If the necessary internal capital to cover the risk is higher than the own funds, the bank should identify the current and future needs of their own funds for at least three years.

In the course of 2013 the Bank has adopted amendments to the policy and procedure for determining internal capital and prepared a report on the process of determining the internal capital which presents the views of the amount of capital in the current conditions that is required to cover all material risks, and the amount of capital that The Bank believes is needed to intercept future needs associated with business goals, and possible adverse scenarios.

(f) Compliance with legislation

The Bank conducts its activities in accordance with legal regulations prescribed by the National Bank of Macedonia.

As of the date of the financial statements there are no inconsistencies with the regulations prescribed by NBRM in relation to the solvency and capital adequacy, exposure limits of the Bank, investments of the Bank, the Bank's liquidity and open currency position.

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2. Risk Management

Introduction

The Bank is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

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

Framework of risk management

The Supervisory Board ("the Board") approves the strategy for managing risks and monitors the implementation. The Board has established a Credit Committee and Risk Management Committee, responsible for developing and monitoring policies for risk management of the Bank in their respective areas.

Policies for risk management of the Bank have been established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and risk controls, and to monitor risks and adherence to limits.

Policies and systems for risk management are regularly reviewed to reflect changes in market conditions, and the offered products and services. The Bank, through its training and policies and management procedures seeks to create constructive control environment in which all employees understand their roles and responsibilities.

The Audit Committee is responsible for monitoring compliance with policies and procedures for risk management, and monitoring the adequacy of risk management policy in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit. The internal Audit undertakes both regular and periodic audits of the controls and procedures for risk management, and these results are reported to the Audit Committee.

2.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks, guarantees and letters of credit and investments in securities. In order to manage the risk, the Bank considers and consolidates all elements considering the credit risk exposure (such as individual risk of default of borrower, country risk and sector risk).

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

Management of credit risk

The Supervisory Board has delegated authorization rights for the management of credit risk to its Credit Committee which approves all credit exposures to 10% of own funds (EUR 1,000,000 according to credit policy). All credit exposures over 10% of Bank's own assets (over EUR 1,000,000) are approved by the Supervisory Board. The Bank's credit risk control includes:

- *Formulating credit policies* including coverage requirements for collateral assess the creditworthiness of the applicant's credit risk grading and reporting, documentation and legal procedures, and compliance with legal requirements.
- *Reviewing and assessing credit risk.* Credit department monitors all credit exposures in relation of established limits.
- *Monitoring concentrations of exposure* geographically and by industries (for loans and advances), and by issuer, credit rating institutions, market liquidity and country (for investment).
- *Classification of the credit exposure of the Bank* by the degree of risk of financial loss faced and focusing on risk management. Classification system is used in the determination if impairment loss is required.
- *Monitoring of compliance* to set limits, including those for industries, country risk and product types. Regular reports on credit exposure, classification and impairment / allowance are submitted to the Risk Management Board and appropriate corrective action is taken.
- Controls are performed by individual organizational units of the Bank, as Credit Department, branches of the Bank and the Directorate of Risk Management.

The Credit department and branches of the Bank are obliged to implement credit policies and procedures of the Bank. They are responsible for the quality of the loan portfolio, as well as for monitoring and controlling all credit risks.

The Internal Audit Department, during regular audits of the activities of branches, also control the credit operations.

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

2. 1 A Analysis of overall exposure to credit risk

	Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Receivables for fees and commissions		Other receivables		Off-balance sheet exposures		Total	
In '000 MKD	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
I. Carrying value of exposures for which impairment / special reserve is made																		
Carrying amount of individually significant exposures, before impairment and allowance on individual basis	-	18,947	14,008,235	9,294,624	30,036	34,506	-	-	512	45,135	4,540	3,523	32,623	86,191	888,481	540,302	14,964,424	10,023,228
Risk category A	-	18,947	13,448,881	8,831,639	30,036	34,506	-	-	489	45,135	3,255	2,143	14,445	71,807	881,742	530,350	14,378,848	9,534,527
Risk category B	-	-	95,059	101,750	-	-	-	-	-	-	133	304	2	123	6,638	6,738	101,832	108,915
Risk category C	-		132,591	53,635	-	-	-	-	-	-	344	237	96	789	85	3,049	133,116	57,710
Risk category D	-	-	31,541	35,810	-	-	-	-	23	-	41	55	1,778	175	-	119	33,383	36,159
Risk category E	-	-	300,163	271,790	-	-	-	-	-	-	767	784	16,302	13,297	16	46	317,248	285,917
(Impairment losses and provisions on individual basis)	-	(189)	(477,072)	(397,638)	(300)	(475)	-	-	(15)	(451)	(883)	(957)	(17,211)	(13,974)	(9,185)	(7,154)	(504,666)	(420,837)
Carrying amount of individually significant exposures, net of impairment allowance on individual basis	-	18,758	13,531,163	8,896,986	29,736	34,031	-	-	497	44,684	3,657	2,566	15,412	72,217	879,296	533,148	14,459,761	9,602,391
Carrying amount of exposures that are assessed on a group basis, before impairment allowance on group basis																		
individually insignificant exposures (small loans portfolio)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
individually significant exposures not impaired on individual basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(Impairment and allowance on group basis)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying amount of exposures that are assessed on a group basis, net of impairment allowance on group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

2. 1 A Analysis of overall exposure to credit risk (continuing)

		Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Receivables for fees and commissions		Other receivables		Off-balance sheet exposures		Total	
		2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
II.	Carrying value of exposures for which impairment / special reserve is not made																		
	past due receivables																		
	Age structure of due receivables for which no impairment is made																		
	Up to 30 days	-	-	1,965	1,646	-	-	-	-	-	484	186	389	99,262	648	-	47,082	101,412	50,249
	Carrying amount of past due receivables for which no impairment is made	-	-	1,965	1,646	-	-		-	-	484	186	389	99,262	648	-	47,082	101,412	50,249
	undue claims																		
	restructured receivables	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	other receivables	7,682	-	168,673	239,716	1,118,179	831,124	-	-	2,103,424	5,165,072	-	-	-	-	1,849,538	691,472	5,247,497	6,927,384
	Carrying value of outstanding claims for which no impairment / special reserve is made	7,682	-	170,638	241,362	1,118,179	831,124	-	-	2,103,424	5,165,556	186	389	99,262	648	1,849,538	738,554	5,348,909	6,977,633
	Total carrying value of receivables under credit risk before impairment and special reserve	7,682	18,947	14,178,873	9,535,986	1,148,215	865,630	-	-	2,103,936	5,210,691	4,726	3,912	131,885	86,839	2,738,019	1,278,856	20,313,336	17,000,861
	(Total impairment and special reserve)	-	(189)	(477,072)	(397,638)	(300)	(475)	-	-	(15)	(451)	(883)	(957)	(17,211)	(13,974)	(9,185)	(7,154)	(504,666)	(420,837)
	Total carrying value of receivables under credit risk decreased for impairment and special reserve	7,682	18,758	13,701,801	9,138,348	1,147,915	865,155	-	-	2,103,921	5,210,240	3,843	2,955	114,674	72,865	2,728,834	1,271,702	19,808,670	16,580,024

As of 31.12.2013 the Bank has restructured loans.

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2. Risk Management (continuing)

2.1 Credit Risk (continuing)

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank based on the Central Bank's Decision to establish the methodology for classification of balance sheet and off-balance sheet positions of the Bank according to their risk ("the Decision") has determined the need for allocation of impairment. All loans are graded from A to E risk category according to the days of delay and other criteria according to the decision.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes it is not appropriate to calculate impairment due to the amount of collateral or the degree of recovery.

Impairment / Provisions

The Bank calculates impairment / allowance that represent its estimate of incurred impairment losses in its loan portfolio. It is determined as the difference of the carrying value of the loan portfolio and the present value of estimated future cash flows of the loan portfolio. The Bank makes this analysis on an individual basis for all credit exposures, as defined in Decision.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment) as Supervisory Board determines that the loans / securities are uncollectible. The decision is made after considering information such as the occurrence of significant changes in the financial position of the borrower / issuer of the securities, that the borrower / issuer is unable to meet its obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Bank also writes off a loan / security balance (and any related allowance) on the basis of a court decision that all possibilities of recovering the receivable are exhausted.

Collateral

The Bank has collateral for loans and advances to customers in the form of mortgage over property, pledge of securities, cash deposit, and pledge of shares, guarantees, administrative and other registered pledges and guarantees. Estimates of fair value are based on the value of the collateral at the time of borrowing. The collateral is subject to annual reassessment, for type of real estate collateral for credit exposures in excess of EUR 100,000, and movable property type collateral for credit exposures above EUR 50,000. In general, the Bank has not taken loans and advances to banks. Bank takes no collateral for the securities, and there is no such collateral on December 31, 2013 or 2012.

Concentration by location for loans and advances is measured based on the location of the debtor. Concentration by location for assets measured at the location of the issuer of the securities.

Estimates of fair value of collateral and other increases of collateral, taken as security for the financial assets, is shown in the following table:

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

B Collateral value (fair value) taken for the protection of credit risk

	Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Other receivables		Off-balance sheet exposures		Total	
In'000 MKD	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Value of collateral for credit exposures which are assessed for impairment on an individual basis																
First class security instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (the depot and / or limited to bank accounts)	-	-	174,932	204,611	-	-	-	-	-	-	4,810	1,585	56,480	4,639	236,222	210,835
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
unconditional state guarantee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	40,146	21,525	40,146	21,525
Guarantees of insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except banking and insurance companies)	-	-	1,307,269	738,308	-	-	-	-	-	-	-	-	93,258	43,050	1,400,527	781,358
Guarantees of individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private property (apartments, houses)	-	-	5,698,658	4,301,615	-	-	-	-	-	-	2,297	653	565,884	340,193	6,266,839	4,642,461
Business premises	-	-	10,289,508	6,944,692	-	-	-	-	-	-	74	55	1,709,017	732,030	11,998,599	7,676,777
Pledge of movables	-	-	1,377,388	1,818,023	-	-	-	-	-	-	4,546	4,412	285,934	80,681	1,667,868	1,903,116
Other types of collateral	-	-	1,122,147	1,339,742	-	-	-	-	-	-	1,556	980	136,172	2,120	1,259,875	1,342,842
Total value of collateral for credit exposures which are assessed for impairment on an individual basis	-	-	19,969,902	15,346,991	-	-	-	-	-	-	13,283	7,685	2,886,891	1,224,238	22,870,076	16,578,914

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

B Collateral value (fair value) taken for the protection of credit risk (continuing)

Value of collateral for credit exposures which are assessed for impairment on a group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
First class security instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
cash deposits (the depot and / or limited to bank accounts)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
government securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
unconditional state guarantee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
bank guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees of insurance companies and insurance policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate guarantees (except banking and insurance companies)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees of individuals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgage on property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private property (apartments, houses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business premises	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledge of movables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other types of collateral																
Total value of collateral for credit exposures that are assessed for impairment on a group basis	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

C Concentration of credit risk by sector and activity

	Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Receivables for fees and commissions		Other receivables		Off-balance sheet exposures		Total	
In '000 MKD	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Non-residents	-	-	334,966	263,010	-	-	-	-	-	-	3	-	-	-	43,058	43,050	378,027	306,060
Agriculture, Forestry and Fisheries	-	-	79,327	67,495	-	-	-	-	-	-	29	30	-	-	4,407	3,838	83,763	71,363
Mining and quarrying	-	-	18,600	7,941	-	-	-	-	-	-	2	1	-	-	-	-	18,602	7,942
Food industry	-	-	309,912	167,349	-	-	-	-	-	-	24	22	-	-	44,337	29,853	354,273	197,224
Textile Industry and production of clothing and footwear	-	-	51,536	49,542	-	-	-	-	-	-	35	16	2	-	25,508	125	77,081	49,683
Chemical industry, production of building materials, production and processing of fuels, pharmaceutical industry	-	-	682,453	440,424	-	-	-	-	-	-	37	17	67	267	191,539	15,386	874,096	456,094
Production of metals, machinery, tools and equipment	-	-	121,032	365,797	-	-	-	-	-	-	11	11	-	-	708,166	24,935	829,209	390,743
Other Manufacturing	-	-	298,809	195,692	-	-	-	-	-	-	40	18	-	-	11,521	5,917	310,370	201,627
Electricity, gas, steam and air conditioning	-	-	112,036	-	-	-	-	-	-	-	3	1	17	10	102,531	-	214,587	11
Water supply, sewage disposal, waste management and remediation activities on the environment	-	-	2,820	3,406	-	-	-	-	-	-	42	4	7	10	582	1,500	3,451	4,920
Civil Engineering	-	-	239,213	182,038	-	-	-	-	-	-	88	345	274	365	302,504	272,436	542,079	455,184
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	2,940,885	1,325,161	-	-	-	-	-	-	584	335	120	55	451,476	275,598	3,393,065	1,601,149
Transport and storage	-	-	1,065,189	732,140	-	-	-	-	-	-	248	137	0	108	248,849	114,420	1,314,286	846,805

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

C Concentration of credit risk by sector and activity (continuing)

	Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Receivables for fees and commissions		Other receivables		Off-balance sheet exposures		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Accommodation and food service activities	-	-	105,810	58,246	-	-	-	-	-	-	54	41	568	567	5,911	2,086	112,343	60,940
Information and Communications	-	-	20,336	10,390	-	-	-	-	-	-	43	34	10	8	5,405	8,666	25,794	19,098
Financial and insurance activities	7,682	18,758	-	-	34,012	34,031	-	-	2,103,921	4,443,558	62	52	112,171	69,489	44,235	21,524	2,302,083	4,587,412
Activities related to real estate	-	-	698,844	306,000	-	-	-	-	-	-	-	28	-	-	40,784	30,500	739,635	336,528
Professional, scientific and technical activities	-	-	92,864	85,732	-	-	-	-	-	-	44	33	4	28	33,370	41,675	126,282	127,468
Administrative and support service activities	-	-	88,870	11,180	-	-	-	-	-	-	24	25	115	68	5,438	982	94,447	12,255
Public administration and defense; compulsory social insurance	-	-	66,795	92,753	1,113,903	831,124	-	-	-	766,682	-	-	87	648	-	44,000	1,180,785	1,735,207
Education	-	-	176,623	166,123	-	-	-	-	-	-	12	24	-	-	18,378	12,300	195,013	178,447
Activities of health and social care	-	-	141,461	102,496	-	-	-	-	-	-	23	10	-	-	335	60	141,819	102,566
Arts, entertainment and recreation	-	-	3,522	397	-	-	-	-	-	-	10	13	56	75	1,723	2,486	5,311	2,971
Other service activities	-	-	6,298	3,687	-	-	-	-	-	-	69	42	311	2	2,208	1,000	8,886	4,731
Activities of households as employers; household activities that produce different goods and perform various services for own needs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Activities of extra-territorial organizations and bodies	-	-	-	-	-	-	-	-	-	-	-	3	1	-	-	-	1	3
Individuals	-	-	6,036,782	4,491,556	-	-	-	-	-	-	2,348	1,713	864	1,165	436,465	319,296	6,476,459	4,813,730
Sole proprietors and individuals who are not considered dealers	-	-	6,818	9,793	-	-	-	-	-	-	1	-	-	-	104	69	6,923	9,862
Total	7,682	18,758	13,701,801	9,138,348	1,147,915	865,155	-	-	2,103,921	5,210,240	3,843	2,955	114,674	72,865	2,728,834	1,271,702	19,808,670	16,580,023

2. Risk Management (continuing)

2.1 Credit Risk (continuing)

D Concentration of credit risk by geographical location

	Loans and advances to banks		Loans and advances to customers		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Receivables for fees and commissions		Other receivables		Off-balance sheet exposures		Total	
In '000 MKD	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Geographical location																		
Republic of Macedonia	-	-	13,359,312	8,873,185	1,143,638	860,729	-	-	1,697,362	5,063,520	3,839	2,952	13,559	12,393	2,676,894	1,207,127	18,894,604	16,019,906
European Union countries	7,682	18,758	-	-	4,277	4,426	-	-	310,366	72,024	-	3	101,099	60,472	-	-	423,424	155,683
Europe (rest)	-	-	342,489	265,163	-	-	-	-	9,892	43,789	4	-	16	-	51,940	64,575	404,341	373,527
Member countries of the OECD (excluding European members of the OECD)	-	-	-	-	-	-	-	-	86,301	30,907	-	-	-	-	-	-	86,301	30,907
Other (specify separately the exposure that is more than 10% of total credit exposure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
___________________________																		
___________________________																		
Total	7,682	18,758	13,701,801	9,138,348	1,147,915	865,155	-	-	2,103,921	5,210,240	3,843	2,955	114,674	72,865	2,728,835	1,271,702	19,808,670	16,580,023

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2. Risk Management (continuing)

2.2 Liquidity Risk

Liquidity risk is the risk that the bank can not provide sufficient funds to cover its short-term obligations when they come due, or to bear much higher costs.

