Extended home market of Steiermärkische Sparkasse at a glance

Austrian Sparkassen Group
Interview with the President of the Management Board

The analysis of the economic development of the Balkan countries over the past ten years and beyond suggests that the financial sector and the banking industry in particular played the part of one of the most important driving forces behind the development of businesses and corporations at large. The strong competition between a larger number of players and the merger of different business models across Europe led to quality improvements in banking products and services in a very short period of time. No matter how satisfied or dissatisfied customers are with the price of these products and services, the access to financial resources, the adequate structure of funding, the banks’ requirements and expectations contributed to an overall rise in the level of financial literacy among businesses and retail clients, as well as feedback requirements from customers in their relationship with the banking sector. This, in turn, led to the establishment of a positive spiral that stimulates the competitiveness, efficiency and economic development of all businesses in general.

In 2012, we at Sparkasse Bank Makedonija focused our efforts toward strengthening our capacities and improving the quality of the portfolio. Though considered to be one of the more difficult years in terms of economic growth and generally unfavorable conditions in financial markets across Europe, the preliminary balance sheet found that the Bank completed the year with positive financial results. The improved financial results are mainly attributed to the management’s intention to focus on promoting sales and bringing about qualitative changes in the structure of the loan portfolio.

The Bank’s improved profitability is also reflective of tremendous efforts in the collections segment where excellent results were achieved, with income from doubtful interest almost doubling the 2011 figure. As a result of the Bank’s transformation, consolidation and stabilization in 2012, the only clear strategy was to focus on the quality of work that resulted in:

- a new organizational structure and work systematization;
- the creation of infrastructure for sustainable and satisfactory growth;
- stabilization of the fundamental operations of the banking system, acquiring internal independence and defining a new IT strategy.

Our strategic commitment is to be a strong partner not only to our customers, but also to the communities where we operate and work: by offering attractive and durable solutions that address our customers’ financial needs and establishing Sparkasse Bank Makedonija as a Bank of trust and the most respected financial institution in Macedonia. The achievement of our key strategic priorities has the support of our parent bank, which follows our growth by supplying the right amount of funding sources. We expect to achieve the defined key strategic priorities by implementing the following non-financial objectives:

- Profitable growth - achieving high and sustainable profitability by increasing market share;
- “Top of Mind” bank - by way of expressed brand perception and its continued promotion;
- Distribution network optimization - optimization and reorganization of the distribution network, increasing the number of ATMs and POS terminals;
- Active customer relationship management - relationship, service and offer are key instruments in winning customer loyalty and expanding the client base;
- Increasing efficiency - by achieving the right balance between desired growth and efficiency.

In 2012, in addition to the introduction of new standards in terms of lending criteria, we made significant progress in terms of our IT system stabilization and consolidation, and introduced a modified organizational structure and a new systematization of workplaces.

We have a great responsibility to build the image of a company that achieves outstanding business results, while nurturing corporate culture, relations among employees, with business partners and customers, with an emphasis on socially responsible behavior toward the local community and business surroundings. In Macedonia, we want to be recognized as a desired employer and make our employees proud to work at Sparkasse Bank.

Sincerely,

Aleksandra Radic, MBA
President of the Management Board
Bank’s Profile

Tradition, reliability and trust as part of Sparkasse Bank Makedonija are part of your daily life, your success and security. They give us the right to have confidence in our shared future and in delivering efficient and contemporary banking.

Throughout 2012, the Bank was committed to strengthening its capacities and improving its portfolio quality. Based on the upshot, the Bank closed the year with positive financial results, despite it being considered more challenging in terms of economic growth and widely unfavorable conditions in financial markets across Europe.

The Bank ranked 2nd in the range of medium-sized banks in Macedonia according to total assets, whereas in the banking sector at large, it came in 6th with a market share of 4.7%. In terms of total equity, the Bank is 5th in the banking sector with a market share of 5.3%.

The Sparkasse brand is a symbol of security, trust and steady development spanning nearly 2 centuries. The tradition of trust instituted in Graz, Austria, is now present here in Macedonia.

Sparkasse Bank Makedonija will welcome in the fifth year of the transformation with 124,700 clients, 29 branches and 297 employees.

“In every relationship, it is people that count!”

Customer needs and how they can best be served are at the core of our business. It is with this in mind that we craft our services, guided by contemporary European trends, the experiences and know-how of the Group, thus affirming our role as forerunner when it comes to new ideas and innovative solutions in financing and payment operations.

Sparkasse Bank Makedonija boasts continuous product growth in the past year; deposits and loan disbursements, to name a few. To support the needs of its retail clients, the Bank offers highly-competitive products under favorable terms designed to meet family needs and wishes, granting auto loans, enabling savings growth with attractive interest rates, and the purchase of residential or commercial properties.

Partnership with Small and Medium-Sized Businesses

As evidenced by the long-term successful cooperation with small and medium-sized businesses, this successful relationship stems from mutual trust and top expert advice on issues of financing and appraisal.

Strategy

Our long-term strategy and mission is to be a reliable partner to our clients, thereby producing the most value for all our key stakeholders by providing clients with the best financial solutions that meet their needs. Our stakeholders are the shareholders, clients, employees and local communities.

Supporter of Social Development

Being a successful bank means not only having high equity, many customers and innovative products, but, above all, it means having an awareness of one’s responsibility and impact on the surrounding community, as well as sensitivity to its needs. Therefore, the Bank is actively involved in social development, supporting a number of own projects in the area of culture, sports, education, science and environmental protection.

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BUSINESS ACTIVITIES

1. Objectives and environment

In this time of extended global economic crisis, which has also adversely impacted the domestic economy, the Republic of Macedonia secured macroeconomic stability with consequences that were minor compared to other countries. Weak recovery in the euro zone led to a slowdown in domestic economic growth. Increased import prices, primarily of oil and food, affected price levels in the domestic economy, which spurred higher inflation in the third quarter above the projections of the National Bank of the Republic of Macedonia (NBRM).

Despite EU recession, Macedonia managed to stay in the group of low-debt countries. Macroeconomic stability was based on the stable denar to euro exchange rate, high foreign reserves, and a stable banking system. The high level of foreign reserves and the steady rise in domestic currency savings reflected the stability of the denar exchange rate, as was the priority of the monetary authorities.

Expectations suggest that the year 2013 will be filled with many challenges. Recession in the European Union, our largest market, is expected to continue in the first semester, to be followed by recovery in the second. The outlook for domestic economic growth is more optimistic, given the construction of new production capacities and others underway, as well as public infrastructure investments announced in 2012. These expectations are bolstered by the prevailing steadiness of the balance of payments, the banking sector and public finances, and the continuing trend of domestic currency confidence.

According to NBRM projections, this setting would stimulate the willingness of domestic investors to take risks which, combined with the anticipated momentum created by public and foreign investments, would lead to the strengthening and stability of the investment cycle. The corporate sector’s recovery and the improved landscape will have positive transitional effects on the labour market and consumer trust, which would lead to higher consumption. Given these assumptions, 2.2% GDP growth is expected in 2013.

Monetary authorities introduced several measures in 2012 in a bid to improve the loan activity landscape. One such measure was the suspension of the obligation to maintain mandatory reserves commensurate with the funds disbursed to net importers and electric power producers. However, even the lowered basic interest rate failed to encourage loan growth. In 2012, the trend of moderate bank lending continued. The banks are more cautious when it comes to assessing the risks associated with their placements in the real sector. This is attributed to the high degree of uncertainty in terms of the denouement of the debt crisis in the euro zone and the recovery pace of the European economy. Another, much more important reason, is the process of adjustment to the new risk management standards.

In 2012, Sparkasse Bank Makedonija AD Skopje pursued its goals in accordance with the Bank’s 2013-2017 Strategic Plan, maintaining strong liquidity, ensuring stable long-term sources of funding, providing better client services, improving operational efficiency and adjusting to the standards of the Steiermärkische Bank und Sparkassen AG Group were some of the Bank’s priorities in 2012.

Macroeconomic circumstances called for a more conservative approach to loan portfolio provisioning, as part of the Bank’s strategic commitment to stability and security.