Management of liquidity risk

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

Directorate of assets, liquidity and trading monitors liquidity and liquidity profile of their financial assets and liabilities and details of projected cash flows arising from the planned activities, on a daily basis based on information from the relevant departments. Directorate of assets, liquidity and trading maintains a portfolio of short-term liquid assets, mainly made up of short-term marketable securities, in order to ensure an adequate level of liquidity to the Bank.

All policies and procedures for liquidity risk are subject to review and approval by the Board of assets and liabilities management. Liquidity Reports show the Bank's liquidity position on a daily basis and are submitted to the NBRM on a monthly basis.

Exposure to liquidity risk

The Bank has access to diverse funding base. Funds are raised through a wide range of instruments including deposits and equity. This enhances funding flexibility, limits dependence on any one source of funding and reduces costs. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with different maturity. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet the objectives set in the Bank's strategy.

Also as part of the strategy to manage liquidity risk, the Bank maintains a portfolio of highly liquid assets.

2. Risk Management (continuing)

2.2 Liquidity Risk (continuing)

Analysis by maturity of the financial assets and liabilities (residual maturity)

In '000 MKD	Up to 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	Total
2013 (current year)							
Financial Assets							
Cash and cash equivalents	3,965,318	-	551,264	-	-	-	4,516,582
Trading assets	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	7,682	7,682
Loans and advances to customers	758,836	585,716	1,888,212	1,079,995	4,612,432	5,210,818	14,136,009
Investments in securities	7,364	-	854,312	-	304,885	-	1,166,561
Investments in associates	-	-	-	-	-	-	
Receivables for income tax (current)	-	-	-	-	-	-	-
Other receivables	104,115	11,950	22,708	-	-	-	138,773
Pledged Assets	-	-	-	-	-	-	
Deferred tax assets	-	-	-	-	-	-	
Total financial assets	4,835,633	597,666	3,316,496	1,079,995	4,917,317	5,218,500	19,965,607
Financial Liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	1,689,069	-	622	-	-	-	1,689,691
Deposits from customers	4,925,588	1,551,205	3,795,107	1,240,216	1,000,606	2,723	12,515,445
Issued debt Securities	-	-	-	-	-	-	-
Borrowings	37,356	15,560	689,385	199,148	1,129,372	204,625	2,275,446
Subordinated liabilities	-	-	-	-	-	-	-
Income tax liability (current)	-	-	373	-	-	-	373
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	125,429	-	25,296	-	-	-	150,650
Total financial liabilities	6,777,442	1,566,765	4,510,783	1,439,364	2,129,978	207,348	16,631,680
Off-balance sheet items							
Off-balance sheet assets	-	151,896	45,989	120,863	-	-	318,748
Off-balance sheet liabilities	962,917	531,263	673,020	393,052	-	-	2,560,252
Maturity mismatch	2,904,726	1,348,466	1,821,318	631,558	2,787,339	5,011,152	1,092,423

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2. Risk Management (continuing)

2.2 Liquidity Risk (continuing)

Analysis by maturity of the financial assets and liabilities (residual maturity) (continuing)

In '000 MKD	Up to 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	Total
2012 (previous year)							
Financial Assets							
Cash and cash equivalents	5,880,827	570,003	-	603,896	-	-	7,054,726
Trading assets	64,797	-	-	-	-	-	64,797
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-
Loans and advances to banks	18,947	-	-	-	-	-	18,947
Loans and advances to customers	194,578	766,734	1,892,154	2,394,563	1,229,453	3,123,752	9,601,234
Investments in securities	313,363	180,002	369,975	-	-	-	863,340
Investments in associates	-	-	-	-	-	-	-
Receivables for income tax (current)	-	-	1,089	-	-	-	1,089
Other receivables	70,859	10,979	2,978	15,180	-	-	99,996
Pledged Assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total financial assets	6,543,371	1,527,718	2,266,196	3,013,639	1,229,453	3,123,752	17,704,129
Financial Liabilities							
Trading liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	1,998,382	-	621	-	-	-	1,999,003
Issued debt Securities	4,789,967	1,136,663	3,192,177	1,141,460	593,290	5,031	10,858,588
Borrowings	-	-	-	-	-	-	-
Subordinated liabilities	310,017	17,107	48,170	152,029	693,113	334,621	1,555,057
Income tax liability (current)	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	97,861	-	-	-	-	-	97,861
Total financial liabilities	7,196,227	1,153,770	3,240,968	1,293,489	1,286,403	339,652	14,510,509
Off-balance sheet items							
Off-balance sheet assets	-	-	-	-	-	-	-
Off-balance sheet liabilities	334,188	-	-	-	-	-	334,188
Maturity mismatch	(987,044)	373,948	(974,722)	1,720,150	(56,950)	2,784,100	2,859,432

2. Risk Management (continuing)

2.2 Liquidity Risk (continuing)

The table shows the gross undiscounted cash flows of financial assets and liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The cash flows that the Bank expects can vary from the agreed. For example, sight deposits from customers are expected to remain stable and not be withdrawn within one month.

The Bank prepares an expected maturity structure that is embedded in the element of forecasting and it indicates a stable liquidity position.

According the Liquidity risk policies, if by the application of assumptions there is a negative gap in the expected maturity structure in certain maturity block, the Bank will use the necessary level of funds arising from the trading book if the agreed maturity structure and trading portfolio is more than 90 days after the reporting date that is the deadline for reporting of Expected maturity match of inflows and outflows.

2.3 Market Risk

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

Management of market risks

Exposure to interest rate risk - portfolio not held for trading

The Bank is exposed to the risk of interest rates as a result of interest-earning assets and interest-bearing liabilities maturing or interest rate changes at different times or in different amounts. In the case of assets and liabilities with variable interest rates, the Bank is also exposed to basis risk arising from different periods of changing of the variable interest rates on assets and liabilities, such as EURIBOR, LIBOR and different interest rates.

Activities of risk management are aimed at optimizing net interest income, with market interest rates consistent with the Bank's business strategies and market trends.

Activities of management assets and liabilities are carried in terms of the Bank's sensitivity to changes in the interest rates. Overall, the Bank monitors changes in interest rates of assets and liabilities by generated interest margins, as well as market trends and environment. Since the Bank reserves the right to simultaneously change the interest rates for most of the interest-bearing assets and liabilities, it's in a position to cushion the adverse effects on net income. Certainly, the ultimate effect will depend on various factors, including the stability of the economy, the environment and the rate of inflation.

The Bank further analyzes the sensitivity of financial assets and liabilities to various stress scenarios of change in interest rates.

The sensitivity analysis of the Bank of increase or decrease in market interest rates (taking into account the symmetrical movements of the yield curve and the consistency of the items in the balance sheet) is as follows:

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2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.1. Analysis of the sensitivity of assets and liabilities to changes in market risk

A Analysis of sensitivity to changes in market risk of assets and liabilities

	Profit / Loss	Own assets	Risk-weighted assets	Capital adequacy rate
	In '000 MKD	In '000 MKD	In '000 MKD	%
2013 (current year)				
Amount before analysis of sensitivity / stress tests (as of 31.12.2013)	145,991	3,369,493	18,632,969	18.08%
Effects of application of scenarios				
Risk of changes in exchange rates (list separately the various scenarios, including the basic characteristics of the scenario)				
Devaluation of the Denar against other currencies 20%	160,037	3,529,529	20,618,398	17.12%
Risk of changes in interest rates (list separately the various scenarios, including the basic characteristics of the scenario)				
Increase in variable interest rates on liabilities:				
Changes in interest rates by 300 basis points	(1,517)	3,367,975	18,632,969	18.08%
Changes in interest rates by 200 basis points	(923)	3,368,569	18,632,969	18.08%
Changes in interest rates by 100 basis points	(329)	3,369,163	18,632,969	18.08%
Risk of changes in market prices for investments in equity securities (list separately the various scenarios, including the basic characteristics of the scenario)	-	-	-	-
Combined scenarios, if any (list separately the various scenarios, including the basic characteristics of the scenario)				
Devaluation of the Denar against other currencies 20%	160,037	3,529,529	20,618,398	17.12%
Proportional increase in non-performing loans to 30% of existing non-performing loans	(32,110)	3,497,419	20,586,288	16.99%
Proportional increase in non-performing loans to 30% of existing regular loans (extreme shock)	(1,239,790)	2,289,739	19,378,608	11.82%
Impact of sectoral shocks on non-performing loans (deterioration of the portfolio in certain sectors)	(314,175)	3,215,354	20,304,223	15.84%
Deterioration of receivables from two major borrowers (transfer to doubtful receivables)	(756,022)	2,773,507	19,862,375	13.96%

2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.1. Analysis of the sensitivity of assets and liabilities to changes in market risk (continuing)

A Analysis of sensitivity to changes in market risk of assets and liabilities (continuing)

	Profit / Loss	Own assets	Risk-weighted assets	Capital adequacy rate
	In ‘000 MKD	In ‘000 MKD	In ‘000 MKD	%
2012 (previous year)				
Amount before analysis of sensitivity / stress tests (as of 31.12.2012)	31,726	3,339,633	12,677,985	26.34%
Effects of application of scenarios:				
Risk of changes in exchange rates (list separately the various scenarios, including the basic characteristics of the scenario)				
Devaluation of the Denar against other currencies 20%	(118,420)	3,221,213	14,182,663	22.71%
Risk of changes in interest rates (list separately the various scenarios, including the basic characteristics of the scenario)				
Increase in variable interest rates on liabilities:				
Changes in interest rates by 300 basis points	(2,073)	3,337,560	12,677,985	26.33%
Changes in interest rates by 200 basis points	(1,390)	3,338,243	12,677,985	26.33%
Changes in interest rates by 100 basis points	(707)	3,338,926	12,677,985	26.34%
Risk of changes in market prices for investments in equity securities (list separately the various scenarios, including the basic characteristics of the scenario)				
Combined scenarios, if any (list separately the various scenarios, including the basic characteristics of the scenario)				
Devaluation of the Denar against other currencies 20%	(118,420)	3,221,213	14,182,663	22.71%
Proportional increase in non-performing loans by 30%	(27,468)	3,193,745	14,155,195	22.56%
Proportional increase in non-performing loans to 30% of existing regular loans (extreme shock)	(723,015)	2,498,198	13,459,649	18.56%
Impact of sectoral shocks on non-performing loans (deterioration of the portfolio in certain sectors)	(179,482)	3,041,731	14,003,181	21.72%
Deterioration of receivables from two major borrowers (transfer to doubtful receivables)	(268,581)	2,952,632	13,914,082	21.22%

B Analysis of the market value at risk for the trading portfolio

	Current year 2013		Previous year 2012	
In ‘000 MKD	31.12.2013	average value	31.12.2012	average value
Value at risk with interest-bearing instruments	-	-	-	-
Value at risk with instruments in foreign currency	-	-	-	-
Value at risk in equity instruments	-	-	-	-
Variance	-	-	-	-
Total	-	-	-	-

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2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.2 Analysis of the risk of changing interest rates on financial assets and liabilities (excluding assets held for trading)

A Analysis of sensitivity to changes in interest rates

REPORT of changes in the economic value of the positions of banking activities portfolio as at 31.12.2013.			
In 000 MKD			
	Position	Currency	Amount
	1	2	3
1.1	NET WEIGHTED POSITION FOR EUR	EUR	(40,841)
1.2	NET WEIGHTED POSITION FOR MKD	MKD	47,659
1.3	NET WEIGHTED POSITION FOR MKD cl EUR	MKD cl EUR	83,516
1.4	NET WEIGHTED POSITION FOR MKD cl USD	MKD cl USD	3
1.5	NET WEIGHTED POSITION FOR OTHER CURRENCIES	Other	(34)
1.6	NET WEIGHTED POSITION FOR USD	USD	(1,069)
2	TOTAL WEIGHTED VALUE - change of the economic value of portfolio of banking activities		89,234
3	EQUITY		3,369,493
4	TOTAL WEIGHTED VALUE / EQUITY (2/3 * 100)		2.65%

REPORT of changes in the economic value of the positions of banking activities portfolio as at 31.12.2012			
In 000 MKD			
	Position	Currency	Amount
	1	2	3
1.1	NET WEIGHTED POSITION FOR EUR	EUR	(7,750)
1.2	NET WEIGHTED POSITION FOR MKD	MKD	(15,245)
1.3	NET WEIGHTED POSITION FOR MKD cl EUR	MKD cl EUR	39,005
1.4	NET WEIGHTED POSITION FOR MKD cl USD	MKD cl USD	5
1.5	NET WEIGHTED POSITION FOR OTHER CURRENCIES	Other	(25)
1.6	NET WEIGHTED POSITION FOR USD	USD	(1,105)
2	TOTAL WEIGHTED VALUE - change of the economic value of portfolio of banking activities		14,885
3	EQUITY		3,339,633
4	TOTAL WEIGHTED VALUE / EQUITY (2/3 * 100)		0.45%

2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.2 Analysis of the risk of changing interest rates on financial assets and liabilities (excluding assets held for trading) (continuing)

B Analysis of harmonization of interest rates

In '000 MKD	Up to 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	Total interest bearing assets / liabilities
2013 (current year)							
Financial assets							
Cash and cash equivalents	3,992,031	-	-	-	-	-	3,992,031
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	1,042,220	1,622,947	9,839,945	264,654	494,725	350,848	13,615,339
Investments in securities	-	-	801,654	-	304,885	-	1,106,539
Other non specified interest sensitive assets	-	-	-	-	-	-	-
Total interest sensitive assets	5,034,251	1,622,947	10,641,599	264,654	799,610	350,848	18,713,909
Financial liabilities							
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Deposits from banks	1,678,132	-	610	-	-	-	1,678,742
Deposits from customers	4,196,685	1,501,462	4,891,193	679,612	267,469	-	11,536,421
Issued debt Securities	-	-	-	-	-	-	-
Borrowings	78,310	169,337	1,374,000	219,187	374,407	52,045	2,267,286
Subordinated debt and hybrid instruments	-	-	-	-	-	-	-
Other unspecified interest sensitive liabilities	-	-	-	-	-	-	-
Total interest sensitive liabilities	5,953,127	1,670,799	6,265,803	898,799	641,876	52,045	15,482,449
Net balance sheet position	(918,876)	(47,852)	4,375,796	(634,145)	157,734	298,803	3,231,460
Off-balance sheet interest sensitive assets items	-	-	-	-	-	-	-
Off-balance sheet interest sensitive liabilities items	-	-	-	-	-	-	-
Net off-balance sheet position	-	-	-	-	-	-	-
Total net position	(918.876)	(47.852)	4.375.796	(634.145)	157.734	298.803	3.231.460

2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.2 Analysis of the risk of changing interest rates on financial assets and liabilities (excluding assets held for trading) (continuing)

B Analysis of harmonization of interest rates (continuing)

In '000 MKD	Up to 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	Total interest bearing assets / liabilities
2012 (previous year)							
Financial assets							
Cash and cash equivalents	6,253,201	566,870	-	-	-	-	6,820,071
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-	-
Loans and advances to customers	435,388	954,311	7,326,958	222,175	103,007	5,282	9,047,121
Investments in securities	280,167	179,038	366,227	-	-	-	825,432
Other non specified interest sensitive assets	-	-	-	-	-	-	-
Total interest sensitive assets	6,968,756	1,700,219	7,693,185	222,175	103,007	5,282	16,692,624
Financial liabilities	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	1,982,760	-	610	-	-	-	1,983,370
Deposits from banks	4,398,711	1,056,441	3,595,271	859,010	278,968	-	10,188,401
Deposits from customers	-	-	-	-	-	-	-
Issued debt Securities	329,108	228,192	706,057	165,528	115,509	5,176	1,549,570
Borrowings	-	-	-	-	-	-	-
Subordinated debt and hybrid instruments	-	-	-	-	-	-	-
Other unspecified interest sensitive liabilities	6,710,579	1,284,633	4,301,938	1,024,538	394,477	5,176	13,721,341
Total interest sensitive liabilities	258,177	415,586	3,391,247	(802,363)	(291,470)	106	2,971,283
Net balance sheet position							
Off-balance sheet interest sensitive assets items	-	-	-	-	-	-	-
Off-balance sheet interest sensitive liabilities items	-	-	-	-	-	-	-
Net off-balance sheet position	-	-	-	-	-	-	-
Total net position	258,177	415,586	3,391,247	(802,363)	(291,470)	106	2,971,283