Sparkasse Bank Makedonija AD Skopje (hereinafter referred to as the Bank) achieved the following operating results in the timeframe under review:

2. Financial performance

2.1 Statement of Comprehensive Income for the Period

In 2012, Sparkasse Bank Makedonija AD Skopje pursued its goals in compliance with the Bank’s 2013-2017 Strategic Plan, maintaining strong liquidity, ensuring stable long-term sources of funding, providing better client services, improving operational efficiency and adjusting to the standards of the Steiermärkische Bank und Sparkassen AG Group were some of the Bank’s priorities in 2012.

Net fees and commissions income for performing banking services at the end of the year reached 121.6 million denars, noting a decline of 31.2% compared to the previous year.

Net impairment losses of financial assets, as a result of the effect from the release and allocation of special provisions for non-performing loans, reached 184.6 million denars. In 2011, this figure was 900.2 million denars.

Personnel expenses totalled 205.9 million denars, which is 13.92% higher than in 2011.

In accordance with the above, the net interest income as at 31.12.2012 was 993.5 million denars – 12.1% higher than the year before.

Commission income at the end of the year reached 189.3 million denars, falling 7.2% below the commission income generated in 2011. This is attributed to decreased business transactions, as well as a decline in lending.

The generated net FX effect as at 31.12.2012 stood at 31.6 million denars, which marks a 10.58% dip compared to the year before.

Net fees and commissions income for performing banking services at the end of the year reached 121.6 million denars, noting a decline of 31.2% compared to the previous year.

Other operating income for the period ending on 31.12.2012 amounted to 88.2 million denars.

Impairment losses of non-financial assets as at 31.12.2012 reached 80.2 million denars, which is 78.67% more than the year before, when they stood at 44.9 million denars.

Personnel expenses totalled 205.9 million denars, which is 13.92% higher than in 2011.

The estimated depreciation as at 31.12.2012 was 42.2 million denars, which is 8.03% below 2011.

Other operating expenses at the end of 2012 reached 308.7 million denars, marking a 21.18% decline under the previous year.

At the end of 2012, Sparkasse Bank Makedonija AD Skopje achieved a positive financial result of 13.4 million denars before tax. The income tax amounts to 12.1 million denars. The net profit generated by the Bank stands at 1.248 million denars.

<table>
<thead>
<tr>
<th>Interest Income</th>
<th>2012</th>
<th>2011</th>
<th>% YOY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial institutions</td>
<td>586.3</td>
<td>600.8</td>
<td>-2.40%</td>
</tr>
<tr>
<td>State</td>
<td>124.7</td>
<td>85.4</td>
<td>46.05%</td>
</tr>
<tr>
<td>Banks</td>
<td>50.9</td>
<td>60.0</td>
<td>-15.20%</td>
</tr>
<tr>
<td>Other financial institutions (non-bank)</td>
<td>2.4</td>
<td>4.2</td>
<td>-42.83%</td>
</tr>
<tr>
<td>Retail</td>
<td>253.4</td>
<td>236.0</td>
<td>7.36%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,017.6</strong></td>
<td><strong>986.3</strong></td>
<td><strong>3.17%</strong></td>
</tr>
</tbody>
</table>

Net interest income grew to 1,017.6 million denars at the end of 2012, a 3.17% interest income increase over the previous year. Net interest income plays a major part in the Bank’s total income, despite the drop in interest rates in the current year. The total income is mostly comprised of interest generated from non-financial institutions, which marked a decline under 2011. On the other hand, the retail sector spotted a growth of 7.36%.

<table>
<thead>
<tr>
<th>Interest Expenses</th>
<th>2012</th>
<th>2011</th>
<th>% YOY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-financial institutions</td>
<td>115.1</td>
<td>153.0</td>
<td>-24.75%</td>
</tr>
<tr>
<td>State</td>
<td>0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Banks</td>
<td>95.7</td>
<td>129.9</td>
<td>-26.33%</td>
</tr>
<tr>
<td>Other financial institutions (non-bank)</td>
<td>41.8</td>
<td>59.1</td>
<td>-29.20%</td>
</tr>
<tr>
<td>Retail</td>
<td>171.5</td>
<td>116.0</td>
<td>49.16%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>424.2</strong></td>
<td><strong>457.0</strong></td>
<td><strong>-7.18%</strong></td>
</tr>
</tbody>
</table>

Interest expenses at the end of 2012 reached 424.2 million denars, falling 7.18% compared to the previous year, primarily due to reduced interest expenses associated with non-financial institutions. Retail deposits hold the lion’s share in expenses, generated by the deposits base growth.
2.2 Statement of Financial Position as at the End of the Period

The Bank’s total assets at the end of 2012 reached 16,585,5 million denars, which is 4.2% less year over year.

Cash and cash equivalents as at 31.12.2012 were worth 2,369,3 million denars – a 17.0% drop below the previous year.

Investments in securities as at 31.12.2012 peaked at 3,169,5 million denars, marking an increase of 14.0% over 2011. Investment growth was impacted by the negative downtrend in lending and high liquid assets.

Loans and receivables from other clients reached 9,048,3 million denars, notching a decline of 12.8% below the previous year.

Stricter loan approval criteria, harmonization with regulatory and Group risk evaluation standards, hardships endured by certain corporate clients, increased receivables collection and the non-performing loans led a decrease in loans and receivables from other clients.

Foreclosed assets for uncollected receivables totalled 96,7 million denars and register a 12.7% reduction compared to previous year’s levels.

Other receivables, in the amount of 102,9 million denars, include receivables for fees and commissions, other receivables from clients, pre-paid expenses, advance tax payments, as well as other receivables. These decreased by 1.49% compared to the previous year.

Non-financial companies reached 9,048,3 million denars, which is 4.2% less year over year.

Structure of Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans</th>
<th>Securities</th>
<th>Fixed assets</th>
<th>Other assets</th>
<th>Loans</th>
<th>Other</th>
<th>Securities</th>
<th>Fixed assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>10,385,1</td>
<td>1,336,9</td>
<td>43,1</td>
<td>41,4</td>
<td>10,4</td>
<td>60,5</td>
<td>28,5</td>
<td>31,4</td>
</tr>
<tr>
<td>2011</td>
<td>11,545,8</td>
<td>1,162,3</td>
<td>54,1</td>
<td>47,0</td>
<td>11,4</td>
<td>64,0</td>
<td>30,0</td>
<td>33,0</td>
</tr>
<tr>
<td>YoY</td>
<td>-10,05%</td>
<td>-15,02%</td>
<td>-20,33%</td>
<td>-14,12%</td>
<td>-10,05%</td>
<td>-6,95%</td>
<td>-17,0%</td>
<td>-16,9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Other liabilities</th>
<th>Other receivables</th>
<th>Less: impairment reserves</th>
<th>Net loans and receivables from clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9,048,3</td>
<td>1,336,9</td>
<td>-1,162,3</td>
<td>10,385,1</td>
</tr>
<tr>
<td>2011</td>
<td>10,383,6</td>
<td>1,162,3</td>
<td>-1,336,9</td>
<td>11,545,8</td>
</tr>
<tr>
<td>YoY</td>
<td>-12,86%</td>
<td>-15,02%</td>
<td>10,05%</td>
<td>-10,05%</td>
</tr>
</tbody>
</table>

Structure of Liabilities

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital and reserves</th>
<th>Other payables</th>
<th>Credit lines and subordinated debt</th>
<th>Deposits by clients</th>
<th>Deposits by banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>13,7%</td>
<td>23%</td>
<td>50%</td>
<td>75%</td>
<td>1%</td>
</tr>
<tr>
<td>2011</td>
<td>15,5%</td>
<td>21%</td>
<td>48%</td>
<td>75%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Intangible assets in the amount of 20,6 million denars note an increase of 2% over last year.

Property and equipment were estimated at 321,6 million denars and register a decrease of 4.5% compared to the previous year as a result of their depreciation.

The Bank’s total liabilities at 31.12.2012 were estimated at 14,436,8 million denars. Along with the share capital of 2,148,7 million denars, the Bank’s overall assets sources reached 16,585,5 million denars.