2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.3 Currency risk

In '000 MKD	MKD	EUR	USD	Specify separate currencies that represent more than 10% of the total monetary assets / liabilities					Other currencies	Total
2013										
Monetarry assets										
Cash and cash equivalents	3,331,250	907,633	165,226	-	-	-	-	-	110,154	4,514,263
Trading assets	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-	-		-
Loans and advances to banks	-	-	7,682	-	-	-	-	-	-	7,682
Loans and advances to customers	5,851,192	7,598,995	144,189	-	-	-	-	-	-	13,594,376
Investments in securities	1,087,169	56,469	4,277	-	-	-	-	-	-	1,147,915
Receivables for income tax (current)	-	-	-	-	-	-	-	-	-	-
Other receivables	70,390	48,945	1,335	-	-	-	-	-	-	120,670
Pledged assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Total monetary assets	10,340,001	8,612,042	322,709	-	-	-	-	-	110,154	19,384,906
Monetarry liabilities										
Trading liabilities	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-	-	-	-
Deposits from banks	624	1,688,562	498	-	-	-	-	-	7	1,689,691
Deposits from customers	8,209,982	3,916,582	308,268	-	-	-	-	-	80,613	12,515,445
Issued debt securities	-	-	-	-	-	-	-	-	-	-
Borrowings	23,978	2,251,468	-	-	-	-	-	-	-	2,275,446
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Income tax liability (current)	373	-	-	-	-	-	-	-	-	373
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	115,147	26,601	8,956	-	-	-	-	-	21	150,725
Total monetary liabilities	8,350,104	7,883,331	317,003	-	-	-	-	-	80,641	16,631,605
Net position	1,989,897	728,829	4,987	-	-	-	-	-	29,513	2,753,226

2. Risk Management (continuing)

2.3 Market Risk (continuing)

2.3.3 Currency risk (continuing)

				Specify separate currencies that represent more than 10% of the total monetary assets / liabilities					Other currencies	Total
In '000 MKD	MKD	EUR	USD							
Monetary assets 2012										
Cash and cash equivalents	6,249,994	670,647	62,060						64,117	7,046,818
Trading assets	-	64,797	-	-	-	-	-	-	-	64,797
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative assets held for risk management	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks	-	-	18,758	-	-	-	-	-	-	18,758
Loans and advances to customers	3,884,046	5,028,334	138,795	-	-	-	-	-	-	9,051,175
Investments in securities	258,755	596,800	4,426	-	-	-	-	-	-	859,981
Receivables for income tax (current)	1,089	-	-	-	-	-	-	-	-	1,089
Other receivables	40,840	42,728	1,498	-	-	-	-	-	-	85,066
Pledged assets	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Total monetary assets	10,434,724	6,403,306	225,537	-	-	-	-	-	64,117	17,127,684
Monetarry liabilities										
Trading liabilities	-	-	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-	-	-	-	-
Deposits from banks	624	1,997,857	497	-	-	-	-	-	25	1,999,003
Deposits from customers	6,763,315	3,789,544	224,481	-	-	-	-	-	81,248	10,858,588
Issued debt securities	-	-	-	-	-	-	-	-	-	-
Borrowings	323,677	1,231,380	-	-	-	-	-	-	-	1,555,057
Subordinated debt	-	-	-	-	-	-	-	-	-	-
Income tax liability (current)	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	80,287	16,723	179	-	-	-	-	-	672	97,861
Total monetary liabilities	7,167,903	7,035,504	225,157	-	-	-	-	-	81,945	14,510,509
Net position	3,266,821	(632,198)	380	-	-	-	-	-	(17,828)	2,617,175

2. Risk Management (continuing)

2.4. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, inappropriate employees and inadequate or weak systems of the bank as well as external events.

The bank has established a policy for managing operational risk, which was adopted by the Supervisory Board. The policy defines the basic goals, operational risk management (systems and processes for managing operational risk), organizational structure, reporting system, internal control etc..), as well as measuring and monitoring operational risk (key risk indicators, evaluation operational risk).

As part of the strategy for risk management the Bank has defined acceptable level of exposure to operational risk.

For the purposes of calculating capital adequacy, the Bank uses the basic indicator approach for determining the capital requirement for operational risk.

3. Capital adequacy

NBRM as the main regulator of the banking sector monitors capital of the Bank as a whole. The Bank is directly supervised by the regulator.

The bank shall maintain capital adequacy ratio prescribed at the rate of 8% of own funds, against total risk-weighted assets. The total risk-weighted assets is the sum of credit risk weighted assets, currency risk, market risk and operational risk.

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

- Core capital, which includes common and non-cumulative preferred shares, share premium of these shares, reserves set aside from taxable income, which are used to cover losses arising from the risks faced by the Bank in its operations, retained earnings not loaded with any future obligations stated in the balance sheet and confirmed by Decision of the Assembly of Shareholders, or accumulated loss for the previous year, profit for the year if confirmed by the auditor, net loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the required impairment of financial assets and allowance for off-balance sheet items and the amount of the impairment and allowance determined in accordance with the Decision on the credit risk.
- Additional capital including cumulative preference shares, share premium of sold cumulative preferred shares, net of treasury amount of cumulative preference shares, 80% of unrealized gains from revaluation of equity and debt securities available for sale, measured at fair value, hybrid and subordinated instruments issued by the Bank.
- The sum of core and supplementary capital shall be reduced by the investment of the Bank to other banks and financial institutions exceeding 10% of the capital of these institutions, subordinated and hybrid capital instruments and other investments in banks and other financial institutions over investments 10% of the capital and other deductions.

In determining the amount of regulatory capital, the bank must comply with the following restrictions:

- The amount of additional capital can not exceed the amount of core capital.

Sum of cumulative preference shares and subordinated instruments that are part of the additional capital may not exceed 50% of the share capital.

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3. Capital adequacy (continuing)

Policy of the Bank is to maintain a strong capital base so as to maintain the confidence of investors, creditors and the market and to sustain future development of the business. The Bank also has in mind the impact of the level of capital on shareholders' return and the need to maintain a balance between the higher returns and greater indebtedness and the advantages and security afforded by a sound capital position.

Regulated activities of the Bank in compliance with all externally imposed capital requirements during the period.

In 2012 the Council of the Central Bank adopted a new decision on the methodology of determining capital adequacy, which prescribes the manner of computation of capital need of banks to cover credit risk, operational risk, market risk and currency risk as well as the calculation of own funds. The calculation of capital requirements for credit risk is based on the so-called standardized approaches under Basel 2. Under this approach, the capital requirement for credit risk arising from receivables and off-balance sheet receivables is determined by the credit rating that has been assigned to the debtor or to the claim by a recognized foreign institutions which assess the credit risk, or based on the credit rating of the country in which the headquarters of the debtor is located.

In contrast to the credit risk, the calculation of capital requirements for currency risk, market risk and operational risk, does not make significant changes compared to the previous Decision. The new Decision on the Methodology for determining the adequacy of capital is in application from 01.07.2012.

3. Capital adequacy (continuing)

The Bank's share capital as of 31.12.2013 amounts to MKD 3,369,492 thousands (31.12.2012 amount of MKD 3,339,633)

No.	Description	2013	2012
	Share capital		
1	Paid and registered common and non-cumulative preference shares and premium on sale of such shares	3,199,999	3,200,003
1.1	Nominal value	2,893,690	2,893,694
1.1.1	Nominal value of ordinary shares	2,893,690	2,893,694
1.1.2	Nominal value of non-cumulative preference shares	-	-
1.2	Premium	306,309	306,309
1.2.1	Premium on ordinary shares	306,309	306,309
1.2.2	Premium of non-cumulative preference shares	-	-
2	Reserves and retained profit or loss	154,000	128,612
2.1	Reserve fund	129,882	128,612
2.2	Retained earnings restricted for distribution to shareholders	24,118	-
2.3	Accumulated loss from previous years	-	-
2.4	Current profit	-	-
3	Positions as a result of consolidation	-	-
3.1	Minority participation	-	-
3.2	Reserves of foreign exchange differences	-	-
3.3	Other differences	-	-
4	Deductions	4,052	12,508
4.1	Loss at the end of the year or the current loss	-	6,338
4.2	Repurchased shares	-	-
4.3	Intangible assets	4,052	6,170
4.4	Difference between the amount required and the impairment / allowance	-	-
4.5	The amount of unallocated impairment and special reserve as a result of accounting delay	-	-
4.6	Unrealized loss on equity securities available for sale	-	-
4.7	Other deductions	-	-
I	Core capital	3,349,947	3,316,107

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3. Capital adequacy (continuing)

No.	Description	2013	2012
	Additional capital		
5	Paid and subscribed cumulative preference shares and share premium	19,545	19,545
5.1	Nominal value	-	-
5.2	Premium	19,545	19,545
6	Revaluation reserves	-	3,981
7	Hybrid capital instruments	-	-
8	Subordinated instruments	-	-
9	Amount of subordinated instruments that may be part of the additional capital	-	-
II	ADDITIONAL CAPITAL I	19,545	23,526
10	Investments in capital of other banks and financial institutions amounting to over 10% of the capital of these institutions	-	-
11	Investment suborfinirani and hybrid capital instruments and other instruments of the institutions of ordinal number 10	-	-
12	Aggregate amount of investments in equity, subordinated and hybrid instruments and other instruments which exceeds 10% of (I+II)	-	-
13	Equity investments of insurance and reinsurance that exceeds 10% of the capital of such companies	-	-
14	Investments in financial instruments issued by insurance and reinsurance companies in which the Bank holds more than 10% of their capital	-	-
15	Amount exceeding the limits for investment in non-financial institutions	-	-
16	Positions as a result of consolidation (negative amounts)	-	-
III	DEDUCTIONS	-	-
IV	Core capital after deductions	3,349,947	3,316,107
V	Additional capital after deductions	19,545	23,526

3. Capital adequacy (continuing)

	Own assets		
No.	Description	2013	2012
VI	Core capital	3,349,947	3,316,107
VII	Additional capital I	19,545	23,526
V	OWN ASSETS	3,369,493	3,339,633
I	CREDIT RISK WEIGHTED ASSETS		
1	Credit risk assets weighted under the standardized approach	16,668,894	11,165,264
2	Capital requirement for credit risk coverage	1,333,512	893,221
II	CURRENCY RISK WEIGHTED ASSETS		
3	Aggregate foreign currency position	800,457	599,382
4	Net position for gold	-	-
5	Capital requirement for currency risk	64,037	47,951
6	Currency risk weighted assets	800,457	599,382
III	OPERATIONAL RISK WEIGHTED ASSETS		
7	Capital requirement for operational risk under the basic indicator approach	93,089	73,067
8	Capital requirement for operational risk under the standardized approach	-	-
9	Operational risk weighted assets	1,163,618	913,339
IV	OTHER RISK WEIGHTED ASSETS		
10	Capital requirement for the risk of changes in commodity prices	-	-
11	Capital requirement for market risks (11.1+11.2+11.3+11.4+11.5)	-	-
11.1	Capital requirement for the positioning risk (11.1+11.1.2+11.1.3+11.1.4)	-	-
11.1.1	Capital requirement for specific risk from investments in debt instruments	-	-
11.1.2	Capital for general risk from investments in debt instruments	-	-
11.1.3	Specific risk capital from investments in equity instruments	-	-
11.1.4	Covering capital - general risk of investing in equities	-	-
11.2	Capital requirement for the risk of settlement / delivery	-	-
11.3	Capital requirement for the risk of counterparty	-	-
11.4	Capital requirement for overcoming the limits of exposure	-	-
11.5	Capital requirement for market risk of positions in options	-	-
12	Capital requirement for other risks	-	-
13	Other risks weighted assets	-	-
V	RISK WEIGHTED ASSETS	18,632,969	12,677,985
14	Capital requirement for the risks	1,490,638	1,014,239
VI	OWN ASSETS	3,369,493	3,339,633
VII	CAPITAL ADEQUACY (VI/V)	18.08%	26.34%

4. Segment reporting

A Operating segments

In '000 MKD	Retail	Corporate	Investment banking	Other: Investments in securities	Other: Liquidity	Unallocated	Total
2013							
Net Interest income / (expense)	312,304	318,198	-	126,790	(14,593)	-	742,699
Net fees and commissions income / (expense)	60,277	79,886	-	-	(19,194)	-	120,969
Net trading income	-	-	-	-	(327)	-	(327)
Net income from other financial instruments carried at fair value	-	-	-	-	-	-	-
Other operating income	24,558	16,884	-	-	4,164	-	45,606
Income realized between segments	-	-	-	-	-	-	-
Total revenue by segment	397,139	414,968	-	126,790	(29,950)	-	908,947
Impairment of financial assets on a net basis	(39,930)	(42,762)	-	173	620		(81,899)
Loss on impairment of non-financial assets on a net basis	(8,545)	(10,942)	-	-	-	-	(19,487)
Depreciation	(39,705)	(50,849)	-	-	-	-	(90,554)
Restructuring costs	-	-	-	-	-	-	-
Cost of investment in property and equipment	-	-	-	-	-	-	-
Other expenses	(281,560)	(287,592)	-	-	-	-	(569,152)
Total expenditures by segment	(369,740)	(392,145)	-	173	620		(761,092)
Financial results by segment	27,399	22,823	-	126,963	(29,330)		147,855
Income tax							(1,864)
Profit / (loss) for the year							145,991
Total assets by segment	6,315,186	8,131,617	-	2,844,622	2,936,950	-	20,228,375
Unallocated assets by segment	-	-	-	-	-	-	-
Total assets	6,315,186	8,131,617	-	2,844,622	2,936,950	-	20,228,375
Total liabilities by segment	8,094,743	8,168,420	-	-	3,965,212		20,228,375
Unallocated liabilities by segment	-	-	-	-	-	-	-
Total liabilities	8,094,743	8,168,420	-	-	3,965,212	-	20,228,375

4. Segment reporting (continuing)

A Operating segments (continuing)

In '000 MKD	Retail	Corporate	Investment banking	Other: Investments in securities	Other: Liquidity	Unallocated	Total
2012							
Net Interest income / (expense)	220,258	185,944	-	102,180	(5,526)	-	502,856
Net fees and commissions income / (expense)	46,091	39,537	-	-	(14,160)	-	71,468
Net trading income	-	-	-	-	10,204	-	10,204
Net income from other financial instruments carried at fair value	-	-	-	-	-	-	-
Other operating income	3,626	4,109	-	-	3,748	20,101	31,584
Income realized between segments	-	-	-	-	-	-	-
Total revenue by segment	269,975	229,590	-	102,180	(5,734)	20,101	616,112
Impairment of financial assets on a net basis	(30,508)	(36,493)	-	-	1,435	-	(65,566)
Loss on impairment of non-financial assets on a net basis	-	-	-	-	-	(1,831)	(1,831)
Depreciation	-	-	-	-	-	(75,337)	(75,337)
Restructuring costs	-	-	-	-	-	-	-
Cost of investment in property and equipment	-	-	-	-	-	-	-
Other expenses	(238,943)	(201,097)	-	-	-	-	(440,040)
Total expenditures by segment	(269,451)	(237,590)	-	-	1,435	(77,168)	(582,774)
Financial results by segment	524	(8,000)	-	102,180	(4,299)	(57,067)	33,338
Income tax							(1,612)
Profit / (loss) for the year							31,726
Total assets by segment	4,442,842	5,644,062	-	5,953,293	1,918,895		17,959,092
Unallocated assets by segment	-	-	-	-	-	494	494
Total assets							17,959,586
Total liabilities by segment	5,822,120	5,623,911	-	3,075,832	-	-	14,521,863
Unallocated liabilities by segment	-	-	-	-	-	-	-
Total liabilities							14,521,863

4. Segment reporting (continuing)

B Concentration of total revenues and expenditures by major customers

In '000 MKD	Operating segments (list separately significant operating segments)								All other operating segments insignificant - Liquidity	Unallocated	Total by significant customer
	Retail	Corporate	Investments in securities								
2013 (current year)											
(bank should separately show total income and total expenditure by an important customer)											
Customer 1	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 2	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 3	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expense)	-	-	-	-	-	-	-	-	-	-	-
____________________________	-	-	-	-	-	-	-	-	-	-	-
____________________________	-	-	-	-	-	-	-	-	-	-	-
Total by segment	-	-	-	-	-	-	-	-	-	-	-
2012 (previous year)											
(bank should separately show total income and total expenditure by an important customer)											
Customer 1	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 2	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expenses)	-	-	-	-	-	-	-	-	-	-	-
Customer 3	-	-	-	-	-	-	-	-	-	-	-
Income	-	-	-	-	-	-	-	-	-	-	-
(expense)	-	-	-	-	-	-	-	-	-	-	-
____________________________	-	-	-	-	-	-	-	-	-	-	-
Total by segment	-	-	-	-	-	-	-	-	-	-	-

4. Segment reporting (continuing)

C Geographic areas

In '000 MKD	2013	Republic of Macedonia	European Union countries	Europe (rest)	Countries - OECD (excluding European countries - OECD)	Rest	Unallocated	Total
Total revenues		922,158	(34,600)	21,503	43	(158)	-	908,946
Total assets		19,328,331	493,681	318,680	87,683	-	-	20,228,375

In '000 MKD	2012	Republic of Macedonia	European Union countries	Europe (rest)	Countries - OECD (excluding European countries - OECD)	Rest	Unallocated	Total
Total revenues		624,984	(22,448)	13,952	(368)	(8)	-	616,112
Total assets		17,461,960	155,671	311,048	30,907	-	-	17,959,586

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A. Fair value of financial assets and financial liabilities

	2013		2012	
In '000 MKD	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	4,514,263	4,514,263	7,046,818	7,046,818
Trading assets	-	-	64,797	64,797
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	7,682	7,682	18,758	18,758
Loans and advances to customers	13,594,376	13,594,376	9,051,175	9,051,175
Investments in securities	1,147,915	1,147,915	859,981	859,981
Investments in associates	-	-	-	-
Receivables for income tax (current)	-	-	1,089	1,089
Other receivables	120,670	120,670	85,066	85,066
Pledged assets	-	-	-	-
Deferred tax assets	-	-	-	-
Financial liabilities				
Trading liabilities	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Deposits from banks	1,689,691	1,689,691	1,999,003	1,999,003
Deposits from customers	12,515,445	12,515,445	10,858,588	10,858,588
Issued debt securities	-	-	-	-
Borrowings	2,275,446	2,275,446	1,555,057	1,555,057
Sibordinated debt	-	-	-	-
Income tax liability (current)	373	373	-	-
Deferred tax liabilities	-	-	-	-
Other liabilites	150,725	150,725	97,861	97,861

Cash and cash equivalents

The carrying value of cash and cash equivalents is equal to their fair value as they include cash, nostro accounts and demand deposits and placements with NBRM maturing in the short term.