Deposits by banks and credit lines amounted to 3,169,5 million denars. The level of deposits from banks and credit lines fell by 1.9% in comparison with the corresponding figure in 2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>Customer Deposits</th>
<th>Non-financial institutions</th>
<th>Financial institutions</th>
<th>Retail</th>
<th>Non-residents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>100%</td>
<td>28%</td>
<td>14%</td>
<td>26%</td>
<td>11%</td>
</tr>
<tr>
<td>2011</td>
<td>95%</td>
<td>27%</td>
<td>23%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>YoY</td>
<td>5%</td>
<td>-2%</td>
<td>4%</td>
<td>-2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Deposits by other customers, amounting to 8,237,4 million denars generate a 72.0% share of the Bank’s total assets sources.

Deposits by non-financial institutions reached 2,643,3 million denars, registering a 54.8% decline from 2011. Their share in total client deposits stands at 33.1%. Retail deposits account for 57.3% of total deposits, totaling 4,549,3 million denars.

In terms of term deposits duration, short-term deposits have a share of 63.14%, whereas long-term deposits account for 36.9% of all deposits.

Retail deposits as at 31.12.2012 were estimated at 4,549,3 million denars, rising 7.9% above the year before.

2.3. Shareholders’ Equity

Shareholders’ equity, inclusive of share premiums, reserves and losses for the year at 31.12.2012, equalled 2,148,8 million denars. This amount represents a rate that is 75.2% higher than the previous year, taking up 12.9% of the Bank’s total asset sources.

In February of 2012, the Bank increased shareholder equity through a private offering intended for the institutional investor – the dominant shareholder Steiermärkische Sparkasse AG. The initial equity sweated by issuing 184,200 new ordinary shares in the total amount of EUR 15 million, i.e. the shareholders’ equity consist of a total of 438,562 ordinary shares with nominal value of 2,670 denars.

Subordinated debt at 31.12.2012 reached 1,020,1 million denars and is almost identical with the end of 2011.

As at 31.12.2012, the capital adequacy level, as a ratio between the Bank’s own funds and risk-weighted assets, which is a relevant indicator of the operational risk taken in terms of the Bank’s balance and off-balance sheet activities is 29.47%. In accordance with the Decision of the National Bank of the Republic of Macedonia, and in compliance with international standards, the prescribed ratio must be minimum 8%. The implementation of the new Methodology for Calculating Capital Adequacy did not have a significant effect on the adequacy rate across the banking system. The Bank’s strategy is to maintain the capital adequacy rate over 15%. For this reason, the Bank additionally increased its capital by EUR 15 million in early 2012.
3. Risk Management

Risk management in 2012 entailed meeting set targets that were part of the plan aimed at upgrading operations in the area of risks and sales.

The main targets reached in the management segment were the following:
- Setting up a new organizational structure in the Risk Management Division with three main pillars, tasked with different duties: credit risk management, strategic risk management and workout and repossessed assets management.
- Additional staffing of the departments and units within the Risk Management Division with professionals, which contributed to the adequate management of the loan process in terms of risk, improvement of the provisions management process, as well as boosting the collection of problematic receivables.
- Introducing a new general provision model for loans in the retail segment; corporate clients; reorganization of the process of decision-making by introducing powers (loan authorizations); introduction of minimum standards for financing retail and corporate clients; new general provisions for loans in the retail segment; procedures for determining the internal client rating and introduction of new client segmentation; reorganization of the process of decision-making by introducing powers (loan authorizations); new loan process; introduction of minimum standards for financing retail and corporate clients; new general provisions for loans in the retail segment; procedures for determining the internal client rating and new Bank loan policy.

One of the main objectives in the area of credit risk management in 2012 was strengthening collections from corporate clients from the regular portfolio, primarily the recovery of doubtful and contentious receivables. This was accomplished by improving the existing system of monitoring and reporting by introducing new regular report forms, upgrading the early warning system (EWS), and improving the process of managing foreclosed assets. The year 2012 also saw the introduction of a new methodology for calculating impairment and special reserve that primarily included compliance with the current NBRM regulations on one hand, and approximation to the IAS 39 international standards on the other hand.