Loans and advances to banks

Loans and advances to banks are measured at amortized cost less provisions for impairment. Loans and receivables from banks have variable interest rate with a maturity of up to one year. Their carrying value represents fair value.

5 A. Fair value of financial assets and financial liabilities (continuing)

Loans and advances to customers

Loans and advances to customers are carried at amortized cost less provisions for impairment. The measurement of impairment of loans and receivables as a discount rate is the effective interest rate determined in accordance with contract. Loans and advances to customers in the credit portfolio of the bank for the most part have a variable interest rate, while 8% (2011:3.4%) have fixed interest rates that are measured at amortized cost, so that the carrying amount of total loans and advances represents the approximate fair value.

The estimated fair value of loans and advances from customers is determined by discounting the future cash flows which are estimated to be received. Estimated future cash flows to determine fair value are discounted at the current market interest rate.

Investments in securities

Investments in securities involve interest-bearing assets held to maturity and assets classified as available for sale are measured at fair value. The fair value of available for sale are based on published prices in an active market.

Equity investments classified as available for sale are stated at cost, because for them there is no active market and recent transaction that could be taken as evidence of fair value. The market for these securities is irregular and not sufficiently developed so that fair value can be reliably measured.

Other financial assets

The fair value of other financial assets include claims for income tax and other receivables due to their mostly short-term nature, approximatively represents their carrying value, while trading assets are carried at fair value.

Deposits from banks and customers

The fair value of demand deposits, deposits including non-interest bearing, is the amount repayable on demand. The fair value of term deposits with variable interest rates approximates their carrying value on the date of the balance sheet.

Borrowings

Carrying value of borrowings is not significantly different from their fair value primarily due to variable interest rates and their changes.

Other financial liabilities

The fair value of other financial liabilities due to their short term nature, approximate their carrying value.

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5 B. Levels of fair value

5 B.1. Levels of the fair value of financial assets and liabilities measured at fair values

In '000 MKD	Note	Level 1	Level 2	Level 3	Total
31 December 2013 (current year)					
Financial assets measured at fair value					
Trading assets	19	-	-	-	-
Financial assets at fair value through profit or loss designated as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investment securities available for sale	23.1	-	1,113,903	34,012	1,147,915
Total		-	1,113,903	34,012	1,147,915
Financial liabilities measured at fair value					
Trading liabilites	32	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21				
Total		-	-	-	-
31 December 2012 (previous year)					
Financial assets measured at fair value					
Trading assets	19	64,797	-	-	64,797
Financial assets at fair value through profit or loss designated as such upon initial recognition	20	-	-	-	-
Derivative assets held for risk management	21	-	-	-	-
Investment securities available for sale	23.1	130,833	695,117	34,031	859,981
Total		195,630	695,117	34,031	924,778
Financial liabilities measured at fair value					
Trading liabilites	32	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	33	-	-	-	-
Derivative liabilities held for risk management	21	-	-	-	-
Total		-	-	-	-

The Bank classifies all financial assets and financial liabilities measured at fair value using the fair value hierarchy, which shows the importance of the input parameters used in determining the fair value. The fair value hierarchy comprises the following levels:

a) Level 1 - The fair value is determined by direct application / reference to quoted market prices of financial instruments in active markets;

b) Level 2 – The fair value is determined by using valuation techniques that include inputs (inputs) from active markets, which may be direct or market prices, or indirect, ie derived from market prices;

c) Level 3 - The fair value is determined by using valuation techniques that include inputs (inputs) that can directly or indirectly be traced in active markets, that are not visible.

Investment securities available for sale in the amount of 1,113,903 comprising investment in government bonds in the amount of MKD 312,249 thousand (2012: MKD 130,833 thousand) and Treasury bills in the amount of MKD 801,654 thousand (2012: MKD 724,955 thousand) the amount of 34,012 MKD thousand (2012: MKD 34,031 one thousand) represents investment in own shares.

5 B. Levels of fair value (continuing)

B.2. Transfers between levels 1 and 2 of the fair value

In '000 MKD	Current year 2013		Previous year 2012	
	Transfers from Level 1 to Level 2	Transfers from Level 2 in Level 1	Transfers from Level 1 to Level 2	Transfers from Level 2 in Level 1
Financial assets measured at fair value				
Trading assets	-	-	-	-
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Investment securities available for sale	-	-	-	-
Total	-	-	-	-
Financial liabilities measured at fair value				
Trading liabilites	-	-	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Total				

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5 B. Levels of fair value (continuing)

B.3. Reconciliation of movements during the year in the fair values measured in Level 3

In '000 MKD	Trading assets	Financial assets at fair value through profit or loss designated as such upon initial recognition	Investment securities available for sale	Total assets	Trading liabilities	Financial liabilities at fair value through profit or loss designated as such upon initial recognition	Total liabilities
Balance at 1 January 2012 (previous year)	-	-	33,264	33,264	-	-	-
Gains / (losses) recognized in:							
- Income statement	-	-	(8)	(8)	-	-	-
- Other gains / (losses) during the period which are not recognized in the income statement	-	-	-	-	-	-	-
Purchase of financial instruments for the period	-	-	3,167	3,167	-	-	-
Sold financial instruments during the period	-	-	(2,392)	(2,392)	-	-	-
Financial instruments issued in the period	-	-	-	-	-	-	-
Paid financial instruments during the period	-	-	-	-	-	-	-
Financial instruments reclassified to / (from) Level 3	-	-	-	-	-	-	-
Reclassified to loans and receivables	-	-	-	-	-	-	-
Balance at 31 December 2012 (previous year)	-	-	34,031	34,031	-	-	-
Total gains / (losses) recognized in profit or loss on financial assets and liabilities held at 31 December 2012 (previous year)	-	-	(8)	(8)	-	-	-
Balance at 1 January 2013 (current year)	-	-	34,031	34,031	-	-	-
Gains / (losses) recognized in:							
- Income statement	-	-	(19)	(19)	-	-	-
- Other gains / (losses) during the period which are not recognized in the income statement					-	-	-
Purchase of financial instruments for the period	-	-	-	-	-	-	-
Sold financial instruments during the period	-	-	-	-	-	-	-
Financial instruments issued in the period	-	-	-	-	-	-	-
Paid financial instruments during the period	-	-	-	-	-	-	-
Financial instruments reclassified to / (from) Level 3	-	-	-	-	-	-	-
Reclassified to loans and receivables	-	-	-	-	-	-	-
Balance at 31 December 2013 (current year)	-	-	34,012	34,012	-	-	-
Total gains / (losses) recognized in profit or loss on financial assets and liabilities held at 31.12.2013	-	-	(19)	(19)	-	-	-

6 Net interest income / (expense)

A Structure of income and expense by type of financial instruments

In '000 MKD	Current year 2013	Previous year 2012
Interest income		
Cash and cash equivalents	108,766	82,884
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	-	-
Loans and advances to customers	994,833	680,790
Investments in securities	35,724	29,920
Other receivables	-	-
(Impairment losses on interest income, on a net basis)	14,887	17,050
Collected written-off interest	-	-
Total interest income	1,154,210	810,644
Interest expense		
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	7,877	5,510
Deposits from customers	356,188	256,633
Issued debt securities	-	-
Borrowings	47,406	45,640
Subordinated debt	-	-
Other liabilities	40	5
Total interest expense	411,511	307,788
Net income / (expense) Interest	742,699	502,856

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6 Net interest income / (expense) (continuing)

B Sectoral analysis of revenue and expense under section

In '000 MKD	Current year 2013	Previous year 2012
Interest income		
Non-financial companies	438,480	270,092
State	54,592	34,633
Non-profit institutions serving households	8	7
Banks	97,080	83,441
Other financial companies (nonbank)	-	-
Households	522,758	388,290
Non-residents	26,405	17,131
(Impairment losses on interest income, on a net basis)	14,887	17,050
Collected written-off interest	-	-
Total interest income	1,154,210	810,644
Interest expense		
Non-financial companies	45,101	26,095
State	-	-
Non-profit institutions serving households	14,863	7,885
Banks	32,294	16,153
Other financial companies (nonbank)	99,844	83,211
Households	215,135	172,664
Non-residents	4,274	1,780
Total interest expense	411,511	307,788
Net income / (expense) Interest	742,699	502,856

7 Net fees and commissions income / (expense)

A Structure of revenues and expenses from fees and commissions by type of financial activities

In '000 MKD	Current year 2013	Previous year 2012
Fee and commission income		
Lending	20,298	16,337
Payment operations		
domestic	45,728	30,415
foreign	53,682	41,255
Letters of credit and guarantees	20,182	10,391
Brokerage	-	-
Asset management	-	-
Commission and fiduciary activities	-	-
Issuing Securities	-	-
Other		
(revenues that represent more than 10% of total income from fees and commissions)	66,107	35,925
VISA - charge	2,485	2,759
Master	2,709	1,901
Fees for transactions on POS	31,773	10,923
One time charge for card operations	22,030	14,954
Fee for conversion	-	675
Fees for ATM transactions	4,025	2,792
Other operating revenues from fees and commissions	3,085	1,921
Total fee and commission income	205,997	134,323
Fee and commission expenses		
Lending	-	-
Payment operations		
domestic	21,552	16,175
foreign	9,341	8,217
Letters of credit and guarantees	363	79
Brokerage	-	-
Asset management	-	-
Commission and fiduciary activities	-	-
Issuing Securities	-	-
Other	53,772	38,384
(Other expenses that are more than 10% of total fee and commission)		
VISA – charge	22,745	19,270
Master - charge	29,293	18,096
Miscellaneous expenditure on fees and commissions	1,734	1,018
Total fee and commission expenses	85,028	62,855
Net fee and commission income / (expense)	120.969	71.468

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7 Net fees and commissions income / (expense) (continuing)

B Sectoral analysis of revenue and expenditure of fees and commissions

In '000 MKD	Current year 2013	Previous year 2012
Fee and commission income		
Non-financial companies	136,723	79,776
State	18	22
Non-profit institutions serving households	902	498
Banks	5,753	2,769
Other financial companies (nonbank)	174	-
Households	44,345	33,316
Non-residents	18,082	17,942
Total fee and commission income	205,997	134,323
Fee and commission expenses		
Non-financial companies	-	-
State	-	-
Non-profit institutions serving households	-	-
Banks	15,026	10,555
Other financial companies (nonbank)	11,723	10,997
Households	-	-
Non-residents	58,279	41,303
Total fee and commission expenses	85,028	62,855
Net fee and commission income / (expense)	120,969	71,468

8 Net trading income

In '000 MKD	Current year 2013	Previous year 2012
Trading assets		
Profit / (loss) from changes in the fair value of debt securities on a net basis		
Realised	-	-
Unrealised	(436)	568
Profit / (loss) from changes in fair value of equity instruments, on a net basis		
Realised	-	-
Unrealised	-	-
Dividend income from trading assets	-	-
Interest income from trading assets	109	9,636
Trading liabilities		
Profit / (loss) from changes in the fair value of debt securities on a net basis		
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of deposits for trading on a net basis		
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of other financial liabilities for trading on a net basis		
Realised	-	-
Unrealised	-	-
Interest expense on financial liabilities held for trading	-	-
Profit / (loss) from changes in fair value of derivatives held for trading, on a net basis		
Realised	-	-
Unrealised	-	-
Net trading income	(327)	10,204

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9 Net income from other financial instruments carried at fair value

In '000 MKD	Current year 2013	Previous year 2012
Financial assets at fair value through profit or loss designated as such upon initial recognition	-	-
Profit / (loss) from changes in the fair value of debt securities on a net basis	-	-
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of equity instruments, on a net basis	-	-
Realised	-	-
Unrealised	-	-
Dividend income from financial assets at fair value through profit or loss	-	-
Profit / (loss) from changes in fair value of loans and receivables at fair value through the income statement on a net basis	-	-
Realised	-	-
Unrealised	-	-
Financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-
Profit / (loss) from changes in the fair value of debt securities on a net basis	-	-
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of deposits at fair value through the income statement on a net basis	-	-
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of borrowings at fair value through the income statement on a net basis	-	-
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of other financial assets at fair value through the income statement on a net basis	-	-
Realised	-	-
Unrealised	-	-
Profit / (loss) from changes in fair value of derivatives held for risk management at fair value through the income statement on a net basis	-	-
Realised		
Unrealised	-	-
Net income from other financial instruments carried at fair value	-	-

On 31 December 2013 The Bank has no net income from other financial instruments recorded at fair value (31 December 2012: nil).

10 Net income / (expense) from foreign exchange differences

In '000 MKD	Current year 2013	Previous year 2012
Realized gains / (losses) from exchange differences, on a net basis	23,223	23,719
Unrealized gains / (losses) from exchange differences, on a net basis		
Foreign exchange differences on impairment funds on a net basis	103	(604)
Other exchange differences, on a net basis	5,872	(2,440)
Foreign exchange gains of allowance for off-balance sheet exposures on a net basis	1	(574)
Net income / (expense) from exchange differences	29,199	20,101

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11 Other operating income

In '000 MKD	Current year 2013	Previous year 2012
Gain on sale of assets held for sale	-	-
Dividend from equity instruments available for sale	4,165	3,815
Net income from investments in subsidiaries and associates	-	-
Capital gains from the sale of:		
Property and equipment	493	57
Intangible assets	-	-
Foreclosed assets	143	-
Non-current assets held for sale and disposal group		-
Rent income	842	286
Income derived from litigation	-	-
Collected written-off claims	757	157
Reversal of allowance and provision for:		
off-balance sheet credit exposures	-	-
potential liabilities arising from litigation	-	-
pensions and other employee benefits	-	-
restructuring	-	-
eroneous contracts	-	-
other provisions	-	-
(Income -10% of total other operating income):		
Income generated from the sale of gold coins	-	2,697
Income from insurance charged on the basis of damage	250	382
Penalties for unrealised constructions	-	682
Income from sale of bills of exchange	581	402
Reimbursement of telephone expenses	524	380
Mastercard - implementation of pay pass	5,242	-
Income from previous years	1,253	475
Income from loans closed before maturity	1,367	209
Other Other operating income	790	1,941
Total operating income	16,407	11,483

12 Impairment of financial assets on a net basis

In '000 MKD	Loans and advances to banks	Loans and advances to customers	Investments in financial assets available for sale	Investments in financial assets held to maturity	Cash and cash equivalents	Receivables for fees and commissions	Other receivables	Total
2013 (current year)								
Impairment on an individual basis								
Additional impairment	-	147,627	268	-	241	299	3,690	152,125
(Reversal of impairment)	(184)	(68,108)	(441)	-	(677)	(366)	(450)	(70,226)
Impairment on a group basis								
Additional impairment	-	-	-	-		-	-	-
(Reversal of impairment)	-	-	-	-	-	-	-	-
Total impairment of financial assets on a net basis	(184)	79,519	(173)	-	(436)	(67)	3,240	81,899
2012 (previous year)								
Impairment on an individual basis	-	-	-	-	-	-	-	-
Additional impairment	-	132,943	9	-	2,012	260	5,564	140,788
(Reversal of impairment)	-	(71,487)	-	-	(3,431)	(289)	(15)	(75,222)
Impairment on a group basis								
Additional impairment	-	-	-	-	-	-	-	-
(Reversal of impairment)	-	-	-	-	-	-	-	-
Total impairment of financial assets on a net basis	-	-	-	-	-	-	-	-
Impairment on an individual basis	-	61,456	9	-	(1,419)	(29)	5,549	65,566

13 Loss on impairment of non-financial assets, net

In '000 MKD	Property and equipment	Intangible assets	Foreclosed assets	Non-current assets held for sale and disposal group	Other non-financial assets	Goodwill	Total
2013 (current year)							
Additional impairment losses	-	-	19,487	-	-	-	19,487
(Reversal of impairment loss) (Effect of exchange rate differences)	-	-		-	-	-	-
Total impairment of non-financial assets on a net basis	-	-	19,487	-	-	-	19,487
2012 (previous year)							
Additional impairment losses	-	-	1,831	-	-	-	1,831
(Reversal of impairment loss) (Effect of exchange rate differences)	-	-	-	-	-	-	-
Total impairment of non-financial assets on a net basis	-	-	1,831	-	-	-	1,831

14 Personnel expenses

In '000 MKD	Current year 2013	Previous year 2012
Short-term employee benefits		
Salaries	197,636	138,450
Mandatory contributions for social and health insurance	67,347	48,392
Short-term paid leave	-	-
Costs for temporary employment	-	-
Share of profits and awards	-	-
Non-monetary benefits	461	450
	265,444	187,292
Use after termination of employment		
Contributions to pension plans to defined contribution	-	-
Benefits at retirement	-	-
Increase in pension obligation for defined benefit plans	-	-
Increase in liability for other long-term benefits	-	-
Other benefits upon termination of employment	-	-
Benefits for termination of employment	-	-
Payments to employees based on shares settled with equity instruments	-	-
Payments to employees based on shares settled with cash	-	-
Other	3,794	5,369
(staff costs representing more than 10% of total staff costs)		
Employee expenses on the basis of collective agreements	-	-
Total personnel expenses	269,238	192,661

15 Amortization

In '000 MKD	Current year 2013	Previous year 2012
Internally developed software	-	-
Software purchased from external suppliers	20,125	17,509
Other internally developed intangible assets	-	-
Other intangible assets	2,798	4,843
Leasehold improvements	-	-
	22,923	22,352
Buildings	14,444	12,303
Vehicles	4,865	1,485
Furniture and office equipment	6,037	5,483
Other equipment	33,684	28,744
Other items of property and equipment	1,937	1,654
Leasehold improvements	6,664	3,316
	67,631	52,985
Total amortization	90,554	75,337

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16 Other operating expense

In '000 MKD	Current year 2013	Previous year 2012
Loss from sale of assets held for sale	-	-
Cost of software license	-	-
Premiums for deposit insurance	44,472	29,754
Insurance premiums for property and employees	4,455	3,622
Materials and services	150,647	132,281
Administrative and marketing expenses	33,119	26,797
Other taxes and contributions	3,182	3,157
Rent expense	33,407	26,489
Costs of litigation	986	753
Provision for off-balance sheet exposures on a net basis	2,032	3,466
Provision for pension and other employee benefits, on a net basis	4,713	4,151
Provisions for contingent liabilities arising from litigation, on a net basis	-	-
Other provisions, on a net basis:	-	
restructuring	-	-
eroneous contracts	-	-
other provisions	-	-
Loss of sale of:	-	
Property and equipment	14	-
Intangible assets	-	-
Foreclosed assets	-	-
Non-current assets held for sale and disposal group	-	-
Other	22,887	16,909
(10% of total other operating expenses)		
Total other operating expenses	299,914	247,379

17 Income tax

A Expense / income for current and deferred tax

In '000 MKD	2013	2012
Current income tax		
Expense / (income) for the current tax profit for the year	1,864	1,612
Adjustments for prior years	-	-
Benefits from previously unrecognized tax losses, tax credits and temporary differences from previous years	-	-
Changes in accounting policies and errors	-	-
Other	-	-
	1,864	1,612
Deferred income tax		
Deferred tax arising from temporary differences for the year	-	-
Recognition of previously unrecognized tax losses	-	-
Change in tax rate	-	-
Introducing new taxes	-	-
Benefits from previously unrecognized tax losses, tax credits and temporary differences from previous years	-	-
Other	-	-
	-	-
Total expense / (recovery) for income tax	1,864	1,612

In '000 MKD	Current year 2013	Previous year 2012
Current income tax		
Recognised in the income statement	1,864	1,612
Recognised in equity	-	-
	1,864	1,612
Deferred income tax		
Recognised in the income statement	-	-
Recognised in equity	-	-
Total expense / (recovery) for income tax	1,864	1,612

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17 Income tax (continuing)

B Reconciliation between the average effective tax rate and the applicable tax rate

	In %	In '000 MKD	In %	In '000 MKD
	Current year 2013		Previous year 2012	
Profit / (loss) before taxation		147,855		33,338
Income tax in accordance with the applicable tax rate	-	-	-	-
Effect of different tax rates in other countries	-	-	-	-
Adjustments for prior years and changes in tax rate	-	-	-	-
Taxable income abroad	-	-	-	-
Expenses non-deductible for tax purposes	1.26%	(1,864)	4.84%	(1,612)
Tax exempt income	-	-	-	-
Tax exemption unrecognized in Income statement	-	-	-	-
Recognition of previously unrecognized tax losses	-	-	-	-
Benefits from previously unrecognized tax losses, tax credits and temporary differences from previous years	-	-	-	-
Changes in deferred tax	-	-	-	-
Other	-	-	-	-
Total expense / (recovery) of income tax	-	(1,864)	-	(1,612)
Average effective tax rate	1.26%	-	4.84%	-

18 Cash and cash equivalents

In '000 MKD	Current year 2013	Previous year 2012
Cash in hand	506,509	222,212
Accounts and deposits with the Central Bank, except compulsory deposits in foreign currency	1,352,569	1,010,667
Current accounts and transaction deposits with foreign banks	406,574	147,169
Current accounts and transaction deposits with domestic banks	110	295
Treasury bills that could be traded on the secondary market	1,696,706	4,296,028
Government Bills which can be traded on the secondary market	-	766,518
Time deposits with maturity up to three months	-	-
Other short-term highly liquid assets	-	-
Receivables based on interest	-	484
(Impairment)	(15)	(451)
Included in cash and cash equivalents for the purposes of the cash flow	3,962,453	6,442,922
Compulsory deposits in foreign currency	551,810	603,896
Restricted deposits	-	-
(Impairment)	-	-
Total	4,514,263	7,046,818

In '000 MKD	Current year 2013	Previous year 2012
Movement in impairment		
Balance at 1 January	451	244
Balance at 30 September from Ziraat Bank	-	194
Additional impairment	241	2,012
(release of impairment)	(677)	(3,431)
(foreclosed assets)	-	-
Effect of exchange rate differences	-	1,432
(written off receivables)	-	-
Balance at 31 December	15	451

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18 Cash and cash equivalents (continuing)

On December 31, 2013 cash and cash equivalents include the amount of MKD 882,140 thousand (2012: MKD 871,187 thousand) as obligatory reserve in Denars and amount of MKD 551,810 thousand (2012: MKD 603,896 thousand) as obligatory reserve in foreign currency. The funds from the reserve in foreign currency are not available for use in the daily operations of the Bank.

Part of treasury bills amounting to MKD 300,000 thousand in 2012 are given as collateral for repurchase agreement with NBRM (see note 36 Borrowings).

19 Trading assets

A Structure of trading assets by type of financial instrument

In '000 MKD	Current year 2013	Previous year 2012
Trading securities		
Debt trading securities		
Treasury bills for trading	-	-
Treasury bills for trading	-	-
Other instruments on the money market	-	-
Government bonds	-	64,797
Corporate bonds	-	-
Other debt instruments	-	-
	-	64,797
Listed		64,797
Non-listed	-	-
Equity instruments for trading	-	-
Equity instruments issued by banks	-	-
Other equity instruments		-
	-	-
Listed	-	-
Non-listed	-	-
Trading derivatives		
Agreements dependent on changes in the interest rate	-	-
Contracts subject to exchange rate fluctuations	-	-
Agreements dependent on changes in the price of securities	-	-
Other contracts that meet the criteria of IAS 39	-	-
Total trading assets	-	64,797

19 Trading assets (continuing)

B. Reclassified trading assets

B.1 Condition of reclassified trading assets

		Current year 2013		Previous year 2012	
In '000 MKD	reclassified amount (at the date of reclassification)	Carrying amount at 31.12.2013 (current year)	fair value on 31.12.2013 (current year)	Carrying amount at 31.12.2012 (previous year)	fair value on 31.12.2012 (previous year)
Trading assets reclassified in 2013 (current year) in:					
- Financial assets available for sale	-	-	-	-	-
- Loans and advances to banks	-	-	-	-	-
- Loans and advances to customers	-	-	-	-	-
Trading assets reclassified in 2012 (previous year) in:					
- Financial assets available for sale	-	-	-	-	-
- Loans and advances to banks	-	-	-	-	-
- Loans and advances to customers	-	-	-	-	-
	-	-	-	-	-

B.2 Gains and losses on reclasified trading assets

	Reclassified in 2013 (the year)		Reclassified in 2012 (previous year)			
In '000 MKD	Income Statement 2013 (current year)	Other gains / (losses) in 2013	Income Statement 2013	Other gains / (losses) in 2013	Income Statement 2012	Other gains / (losses) in 2012
Period before reclassification	-	-	-	-	-	-
Trading assets reclassified to financial assets available for sale	-	-	-	-	-	-
- net trading income	-	-	-	-	-	-
Trading assets reclassified to loans and advances to banks	-	-	-	-	-	-
- net trading income	-	-	-	-	-	-
Trading assets reclassified to loans and advances to customers	-	-	-	-	-	-
- net trading income						
	-	-	-	-	-	-
Period after reclassification						
Trading assets reclassified to financial assets Available for sale - interest income - impairment of financial assets on a net basis - changes in the fair value on net basis Trading assets reclassified to loans and advances to banks - interest income - impairment of financial assets on a net basis Trading assets reclassified to loans and advances to customers - interest income - impairment of financial assets on a net basis	-	-	-	-	-	-

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19 Trading assets (continuing)

B.3 Gain or loss that would be recognized in the income statement If the funds were reclassified

In '000 MKD	Reclasified in 2013 (current year)	Reclasified in 2012 (previous year)	
	Income statement 2013	Income statement 2013	Income statement 2012
Trading assets reclassified to financial assets available for sale			
- net trading income	-	-	-
Trading assets reclassified to loans and advances to banks			
- net trading income	-	-	-
Trading assets reclassified to loans and advances to customers			
- net trading income	-	-	-
	-	-	-

20 Financial assets at fair value through profit or loss designated as such upon initial recognition

In '000 MKD	Current year 2013	Previous year 2012
Debt Securities		
Treasury bills	-	-
Government bills	-	-
Other instruments on the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Listed	-	-
Un-listed	-	-
Equity instruments		
Equity instruments issued by banks	-	-
Other equity instruments	-	-
	-	-
Listed	-	-
Un-listed	-	-
Loans and advances to banks	-	-
Loans and advances to other customers	-	-
Total financial assets at fair value through profit or loss designated as such upon initial recognition	-	-

On December 31, 2013 (2012: nil), the Bank has no financial assets at fair value through profit or loss designated as such upon initial recognition.

21 Derivative assets and liabilities held for risk management

In '000 MKD	current year 2013		previous year 2012	
	derivative assets	derivative liabilities	derivative assets	derivative liabilities
A. Derivatives for hedging / derivatives held for risk management				
A.1 by the type of the variable	-	-	-	-
Derivatives held for risk management	-	-	-	-
Agreements dependent on changes in the interest rate	-	-	-	-
Contracts subject to exchange rate fluctuations	-	-	-	-
Agreements dependent on changes in the price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
Total derivatives held for risk management	-	-	-	-
A.1 by the type of protection from risk	-	-	-	-
Hedge of the fair value	-	-	-	-
Hedge of cash flows	-	-	-	-
Hedges of net investments in foreign operations	-	-	-	-
Total derivatives held for risk management	-	-	-	-
B Embedded derivatives	-	-	-	-
Agreements dependent on changes in the interest rate	-	-	-	-
Contracts subject to exchange rate fluctuations				
Agreements dependent on changes in the price of securities	-	-	-	-
Other contracts that meet the criteria of IAS 39	-	-	-	-
Total embedded derivatives	-	-	-	-
Total derivatives held for risk management	-	-	-	-

On December 31, 2013 (2012: nil), the Bank has no derivative assets and liabilities held for managing risks.

22 Loans and receivables

22.1 Loans and advances to banks

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long tearm	Short term	Long tearm
Loans to banks				
Domestic	-	-	-	-
Foreign	-	-	-	-
Term deposits - maturity over three months				
Domestic	-	-	-	-
Foreign	-	-	-	-
Repo				
Domestic	-	-	-	-
Foreign	-	-	-	-
Other receivables				
Domestic	-	-	-	-
Foreign	-	7,682	-	18,947
Interest receivables	-	-	-	-
Current maturity	-	-	18,947	(18,947)
Total loans and advances to banks before impairment	-	7,682	18,947	-
(Impairment)	-	-	(189)	-
Total loans and advances to banks less impairment	-	7,682	18,758	-

In '000 MKD		
Movement in impairment	2013	2012
Balance at 1 January	189	193
Balance at 30 September from Ziraat Bank	-	-
Additional impairment	-	-
(Reversal of impairment)	(184)	-
(Foreclosed assets)	-	-
Effect of exchange rate differences	(5)	(4)
(written off receivables)	-	-
Balance at 31 December	-	189

Other deposits include deposits in Deutsche Bank AG in the amount of MKD 7,682 (2012: MKD 8.030) as collateral for transactions with MASTER credit cards and deposit in Raiffeisen Zentralbank Oesterreich AG, which has been released and is in the amount of zero MKD (2012: MKD 10,917 thousand) as collateral for transactions with VISA credit cards. These resources are not available for use in the daily operations of the Bank.