As for the improvement of the risk management process in the retail segment and compliance with group standards, the KRM project brought new general decision-making rules relating to retail loans. The first phase of this project – introducing an application scoring model for retail clients – was completed.

In the credit risk management segment, risk management was focused on maintaining an acceptable level of risk exposure, covering identified risks with an adequate level of provisions, as well as improving the efficiency of the collections process.

In the course of 2012, monitoring was performed of the quality of the Bank’s loan portfolio and its dispersion through sectors and geographic location, thus controlling concentration risk. In keeping with the share of individual risk categories in the Bank’s overall exposure to credit risks (less banks’ and state exposure), the majority of the portfolio or 76.5% was concentrated in the A risk category.

3.1 Credit Risk

Credit risk management in 2012 had the following main goals:
- Reorganization of the loan process in the Bank, which included the introduction of new client segmentation;
- Reorganization of the process of decision-making by introducing powers (loan authorizations);
- New loan process;
- Introduction of minimum standards for financing retail and corporate clients;
- New general provisions for loans in the retail segment;
- Procedures for determining the internal client rating and new Bank loan policy.

3.2 Liquidity Risk

Throughout 2012, the Bank actively monitored, managed and controlled exposure to liquidity risk, which incorporated assets management in active capital and funding sources in liabilities, in accordance with financial and cash flows as well as their concentration, all with the aim of harmonizing cash inflows and outflows.

Exposure to liquidity risk was measured by external and internal limits, i.e. the Bank’s compliance with the same.

The Bank consistently measured and reported liquidity ratios up to 30 and 180 days, which were found to be in full compliance with regulatory limits throughout this period. In addition to external liquidity indicators, the Bank actively monitored and measured internal liquidity indicators, which are part of the process of liquidity management.

Within the liquidity risk management process, the Bank also analysed the level of concentration and the share of 20 largest depositors in the average deposit base, as well as their compliance with the internally established limits.

The Bank continuously met the legal obligation to maintain a mandatory reserve in denars and foreign currency, thus fully upholding the respective regulatory requirements.

3.3 Interest Rate Risk

Interest rate risk management, as part of market risk, represents a vital part of the risk management process, which was under constant monitoring and control in 2012 in order to ensure effective management thereof and to achieve the planned financial results and raise the economic and market value of the Bank’s assets and capital.

An active interest rate policy was pursued in the course of 2012, which was based on the Bank’s Strategic Plan, as well as its competitive position relative to other banks on the market.

Analyses were also part of the process of managing interest rate risk and those included analyses of the lending and deposit interest-bearing balance sheet positions, tabulation of the ratios between the total weighted value of the banking activities portfolio and the Bank’s own assets, as well as compliance with externally and internally established limits and other relevant indicators.

3.4 Currency Risk

Currency risk management, which is also part of the process of market risk management, was also conducted in 2012 in conditions of a stable denar exchange rate, i.e. in conditions of sustained restrictive monetary policy at national level.

The Bank actively pursued measures for adequate identification, measurement, monitoring and control of exposure to currency risk, which included identifying the sources of currency risk, measurement methods, setting limits and other control mechanisms.

The fundamental tool for currency risk management, the open foreign exchange position of the Bank, was measured at an aggregate level and separately by currency, thus monitoring compliance with the external and internal limits of currency exposure.

3.5 Operational Risk

In an effort to curtail and maintain operational risk at an acceptable level, in 2012 the Bank managed exposure to this risk through a process of identification, evaluation, measurement, mitigation, monitoring and control. The identification of operational risk was conducted via all risk events to which the Bank was exposed, as well as potential risk events and factors potentially encountered in the future, using the Basic Indicator Method.

3.6 Internal Capital Adequacy Assessment Process (ICAAP)

In accordance with existing regulation that mandates the establishment of internal capital adequacy, the Bank actively measured and monitored the adequacy throughout 2012 in compliance with Group standards.

Internal capital adequacy facilitates the Bank’s efforts in the risk management process as well as coverage potential, and is designed to ensure adequacy relative to risk profile, size and complexity of the financial activities thereof.