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22 Loans and receivables (continuing)

22.2 Loans and receivables from customers

A Structure of loans and receivables from customers by type of borrower

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long tearm	Short term	Long tearm
Non-financial companies				
receivables for principal	2,046,737	5,387,885	925,220	3,508,399
Interest receivables	19,447	-	13,072	-
State				
receivables for principal	-	65,083	-	90,355
Interest receivables	1,483	-	2,019	-
Non-profit institutions serving households				
receivables for principal	526	-	205	-
Interest receivables	1	-	1	-
Financial companies, except banks				
receivables for principal	-	-	-	-
Interest receivables	-	-	-	-
Households				
receivables for principal				
Housing loans	3,090	413,256	6,289	342,221
Consumer loans	154,712	4,423,508	137,836	3,361,207
Vehicle loans	21,017	23,950	28,477	45,452
Mortgage loans	-	-	-	-
Credit cards	576,536	5,518	332,361	888
Other loans	325,325	236,865	196,893	172,465
Interest receivables	23,029	-	18,049	-
Non-residents, except banks				
receivables for principal	153,809	186,975	-	266,188
Interest receivables	2,695	-	1,217	-
Current maturity	2,943,756	(2,943,756)	1,747,890	(1,747,890)
Total loans before impairment	3,328,407	10,743,040	3,409,529	6,039,285
(impairment)	(348,486)	(128,585)	(310,882)	(86,757)
Total loans net of impairment	2,979,921	10,614,455	3,098,647	5,952,528

22 Loans and receivables (continuing)

22.2 Loans and receivables from customers (continuing)

A Structure of loans and receivables from customers by type of borrower (continuing)

Movement in impairment - individually	2013	2012
Balance at 1 January	397,639	293,266
Balance at 30 September from Ziraat Bank	-	43,568
Additional impairment	147,627	132,943
(Reversal of impairment)	(68,108)	(71,487)
Effect of exchange rate differences	(87)	(651)
(written off receivables)	-	-
Balance at 31 December	477,071	397,639
Movement in provisions - group basis		
Balance at 1 January	-	-
Additional impairment	-	-
(Reversal of impairment)	-	-
(foreclosed assets)	-	-
Effect of exchange rate differences	-	-
(written off receivables)	-	-
Balance at 31 December	-	-
Total impairment of loans and advances to customers	477,071	397,639

B Structure of loans and advances to customers by collateral type

In ‘000 MKD	2013	2012
(current carrying value of loans and receivables)		
First-rate security instruments		
cash deposits (the depot and / or limited accounts)	123,644	167,878
government securities	-	-
unconditional state guarantee	-	-
bank guarantees	-	-
Guarantees of insurance companies and insurance policies	-	-
Corporate guarantees (other than bank and insurance companies)	774,334	488,368
Guarantees of individuals	1,230,107	766,786
Mortgage on property		
private property (apartments, houses)	2,014,189	1,547,672
Business premises	3,181,535	1,951,071
Pledge of movables	688,992	492,864
Other types of collateral	571,353	998,218
Unsecured	5,010,222	2,638,318
Total loans and advances to customers net of impairment	13,594,376	9,051,175

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23 Investments in securities

23.1 Investments in financial assets available for sale

A Structure of investments in financial assets available for sale by type of financial instrument

In '000 MKD	Current year 2013	Previous year 2012
Debt Securities		
Treasury bills	-	-
Government notes	801,654	695,117
Other instruments on the money market	-	-
Government bonds	312,249	130,833
Corporate bonds	-	-
Other debt instruments	-	-
	1,113,903	825,950
Listed	-	130,833
Un-listed	1,113,903	695,117
Equity instruments		
Equity instruments issued by banks	-	-
Other equity instruments	34,312	34,506
	34,312	34,506
Listed	-	-
Un-listed	34,312	34,506
Total investment in financial instruments available for sale before impairment	1,148,215	860,456
(Impairment)	(300)	(475)
Total investment in financial instruments available for sale net of impairment	1,147,915	859,981

In '000 MKD	Current year 2013	Previous year 2012
Movement in impairment		
Balance at 1 January	475	467
Balance at 30 September from Ziraat Bank	-	-
Impairment losses for the year		
Additiona impairment	268	9
(Reversal of impairment)	(441)	-
(Foreclsed assets)	-	-
Effect of exchange rate differences	(2)	(1)
(written off receivables)	-	-
Balance at 31 December	300	475

23 Investments in securities (continuing)

23.1 Investments in financial assets available for sale (continuing)

B. Reclassified financial assets available for sale

B.1 Balance of reclasified available for sale

In '000 MKD	reclassified amount (at the date of reclassification)	Current year 2013 Carrying amount at 31.12.2013	Current year 2013 Fair value at 31.12.2013	Previous year 2012 Carrying amount at 31.12.2012	Previous year 2012 Fair value at 31.12.2012
Assets available for sale reclassified in 2013:					
- Loans and advances to banks	-	-	-	-	-
- Loans and advances to customers	-	-	-	-	-
	-	-	-	-	-
Assets available for sale reclassified in 2012:					
- Loans and advances to banks	-	-	-	-	-
- Loans and advances to customers	-	-	-	-	-
	-	-	-	-	-

B.2 Gains and losses from reclasified assets available for sale

In '000 MKD	Income statement 2013	Other gains / (losses) in 2013	Income statement 2012	Other gains / (losses) in 2012
Period before reclassification				
Assets available for sale reclassified to loans and advances to banks				
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- changes in the fair value of on net basis	-	-	-	-
Assets available for sale reclassified to loans and advances to customers				
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- changes in the fair value of on net basis	-	-	-	-
Period after reclassification				
Assets available for sale reclassified to loans and advances to banks	-	-	-	-
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- amount unwinded from revaluation reserve				
Assets available for sale reclassified to loans and advances to customers	-	-	-	-
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- amount unwinded from revaluation reserve				
	-	-	-	-

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23 Investments in securities (continuing)

23.1 Investments in securities (continuing)

B. Reclassified financial assets available for sale (continuing)

B.3 Gain or loss that would be recognized If the funds were reclassified

In '000 MKD	Income statement 2013	Other gains / (losses) in 2013	Income statement 2012	Other gains / (losses) in 2012
	Current year		Previous year	
Assets available for sale reclassified to loans and advances to banks	-	-	-	-
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
Assets available for sale reclassified to loans and advances to customers	-	-	-	-
- interest income	-	-	-	-
- impairment of financial assets on a net basis	-	-	-	-
- changes in the fair value on net basis	-	-	-	-
	-	-	-	-

The total investment of the Bank in debt securities amounted to MKD 1,113,903 thousand of which 801,654 is equity investments in government bills and the amount of MKD 312,249 thousand is an investment in bonds issued by the state (2012: MKD 825,950 thousand of which: MKD 695,117 thousand in government bills and stakes in Eurobond amounting to MKD 130,833 thousand).

Investments in equity instruments available for sale in the amount of MKD 34,312 thousand include investments in securities which the Bank acquired on the basis of the founding venture capital in the financial and non-financial companies.

Given that there is no active market for un-listed investments, and lack of recent transactions that could be applied in determining the fair value, they are stated at cost, less impairment.

23 Investments in securities (continuing)

23.2 Investments in financial assets held to maturity

In '000 MKD	Current year 2013	Previous year 2012
Debt Securities		
Treasury bills	-	-
Government notes	-	-
Other instruments on the money market	-	-
Government bonds	-	-
Corporate bonds	-	-
Other debt instruments	-	-
	-	-
Listed	-	-
Un-listed	-	-
Total investment in financial instruments held to maturity before impairment	-	-
(Impairment)	-	-
Total investment in financial instruments held to maturity less impairment	-	-

In '000 MKD	2013	2012
Movement in impairment		
Balance at 1 January	-	-
Impairment losses for the year		
Additional impairment	-	-
(Reversal of impairment)	-	-
(Foreclosed assets)	-	-
Effect of exchange rate differences	-	-
(written off receivables)	-	-
Balance at 31 December	-	-

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24 Investments in subsidiaries and associates

A Percentage of the bank's subsidiaries and associates

		In %			
		Percentage of participation in ownership		Percentage of voting rights	
Name of subsidiaries and associates	Country	Current year 2013	Previous year 2012	Current year 2013	Previous year 2012
		-	-	-	-

B Financial information on associates - 100 percent

			In '000 MKD		
Name of subsidiaries and associates	Total assets	Total liabilities	Total capital and reserves	Revenues	Profit / (loss) for the year
Current year 2013					
	-	-	-	-	-
Previous year 2012					
	-	-	-	-	-

On 31 December 2013 the Bank has investments in subsidiaries and associates.

25 Other receivabels

In '000 MKD	2013	2012
Trade receivables	1,869	1,420
Prepayments	11,950	10,979
Accrued deferred income	-	-
Fees and commissions receivables	4,710	3,903
Receivables from employees	126	1,077
Prepayments for intangible assets	10,570	9,023
Advances for property and equipment	-	-
(receivables that are more than 10% of other receivables)		
Numismatics	-	-
Master	30,507	25,248
Visa	43,917	18,722
Western Union	1,328	1,494
Inventories	13,040	5,119
Receivables from court fees	16,776	13,167
Other	3,971	9,844
Total other receivables before impairment	138,764	99,996
(Impairment)	(18,094)	(14,930)
Total other receivables net of impairment	120,670	85,066

In '000 MKD	2013	2012
Movement in impairment		
Balance at 1 January	14,930	9,210
Balance at 30 September from Ziraat Bank	-	372
Impairment losses for the year		
Additiona impairment	3,989	5,824
(Release of impairment)	(816)	(304)
(Foreclosed assets)	-	-
Effect of exchange rate differences	(9)	(172)
(Written off receivables)	-	-
Balance at 31 December	18,094	14,930

26 Pledged assets

In '000 MKD	2013	2012
Debt Securities		
Equity instruments	-	-
Total pledged assets	-	-

On 31 December 2013 the Bank has no pledged assets.

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27. Foreclosed assets

In '000 MKD	Land	Buildings	Equipment	Apartments	Other valuables	Total
Initial carrying amount						
Balance at 1 January 2012 (previous year)	36,046	77,181	2,138	23,827	4,116	143,308
foreclosed in the year	18,622	-	-	1,356	1,891	21,869
(sold in the year)	-	-	-	-	-	-
(transfer to property and equipment)	-	-	-	-	(14)	(14)
Balance at 31 December 2012 (previous year)	54,668	77,181	2,138	25,183	5,993	165,163
Balance at 1 January 2013 (current year)	54,668	77,181	2,138	25,183	5,993	165,163
foreclosed in the year	4,933	-	-	-		4,933
(sold in the year)	-	-	-	-	(4,304)	(4,304)
(transfer to property and equipment)	-	-	-	-	-	-
Balance at 31 December 2013 (current year)	59,601	77,181	2,138	25,183	1,689	165,792
Impairment						
Balance at 1 January 2012 (previous year)	1,640	3,680	-	7,861	245	13,426
impairment loss during the year	633	630	167	-	402	1,832
(sold in the year)	-	-	-	-	-	-
(transfer to property and equipment)	-	-	-	-	-	-
Balance at 31 December 2012 (previous year)	2,273	4,310	167	7,861	647	15,258
Balance at 1 January 2013 (current year)	2,273	4,310	167	7,861	647	15,258
impairment loss during the year	2,622	13,824	62	2,394	585	19,487
(sold in the year)	-	-	-	-	-	-
(transfer to property and equipment)	-	-	-	-	(981)	(981)
Balance at 31 December 2013 (current year)	4,895	18,134	229	10,255	251	33,765
Current carrying amount						
at 1 january 2012 (previous year)	34,406	73,501	2,138	15,966	3,871	129,882
at 31 December 2012 (previous year)	52,395	72,871	1,971	17,322	5,346	149,905
at 31 December 2013 (current year)	54,706	59,047	1,908	14,928	1,438	132,027

In 2013, the Bank has foreclosed one real estate. (2012, the Bank foreclosed 9 assets, 4 immovable and 5 movable properties).

The total fair value of foreclosed property is MKD 4,993 thousand (2012: MKD 175.530 thousand).

28 Intangible assets

A Reconciliation of present carrying amount

In '000 MKD	Internally developed software	Software purchased from external suppliers	Other internally developed intangible assets	Other intangibe assets	Leasehold im-provements	Uncontrolling participation	Total
Cost							
Balance at 1 January 2012	-	78,846	-	43,640	-	-	122,486
Balance at 30 September 2012 from Ziraat Bank		8,422	-	6,202	-	-	14,624
increases through new purchases	-	4,566	-	1,352	5,381	-	11,299
increases through internal development	-	-	-	-	-	-	-
increases through business combinations	-	-	-	-	-	-	-
(sale and write-off)	-	(2,494)	-	(2,388)	-	-	(4,882)
(disposals through business combinations)	-	-	-	-	-	-	-
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-
Balance at 31 December 2012	-	89,340	-	48,806	5,381	-	143,527
Balance at 1 January 2013	-	89,340	-	48,806	5,381	-	143,527
increases through new purchases	-	13,726	-	679	2,916	-	17,321
increases through internal development	-	-	-	-		-	-
increases through business combinations	-	-	-	-		-	-
(sale and write-off)	-	-	-	-		-	-
(disposals through business combinations)	-	-	-	-		-	-
(Transfer to non-current assets held for sale)	-	-	-	-		-	-
transfer from non-current assets held for sale	-	-	-	-		-	-
Balance at 31 December 2013	-	103,066	-	49,485	8,297	-	160,848
Amortization							
Balance at 1 January 2012	-	46,787	-	37,810	-	-	84,597
Balance at 30 September 2012 from Ziraat Bank		4,928	-	2,370	-	-	7,298
depreciation for the year	-	16,911	-	4,843	598	-	22,352
impairment loss during the year	-	-	-	-	-	-	-
release of the impairment loss during the year	-	-	-	-	-	-	-
sale and write-off	-	(2,494)	-	(2,388)	-	-	(4,882)
Balance at 31 December 2012	-	66,132	-	42,635	598	-	109,365
Balance at 1 January 2013	-	66,132	-	42,635	598	-	109,365
depreciation for the year	-	18,972		2,798	1,153		22,923
impairment loss during the year	-	-	-	-	-	-	-
release of the impairment loss during the year	-	-	-	-	-	-	-
sale and write-off	-						
Balance at 31 December 2013	-	85,104		45,433	1,751		132,288
Current carrying amount At 1 January 2012	-	32,059	-	5,830	-	-	37,889
at 31 December 2012	-	23,208	-	6,171	4,783	-	34,162
at 31 December 2013	-	17,962	-	4,052	6,546	-	28,560

B Carrying value of intangible assets where there is a restriction on ownership and / or pledged as security for the obligations of the bank

In '000 MKD	Internally developed software	Software purchased from external suppliers	Other internally developed intangible assets	Other intangibe assets	Leasehold improvements	Uncontrolling participation
Current carrying amount at:						
31 December 2012	-	-	-	-	-	-
31 December 2013	-	-	-	-	-	-

On 31 December 2013 the Bank has no pledged intangible assets as security for the obligations of the Bank (December 31, 2012: nil).

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29 Property and equipment

A Reconciliation of present carrying amount

In '000 MKD	Land	Buildings	Vehicles	furniture and office equip-ment	Other items property and equip-ment	Other equip-ment	Construc-tion in progres	Leasehold improve-ments	Total
Cost									
Balance at 1 January 2012 (previous year)	-	471,188	15,801	35,891	16,846	203,056	19,095	5,765	767,642
Balance at 30 September 2012 from Ziraat Bank	-	82,368	3,024	20,177	-	35,210	-	9,137	149,916
additions	-	20,703	3,430	8,535	3,167	72,547	-	22,395	130,777
increases through business combinations	-	-	-	-	-	-	-	-	-
(sale and write-off)	-			(4,600)	(273)	(4,703)	-	-	(9,576)
(disposals through business combinations)	-	-	-	-	-	-	-	-	-
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	(8,879)	-	(8,879)
Balance at 31 December 2012 (previous year)	-	574,259	22,255	60,003	19,740	306,110	10,216	37,297	1,029,880
Balance at 1 January 2013 (current year)	-	574,259	22,255	60,003	19,740	306,110	10,216	37,297	1,029,880
additions	-	9,948	17,209	2,966	1,788	50,094	135	20,799	102,939
increases through business combinations	-	-	-	-	-	-	-	-	-
(sale and write-off)	-	-	(4,040)	-	-	-	-	-	(4,040)
(disposals through business combinations)	-	-	-	-	-	-	-	-	-
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
Balance at 31 December 2013 (current year)	-	584,207	35,424	62,969	21,528	356,204	10,351	58,096	1,128,779
Depreciation and impairment									
Balance at 1 January 2012 (previous year)	-	54,091	13,422	25,057	5,692	163,329	-	1,180	262,771
Balance at 30 September 2012 from Ziraat Bank		17,876	3,025	18,670	-	29,620	-	6,236	75,427
Depreciation for the year	-	12,301	1,484	5,483	1,653	28,749	-	3,315	52,985
impairment loss during the year	-	-	-	-	-	-	-		-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(sale and write-off)	-	-	-	(4,297)	(217)	(4,623)	-	-	(9,137)
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
Balance at 31 December 2012 (previous year)	-	84,268	17,931	44,913	7,128	217,075	-	10,731	382,046
Balance at 1 January 2013 (current year)	-	84,268	17,931	44,913	7,128	217,075	-	10,731	382,046
Depreciation for the year	-	14,444	4,865	6,037	1,937	33,684	-	6,664	67,631
impairment loss during the year	-	-	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-	-	-
(sale and write-off)	-	-	(3,780)	-	-	-	-	-	(3,780)
(Transfer to non-current assets held for sale)	-	-	-	-	-	-	-	-	-
transfer from non-current assets held for sale	-	-	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-	-	-
Balance at 31 December 2013 (previous year)	-	98,712	19,016	50,950	9,065	250,759	-	17,395	445,897
Current carrying amount at 1 January 2012 (previous year)	-	417,097	2,379	10,834	11,154	39,727	19,095	4,585	504,871
at 31 December 2012 (previous year)	-	489,991	4,324	15,090	12,612	89,035	10,216	26,566	647,834
at 31 December 2013(current year)	-	485,495	16,408	12,019	12,463	105,445	10,351	40,701	682,882

29 Property and equipment (continuing)

B. Carrying value of property and equipment where there is a limit ownership and / or pledged as security for the obligations of the bank

In '000 MKD	Land	Buildings	Vehicles	furniture and office equipment	Other items property and equipment	Other equipment	Construc-tion in progres	Leasehold improve-ments	Total
Current carrying amount at:									
31 December 2012	-	1,133	-	-	-	-	-	-	1,133
31 December 2013	-	1,095	-	-	-	-	-	-	1,095

Bank does not have property deed for a building with net present value at 31 December 2013 of MKD 1,095 thousand (2012: MKD 1,133 thousand). The procedure for providing the necessary documents in progress.

On 31 December 2013 the Bank has no pledged property and equipment as security for the obligations of the Bank (December 31, 2012: nil).

Operating lease

The bank takes under operating lease office premises. The leases are cancellable and apply for up to 5 years and over 5 years.

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30 Current and deferred tax assets and liabilities

30.1 Current tax assets and current tax liabilities

In '000 MKD	2013	2012
Receivables for income tax (current)	-	1.089
Income tax liability (current)	373	-

30.2 Deferred tax assets and deferred tax liabilities

A Recognised deferred tax assets and deferred tax liabilities

In '000 MKD	Current year 2013			Previous year 2012		
	Deferred tax assets	Deferred tax liabilities	On a net basis	Deferred tax assets	Deferred tax liabilities	On a net basis
Derivative assets held for risk management	-	-	-	-	-	-
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Investments in securities	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-	-	-
Other	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in the income statement	-	-	-	-	-	-
Investments in financial assets available for sale	-	-	-	-	-	-
Hedges of cash flows	-	-	-	-	-	-
Deferred tax assets / liabilities recognized in equity	-	-	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-	-	-

On 31 December 2013 the Bank has no recognized deferred tax assets and deferred tax liabilities (31 December 2012: nil).

B Unrecognized deferred tax assets

In '000 MKD	2013	2012
Tax losses	-	-
Tax credit	-	-
Total unrecognized deferred tax assets	-	-

30 Current and deferred tax assets and liabilities (continuing)

30.2 Deferred tax assets and deferred tax liabilities (continuing)

C Reconciliation of movements in deferred tax assets and deferred tax liabilities during the year

		Recognized during the year:		
In '000 MKD	Balance at 1 January	Income statement	Equity	Balance at 31 December
Previous year 2012	-	-	-	-
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	-	-		-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available for sale	-	-	-	-
Hedges of cash flows	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-
Current year 2013				
Derivative assets held for risk management	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	-	-	-	-
Investments in securities	-	-	-	-
Intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Other receivables	-	-	-	-
Derivative liabilities held for risk management	-	-	-	-
Other liabilities	-	-	-	-
Unused tax losses and unused tax credits	-	-	-	-
Other	-	-	-	-
Investments in financial assets available for sale	-	-	-	-
Hedges of cash flows	-	-	-	-
Total recognized deferred tax assets / liabilities	-	-	-	-

On 31 December 2013 the Bank has no reconciliations of movements in deferred tax assets and deferred tax liabilities (31 December 2012: nil).

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31 Non-current assets held for sale and disposal group

A Non-current assets held for sale

In '000 MKD	Current year 2013	Previous year 2012
Intangible assets	-	-
Property and equipment	-	-
Total non-current assets held for sale	-	-

B Disposal groups

In '000 MKD	Current year 2013	Previous year 2012
Group of assets for disposal		
Financial assets	-	-
Intangible assets	-	-
Property and equipment	-	-
Investments in associates	-	-
Receivables for income tax	-	-
Other assets	-	-
Total group of assets for disposal	-	-
Liabilities directly associated with the group of assets for disposal		
Financial liabilities	-	-
Special reserve	-	-
Income tax liability	-	-
Other liabilities	-	-
Total liabilities directly associated with the group of assets for disposal	-	-

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

In '000 MKD	Current year 2013	Previous year 2012
Profit / (loss) recognized from the sale of assets held for sale and disposal group	-	-

On 31 December 2013 the Bank has no non-current assets held for sale and disposal group (31 December 2012: nil).

32 Trading liabilities

In '000 MKD	Current year 2013	Previous year 2012
Deposits from banks		
Current accounts, deposits and overnight deposits	-	-
Term deposits	-	-
Other deposits	-	-
Deposits from customers		
Current accounts, deposits and overnight deposits	-	-
Term deposits	-	-
Other deposits	-	-
Issued debt securities		
Instruments of the money market	-	-
Certificates of deposit	-	-
Issued bonds	-	-
Other	-	-
Other financial liabilities	-	-
Trading derivatives		
Agreements dependent on changes in the interest rate	-	-
Contracts subject to exchange rate fluctuations	-	-
Agreements dependent on changes in the price of securities	-	-
Other contracts that meet the criteria of IAS 39	-	-
Total trading liabilities	-	-

On 31 December 2013 the Bank has no trading liabilities (31 December 2012: nil).

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33 Financial liabilities at fair value through profit or loss designated as such upon initial recognition

In '000 MKD	Current year 2013		Previous year 2012	
	current carrying value	Agreed maturity amount	current carrying value	Agreed maturity amount
Deposits from banks				
Current accounts, deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
Deposits from customers				
Current accounts, deposits and overnight deposits	-	-	-	-
Term deposits	-	-	-	-
Other deposits	-	-	-	-
Issued debt securities				
Instruments of the money market	-	-	-	-
Certificates of deposit	-	-	-	-
Issued bonds	-	-	-	-
Other	-	-	-	-
Subordinated debt	-	-	-	-
Pother financial liabilites	-	-	-	-
Total financial liabilities at fair value through profit or loss designated as such upon initial recognition	-	-	-	-

On 31 December 2013 the Bank has no financial liabilities at fair value through profit or loss designated as such upon initial recognition (31 December 2012: nil).

34 Deposits

34.1 Deposits from banks

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long term	Short term	Long term
Current accounts				
domestic banks	4,944	-	6,273	-
foreign banks	5,927	-	9,338	-
Demand deposits				
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Term deposits				
domestic banks	78,834	-	-	-
foreign banks	1,599,294	-	1,982,760	-
Restricted deposits				
domestic banks	610	-	610	-
foreign banks	-	-	-	-
Other deposits		-		
domestic banks	-	-	-	-
foreign banks	-	-	-	-
Obligations based on interest on deposits				-
domestic banks	73	-	11	-
foreign banks	9	-	11	-
Current maturity	-	-	-	-
Total deposits from banks	1,689,691	-	1,999,003	-

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34 Deposits (continuing)

34.2 Deposits from customers

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long term	Short term	Long term
Non-financial companies				
Current accounts	1,769,452	-	1,349,161	-
Demand deposits	-	-	-	-
Term deposits	1,350,717	420,213	1,607,060	42,558
Restricted deposits	329,362	106,045	297,213	43,263
Other deposits	-	-	-	-
Interest liability	6,694	-	4,889	-
	3,456,225	526,258	3,258,322	85,821
State				
Current accounts	12,680	-	13,677	-
Demand deposits	-	-	-	-
Term deposits	-	-	-	-
Restricted deposits	-	-	-	-
Other deposits	-	-	-	-
Interest liability	-	-	-	-
	12,680	-	13,677	-
Non-profit institutions serving households				
Current accounts	196,022	-	195,990	-
Demand deposits	-	-	-	-
Term deposits	187,771	145,000	236,086	14,000
Restricted deposits	7,810	-	1,925	339
Other deposits	-	-	-	-
Interest liability	309	-	223	-
	391,912	145,000	434,224	14,339
Financial companies, except banks				
Current accounts	17,531	-	12,798	-
Demand deposits	-	-	-	-
Term deposits	252,761	1,099,093	526,300	590,698
Restricted deposits	-	-	-	-
Other deposits	-	-	-	-
Interest liability	2,670	-	5,263	-
	272,962	1,099,093	544,361	590,698

34 Deposits (continuing)

34.2 Deposits from customers (continuing)

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long term	Short term	Long term
Households				
Current accounts	935,533	-	716,267	-
Demand deposits	192,368	-	182,416	-
Term deposits	1,943,557	3,015,831	2,049,848	2,452,012
Restricted deposits	51,811	129,431	50,057	150,918
Other deposits	16,633	-	16,642	-
Interest liability	100,956	-	86,479	-
	3,240,858	3,145,262	3,101,709	2,602,930
Non-residents, except banks				
Current accounts	131,311	-	124,517	-
Demand deposits	-	-	-	-
Term deposits	14,544	61,633	24,500	49,535
Restricted deposits	9,163	4,736	7,147	4,736
Other deposits	-	-	-	-
Interest liability	3,808	-	2,072	-
	158,826	66,369	158,236	54,271
Current maturity	2,738,437	(2,738,437)	1,608,278	(1,608,278)
Total deposits from customers	10,271,900	2,243,545	9,118,807	1,739,781

35 Issued debt securities

In '000 MKD	Current year 2013	Previous year 2012
Instruments of the money market	-	-
Certificates of deposit	-	-
Issued bonds	-	-
Other	-	-
Interest liabilities for issued debt securities	-	-
Total debt securities issued	-	-

On 31 December 2013 the Bank has no issued debt securities (31 December 2012: nil).

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36 Borrowings

A Structure of borrowings by type of duty and service sector

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long term	Short term	Long term
Banks				
residents				
Borrowings	-	839,105	-	272,664
Repo transactions	-	-	300,000	-
Interest liabilities	1,137	-	796	-
Non-residents				
Borrowings	-	904,290	-	279,490
Repo transactions	-	-	-	-
Interest liabilities	2,650	-	817	-
Non-financial companies				
Borrowings	-	-	-	-
Repo transactions	-	-	-	-
Interest liabilities	-	-	-	-
State				
Borrowings	-	-	-	-
Repo transactions	-	-	-	-
Interest liabilities	-	-	-	-
Non-profit institutions serving households				
Borrowings	-	-	-	-
Interest liabilities	-	-	-	-
Financial companies, except banks				
Borrowings	-	115,563		174,755
Repo transactions	-	-	-	-
Interest liabilities	455	-	749	-
Non-residents, except banks				
Non-financial companies				
Borrowings	-	-	-	-
Repo transactions	-	-	-	-
Interest liabilities	-	-	-	-
State				
Borrowings	-	-	-	-
Repo transactions	-	-	-	-
Interest liabilities	-	-	-	-
Non-profit institutions serving households				
Borrowings	-	-	-	-
Repo transactions	-	-	-	-
Interest liabilities	-	-	-	-
Financial companies, except banks				
Borrowings	-	410,521	-	523,070
Repo transactions	-	-	-	-
Interest liabilities	1,725	-	2,716	-
Households				
Borrowings	-	-	-	-
Interest liabilities	-	-	-	-
Current maturity	736,334	(736,334)	70,216	(70,216)
Total borrowings	742,301	1,533,145	375,294	1,179,763

36 Borrowings (continuing)

B Borrowings by lender

In '000 MKD	Current year 2013		Previous year 2012	
	Short term	Long term	Short term	Long term
Domestic sources:				
MBPR	1,137	839,106	703	272,664
NBRM	-	-	300,093	-
Foreign sources:				
EBRD	1,471	289,177	817	279,490
EFSE	1,375	153,778	2,355	215,250
FIOOM	-	23,977	-	23,576
GGF	350	254,393	361	305,472
MRFP	455	91,585	749	151,179
SOROS	-	2,350	-	2,348
DHB-Bank	1,179	615,113	-	-
Current maturity	736,334	(736,334)	70,216	(70,216)
Total borrowings	742,301	1,533,145	375,294	1,179,763

For the repurchase agreement with NBRM that the Bank has at December 31, 2012 as a collateral treasury bills are given (see note 18).

Pledge agreement was signed between HALKBANK as giver of the pledge and Macedonian Bank for Development Promotion as creditor. It is Bank's liability to pledge the receivables incurred from contracts with it's client in favour of MBPR.

In case of default of payment by the HALKBANK to MBPR, MBPR would have an executive title in the form of a notarial act which to collected debt that HALKBANK claims from its customers.

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36 Borrowings (continuing)

Terms of repayment

Terms of repayment of loans that exist at the end of the year were as follows:

at 31 december 2012				2013		2012	
	currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount	Nominal value	Carrying amount
Unsecured loan	EUR	1% - 3%	2014 - 2021	840,243	840,243	273,366	273,366
Unsecured loan	EUR	0% - 2,5%	According contracts with end-users	2,350	2,350	2,349	2,349
Unsecured loan	EUR	3.393% - 3.493%	2016	155,154	155,154	217,605	217,605
Unsecured loan	EUR	5.70% - 5.85%	2014 - 2016	92,040	92,040	151,928	151,928
Unsecured loan	EUR	3%	2014	616,292	616,292	-	-
Unsecured loan	EUR	2.993% - 3.093%	2018	254,742	254,742	305,833	305,833
Unsecured loan	EUR	2.293% - 2.393%	2015 - 2017	290,648	290,648	280,307	280,307
Unsecured loan	MKD	0% - 2%	According contracts with end-users	23,977	23,977	23,576	23,576
Secured	MKD	3.73%	04.01.2013	-	-	300,093	300,093
Total				2,275,446	2,275,446	1,555,057	1,555,057

37 Subordinated debt

In '000 MKD	2013	2012
Subordinated deposits liablilities		
Interest liabilities	-	-
Subordinated debt liabilities		
Interest liabilities	-	-
Subordinated issued debt securities liabilities		
Interest liabilities	-	-
Redeemable preference shares	-	-
Total sibordinated debt	-	-

On 31 December 2013 the Bank has no liability for subordinated debt (31 December 2012: nil).

38 Special reserve and provision

During 2012, the Bank release a reservation from of litigation in significant amount of MKD 1,031 thousand for litigation with Gjorgji Atanasovski, which was reserved in 2009. In 2013, there is no release on this basis.

In '000 MKD	Provision for off-balance sheet credit exposures	Provisions for contingent liabilities arising from litigation	Provisions for pensions and other employee benefits	Provisions for restructuring	Provisions for eroneous contracts	Other provision	Total
Balance at 1 January 2012 (previous year)	3,394	1,210	-	-	-	-	4,604
Balance at 30 September	294	-	-		-	-	294
Additional provisions in the year	7,842	-	4,151	-	-	-	11,993
(provision utilized during the year)	-	(1,031)	(130)	-	-	-	(1,161)
(release of provisions during the year)	(4,376)	-	-	-	-	-	(4,376)
Effect of exchange rate differences	-	-	-	-	-	-	-
Balance at 31 December 2012 (previous year)	7,154	179	4,021	-	-	-	11,354
Balance at 1 January 2013 (current year)	7,154	179	4,021	-	-	-	11,354
Additional provisions in the year	13,420	-	4,712	-	-	-	18,132
(provision utilized during the year)	-	-	(65)	-	-	-	(65)
(release of provisions during the year)	(11,388)	-	(71)	-	-	-	(11,459)
Effect of exchange rate differences	(1)	-	-	-	-	-	(1)
Balance at 31 December 2013 (curent year)	9,185	179	8,597	-	-	-	17,961

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39 Other liabilities

In '000 MKD	2013	2012
Trade payables	9,655	13,904
Received advances	-	-
Liabilities for commissions and fees	21	20
Accrued expenses	4,078	5,630
Deferred income from previous year	23,304	17,764
Short term employee liabilities	20,911	75
Short-term liabilities for employee benefits	-	-
Liabilities for unrealized payment transfers	-	-
Other	-	-
Other (specify individual commitments represent more than 10% of total other liabilities)		
Master	48,027	33,935
Visa	522	2,006
Deposits for performing of work	5,790	5,790
Other taxes and contributions	829	11
Undistributed FX/MKD inflow	24,708	9,445
Company founding investment	438	863
Other	12,442	8,418
Total other liabilites	150,725	97,861

40 Written capital

A Written capital

	In '000 MKD		Number of issued shares				In '000 MKD	
	Nominal value per share		ordinary shares		non-redeemable preference shares		Total written capital	
	ordinary shares	non-redeemable preference shares	Current year 2013	Previous year 2012	Current year 2013	Previous year 2012	Current year 2013	Previous year 2012
Balance at 1 January - paid	10,000	-	289,369	188,415	-	-	2,893,690	1,884,150
Registered shares during the year	-	-	-	-	-	-	-	-
Realisation of share option	-	-	-	-	-	-	-	-
Division / consolidation of the nominal value of the share	-	-	-	-	-	-	-	-
Other changes during the year	-	-	-	-	-	-	-	-
Merger with Ziraat Bank AD	10,000	-	-	100,954	-	-	-	1,009,544
Balance at 31 December - paid	10,000	-	289,369	289,369	-	-	2,893,690	2,893,694

Holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote at meetings of the Shareholders Meeting for the equivalent of one ordinary share (2012: 1 ordinary share). All shares carry the right to participate proportionately in the event of bankruptcy or liquidation.

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40 Written capital (continuing)

B Dividends

B.1 Declared dividends and dividends paid by the bank

In '000 MKD	Current year 2013	Previous year 2012
Dividends declared and paid dividends for the year	-	-

In '000 MKD	Current year 2013	Previous year 2012
Dividend per ordinary share	-	-
Dividend per preferential share	-	-

B.2 Dividends declared after the date of the balance sheet (not shown dividend liabilities in the balance sheet)

In '000 MKD	Current year 2013	Previous year 2012
Dividends declared after 31 December	-	-

In '000 MKD	Current year 2013	Previous year 2012
Dividend per ordinary share	-	-
Dividend per preferential share	-	-

After the day of the balance sheet there are no proposed dividend by the Supervisory Board.

40 Written capital (continuing)

C Shareholders whose ownership exceeds 5% of the shares with voting rights

	In '000 MKD		In %	
	2013	2012	2013	2012
Name of shareholder	Written capital (nominal value)	Written capital (nominal value)	Voting rights	Voting rights
Turkiye HALKBANKasi A.S. Ankara	2,858,360	2,858,364	98.78%	98.78%
Agency for foreclosed property	31,200	31,200	1.08%	1.08%
Total	2,889,560	2,889,564	99.86%	99.86%

Legal reserve

According to local regulations, the Bank is required to set aside 15% of its net profit for the year to a legal reserve until the level of the reserve reaches an amount equal to one-fifth of the share capital. While the legal reserve is the minimum amount can only be used to cover losses. When the legal reserve exceeds the minimum amount and recovery of all losses of dividends, the decision of the Assembly, the excess can be used for distribution of dividend for the current year has not reached the minimum amount prescribed by the Companies Act or Statute.

Pursuant to amendments to the Companies Act, which come into force on 1 January 2013, the amount that is needed to stand out in the statutory reserve is reduced from 15% to 5%, until the level of the reserve has reached one tenth of equity.

Reserve for own shares

The reserve for own shares of the Bank comprises the purchase value of the shares owned by Bank.

Reserve for fair value

The reserve of the fair value of the Bank comprises the cumulative net change in fair value of investments available for prodzhba except impairment losses, while investment is derecognized.

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41 Earning per share

A Basic earnings / (loss) per share

In '000 MKD		
	2013	2012
Net profit attributable to holders of ordinary shares		
Net profit for the year	145,991	31,726
Dividends on preference shares	-	-
Adjustments to net profit attributable to ordinary shareholders imatelitena (nevedete separately)	-	-
Net - profit attributable to common shares - basic	145,991	31,726

Number of shares		
	2013	2012
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	289,369	188,415
Effects of changes in the number of ordinary shares outstanding during the year:		
Effect of shares issued in August	-	-
Effect of shares issued as result of merger with Ziraat Bank in October	-	25,446
Weighted average number of ordinary shares 31.12	289,369	213,861
Basic earnings per share (MKD)	505	148

B Diluted earnings / (loss) per share

In '000 MKD		
	2013	2012
Net profit attributable to holders of ordinary shares (diluted)		
Net profit for the year attributable to holders of ordinary shares	145.991	31.726
Adjustments to net profit for effects for the year attributable to holders of ordinary shares issued of all potential ordinary shares	-	-
Net - Profit attributable to holders of ordinary shares (diluted)	145.991	31.726

Number of shares		
	2013	2012
Weighted average number of ordinary shares (diluted)		
Weighted average number of ordinary shares at 31 December (basic)	289,369	213,861
Effects of the potential issuance of common stock (list all events separately)	-	-
Weighted average number of ordinary shares (diluted) at 31.12	289,369	213,861
Diluted earnings per share (MKD)	505	148

42 Contingent liabilities and contingent assets

42.1 Contingent liabilities

In '000 MKD	2013	2012
Payment guarantees - uncovered		
In MKD	550,226	369,808
In foreign currency	159,266	71,311
In MKD with currency clause	150,900	118,903
Performance guarantees - uncovered		
In MKD	95,607	74,116
In foreign currency	62,703	308
In MKD with currency clause	-	-
Uncovered letters of credit		
In MKD	-	-
In foreign currency	793,205	48,311
In MKD with currency clause	-	-
Unused overdrafts on current accounts	155,671	102,566
Unused credit card limits	302,479	231,622
Commitments for credit and unused credit limits	4,112,654	3,614,870
Other contingent liabilities (covered and uncovered)	7,827	11,963
Issued covered warranties	83,196	32,408
Covered letters of credit	-	-
Other covered contingent liabilities	-	-
Total contingent liabilities before allowance	6,473,734	4,676,186
(Special reserve)	(9,184)	(7,154)
Total liabilities net of allowance	6,464,550	4,669,032

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

These contingent liabilities have off balance sheet credit risk because the in balance sheet only fees and accruals for probable losses until the contingent liabilities and commitments are fulfilled or expired are recognized. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The amount of irrevocable commitments and contingent liabilities amounted to MKD 3,652,520 thousand and irrevocable amount of MKD 2,821,214 thousand (2012: MKD 3,364,922 thousand and irrevocable amount of MKD 1,311,264 thousand).

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42 Contingent liabilities and contingent assets (continuied)

42.2 Contingent assets

In '000 MKD	2013	2012
	-	-
Total contingent assets	-	-

On 31 December 2013 the Bank has no contingent assets (31 December 2012: nil).

43 Activities on behalf of third parties

In '000 MKD	2013			2012		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
Administering the funds on behalf and for the account of third parties						
Deposits in denars	4,000	-	4,000	4,000	-	4,000
Foreign currency deposits	-	-	-	-	-	-
Loans in denars	-	-	-	-	-	-
Foreign currency loans	-	-	-	-	-	-
Other receivables in denars	698,363	-	698,363	441,687	-	441,687
Other foreign currency receivables		-	-	-	-	-
Administering the funds on behalf and for the account of third parties						
Deposits in denars	-	(4,000)	(4,000)	-	(4,000)	(4,000)
Foreign currency deposits	-	-	-	-	-	-
Loans in denars	-	-	-	-	-	-
Foreign currency loans	-	-	-	-	-	-
Other receivables in denars	-	(698,363)	(698,363)	-	(441,687)	(441,687)
Other foreign currency receivables	-	-	-	-	-	-
Custody accounts	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	702,363	(702,363)	-	445,687	(445,687)	-

Bank performs at the primary and secondary market in order to purchase securities in the name and on behalf of individuals and entities wishing to raspolgaat the same, whether it be in government bills or Treasury bills.

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44 Transactions with related parties

On April 7, 2011 HALKBANK in Turkey bought the majority shares of IK Bank (Halkbank AD, Skopje) amounting to 91,56% becoming mother company. The shares were purchased from Demir HALKBANK from the Netherlands (DHB Bank) which owned 66.56% stake in IK Banka (Halkbank AD, Skopje) and 25,00% of the shares were owned by the European Bank for Reconstruction and Development (EBRD). After the changes in 2012 and acquiring the Ziraat Bank AD Skopje, HALKBANK in Turkey owns 98,78% of shares with voting rights.

In accordance with the Banking Law as related parties of the Bank are: persons with special rights and responsibilities of the Bank and related entities, qualified shareholders to participate in the Bank (directly or indirectly owning at least 5% of the total number of shares issued or shares with voting rights in the Bank or allow a significant impact on the Bank) and related entities and responsible persons of those shareholders - legal entities.

At year-end transactions with related parties were as presented below.

44 Transactions with related parties (continuing)

A Balance sheet

In '000 MKD	Mother company	Subsidiaries	Affiliates	Mangement	Other related parties	Total
Balance at 31 Decemeber 2013						
Assets						
Current assets	2,628	-	-	-	30	2,658
Loans and advances						
Mortgage loans	-	-	-	-	-	-
Consumer loans	-	-	-	4,130	1,261	5,391
Financial lease receivabels	-	-	-	-	-	-
forfeighting and factoring receivables	-	-	-	-	-	-
Other loans and receivables	-	-	-	16,165	2,192	18,357
Investments in securities	-	-	-	-	-	-
(Impairment)	-	-	-	(167)	(32)	(199)
Other assets	-	-	-	13	2	15
Total	2,628	-	-	20,141	3,453	26,222
Liabilities						
Trading liabilities		-	-	-	-	-
Deposits	1,605,230	-	-	18,260	4,379	1,627,869
Issued securities	-	-	-	-	-	-
Borrowings	-	-	-	-	616,292	616,292
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	1,605,230	-	-	18,260	620,671	2,244,161
Contingent liabilities						
Guarantees issued	5,484	-	-	-	-	5,484
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities	-	-	-	4,278	335	4,613
(Special reserve)	-	-	-	(43)	(4)	(47)
Total	5,484	-	-	4,235	331	10,050
Contingent assets						
Guarantees received	-	-	-	-	-	-
Off-balance - approved limits	-	-	-	-	-	-
Total	-	-	-	-	-	-

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44 Transactions with related parties (continuing)

A Balance sheet (continuing)

In '000 MKD	Mother company	Subsidiaries	Affiliates	Mangement	Other related parties	Total
Balance at 31 December 2012						
Assets	1,193	-	-	-	519	1,712
Current assets						
Loans and advances	-	-	-	-	-	-
Mortgage loans	-	-	-	6,930	-	6,930
Consumer loans	-	-	-	-	-	-
Financial lease receivabels	-	-	-	-	-	-
forfeighting and factoring receivables	-	-	-	1,453	-	1,453
Other loans and receivables	-	-	-	-	-	-
Investments in securities	(12)	-	-	(80)	(5)	(97)
(Impairment)	-	-	-	-	-	-
Total	1,181	-	-	8,303	514	9,998
Liabilities						
Trading liabilities						
Deposits	1,992,108	-	-	12,595	-	2,004,703
Issued securities	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Total	1,992,108	-	-	12,595	-	2,004,703
Contingent liabilities						
Guarantees issued	21,525	-	-	-	-	21,525
Issued letters of credit	-	-	-	-	-	-
Other contingent liabilities	-	-	-	4,246	-	4,246
(Special reserve)	-	-	-	(22)	-	(22)
Total	21,525	-	-	4,224	-	25,749
Contingent assets						
Guarantees received	-	-	-	-	-	-
Other contingent assets	-	-	-	-	-	-
Total	-	-	-	-	-	-

44 Transactions with related parties (continuing)

B Income and expenses arising from transactions with related parties

In '000 MKD	Mother company	Subsidiaries	Affiliates	Mangement	Other related parties	Total
2013						
Income						
Interest income	-	-	-	1,250	267	1,517
Fee and commission income	127	-	-	674	507	1,308
Net trading income	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from the sale of non-current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-					
Total	127	-	-	1,924	774	2,825
Expense						
Interest expense	7,522	-	-	155	10,716	18,393
Fee and commission expense	213	-	-	-	582	795
Net trading loss	-	-	-	-	-	-
Expenditures for the purchase of non-current assets	-	-	-	-	-	-
Impairment of financial assets, net	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	7,735	-	-	155	11,298	19,188

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44 Transactions with related parties (continuing)

B Income and expenses arising from transactions with related parties (continuing)

In '000 MKD	Mother company	Subsidiaries	Affiliates	Mangement	Other related parties	Total
2012						
Income						
Interest income	-	-	-	730	141	871
Fee and commission income	87	-	-	102	13	202
Net trading income	-	-	-	-	-	-
Dividend income	-	-	-	-	-	-
Capital gains from the sale of non-current assets	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	87	-	-	832	154	1,073
Expense						
Interest expense	5,257	-	-	144	-	5,401
Fee and commission expense	98	-	-	42	-	140
Net trading loss	-	-	-	-	-	-
Expenditures for the purchase of non-current assets	-	-	-	-	-	-
Impairment of financial assets, net	-	-	-	-	-	-
Other expenses	-	-	-	-	-	-
Transfers between entities	-	-	-	-	-	-
Total	5,355	-	-	186	-	5,541

C Management compenzations

In '000 MKD	2013	2012
Short-term employee benefits	-	26,523
Benefits after termination of employment	-	-
Benefits for termination of employment	-	-
Payments to employees based on shares settled with equity instruments	-	-
Payments to employees based on shares settled with cash	-	-
Other	-	-
Total	79,846	26,523

45 Leases

A Lessor

A.1 Receivables from financial leases

		Maturity of finance lease receivables		
In '000 MKD	Total finance lease receivables	Up to 1 year	from 1 to 5 years	over 5 years
Balance at 31 December 2013	-	-	-	-
Present value of minimum lease payments	-	-	-	-
Total	-	-	-	-
Balance at 31 December 2012	-	-	-	-
Present value of minimum lease payments	-	-	-	-
Total	-	-	-	-

A.2 Receivables under irrevocable operating leases

		Maturity of receivables under irrevocable operating leases		
In '000 MKD	Total claims under irrevocable operating leases	Up to 1 year	from 1 to 5 years	over 5 years
Balance at 31 December 2013	-	-	-	-
Present value of minimum lease payments	-	-	-	-
Total	-	-	-	-
Balance at 31 December 2012	-	-	-	-
Present value of minimum lease payments	-	-	-	-
Total	-	-	-	-

In '000 MKD	Land	Buildings	Vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of assets given under operating lease:							
Balance at 31 December 2013	-	-	-	-	-	-	-
Balance at 31 December 2012	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

45 Leases (continuing)

B Lessee

B.1 Liabilities from finance leases

		Maturity of finance lease receivables		
In '000 MKD	Total finance lease receivables	Up to 1 year	from 1 to 5 years	over 5 years
Balance at 31 December 2013	-	-	-	-
Balance at 31 December 2012	-	-	-	-

In '000 MKD	Land	Build-ings	Vehi-cles	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of a propertygiven under l financia lease							
Balance at 1 January 2012	-	-	-	-	-	-	-
Additions	-	-	-	-	-		
(Disposals)	-	-	-	-	-	-	-
Other	-	-	-	-	-		
Balance at 31 December 2012	-	-	-	-	-	-	-
Balance at 1 January 2013	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-
(Disposals)	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Balance at 31 December 2013	-	-	-	-	-	-	-
Accumulated depreciation and impairment							
Balance at 1 January 2012	-	-	-	-	-	-	-
Depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	
Balance at 31 December 2012	-	-	-	-	-	-	-
Balance at 1 January 2013	-	-	-	-	-	-	-
Depreciation for the year	-	-	-	-	-	-	-
impairment loss during the year	-	-	-	-	-	-	-
(release of the impairment loss during the year)	-	-	-	-	-	-	-
(disposals)	-	-	-	-	-	-	-
other	-	-	-	-	-	-	-
Balance at 31 December 2013	-	-	-	-	-	-	-
Current carrying amount							
at 1 january 2012	-	-	-	-	-	-	-
at 31 december 2012	-	-	-	-	-	-	-
at 31 december 2013	-	-	-	-	-	-	-

45 Leases (continuing)

B Lessee (continuing)

B.2 Obligations under irrevocable operating leases

		Maturity of receivables under irrevocable operating leases		
In '000 MKD	Total receivables under irrevocable operating leases	Up to 1 year	from 1 to 5 years	over 5 years
Balance at 31 December 2013				
Total	-	-	-	-
Balance at 31 December 2012	-	-	-	-
Total	-	-	-	-

46 Payments based on shares

In '000 MKD	2013	2012
Date of issue of the option	-	-
Date of expiration of the option	-	-
The exercise price of the option	-	-
Stock price on the date of granting of the option	-	-
Variance	-	-
Expected dividend yield	-	-
Interest rate	-	-
Fair value at the date of granting of the option	-	-

	2013		2012	
	Number of stock options	Weighted Average price for stock options	Number of stock options	Weighted Average price for stock options
Balance at 1 January				
Changes during the year:				
options granted to members of the Supervisory Board	-	-	-	-
options granted to members of the Management Board	-	-	-	-
other given options	-	-	-	-
Forfeighted options	-	-	-	-
realized options	-	-	-	-
options with expired deadline	-	-	-	-
Balance at 31 December	-	-	-	-

Events after the date of the balance sheet

After the day of the balance sheet no events of material importance have occur which should be disclosed in the financial statements.

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