The measurement of internal capital adequacy was performed using the ratio of coverage, thus ensuring compliance with internally set limits.
4. Corporate Banking

The effects of the debit crisis in Europe continued in 2012 as well and it was one of the reasons for the deceleration of growth of the economy and credit activity of the banks. In such business conditions, most of the clients do not decide to make investments and are mostly focused on maintaining the current level to ensure the security and stability of their operations.

In order to bring the clients closer, in 2012 the Bank introduced new criteria for client segmentation (division) into micro, small, medium, and large customers, and organized its operations through the commercial centres.

Sparkasse Bank Makedonija AD Skopje performed its lending activity in 2012 guided by Group standards, its strategic commitments, lending policy and loan procedures, the legal regulations, and the bylaws of the NBRM.

The continued strengthening of client relations, focusing on their needs and the adequate offer of financial support for their businesses ensured the Bank’s recognition as a reliable and recognizable business partner to its clients.

The Bank’s corporate loans portfolio went down 13.7% as compared to the previous year, whereas the deposits decreased by 50.6%.

In 2012, we witnessed a 22.9% growth of the housing loans portfolio over 2011, and their share in the structure of loan exposure to retail clients went up from 28.1% in 2011 to 34.8% in 2012.

In the course of 2012, the Retail Management Division continuously worked on the introduction of new and the revision of existing retail products and remained focused on its clients and the satisfaction of their needs by offering creative financial solutions. Depending on market developments, it continuously crafted new, modern and innovative retail loan and deposit products for various target groups. Our clients recognized the stability and security of our bank and gave us their trust. Guided by its strategic commitments, the Bank worked on continuous business development, on staying abreast of changes in the business environment and adaptation to banking trends.

5. Retail Banking

In the course of 2012, the Retail Management Division continuously worked on the introduction of new and the revision of existing retail products and remained focused on its clients and the satisfaction of their needs by offering creative financial solutions. Depending on market developments, it continuously crafted new, modern and innovative retail loan and deposit products for various target groups. Our clients recognized the stability and security of our bank and gave us their trust. Guided by its strategic commitments, the Bank worked on continuous business development, on staying abreast of changes in the business environment and adaptation to banking trends.

The activities were geared toward maintaining the standards for high portfolio quality and stability and continued support of the branch network in order to ensure premium services, growing customer satisfaction and increasing loyalty. By conducting training seminars for branch employees, the Bank achieved organizational and personnel improvement in terms of raising their level of knowledge, motivation and achieving higher sales.

With regard to service quality improvement, the entire POS terminal network was replaced with a new one with upgraded characteristics, and the foundations were laid for implementing a new electronic banking system. In 2012, a card security system providing higher safety features was also introduced.

In 2012, the Retail Management Division underwent reorganization, which entailed the introduction of regional departments, separating the sales function from the support function and incorporating the work with micro clients and alternative distribution channels within the division.

The total retail loan portfolio at the end of 2012 reached 3.256.4 million denars, which is an insignificant decrease of 0.7% compared to the situation at 31.12.2011.

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6. Liquidity management and investments in securities

In the course of 2012, as part of the liquidity management process, the Bank ensured an optimal level of liquidity and timely financial performances. At the same time, higher liquidity was channelled by investing surplus funds into available corresponding instruments, predominantly on the domestic money market, by investing in securities issued by the NBRM and the Government of the Republic of Macedonia.

The total interest income generated in 2012 from investments in securities issued by the NBRM and the Government of RM, in conditions of stable active interest rates, reached 363,7 million denars, or 35,4% higher than the interest income generated in 2011, which was 120,9 million denars.

Under the existing market conditions, when the Bank had a lack of or surplus of denar funds, the following available short-terms market instruments were used:

- liquidity loan with maturity generally between 1 and 3 days;
- overnight deposits available in the NBRM;
- 7-day deposit available in the NBRM and
- liquidity securing auctions (REPO).

When it comes to foreign currency liquidity, the Bank settled its foreign currency liabilities in a timely fashion and invested the surplus in short-term deposits ranging from 1 to 7 days, in the main correspondent banks. When needed, the Bank used short-term deposits from the parent bank in order to cover any large corresponding foreign-currency outflows.

Regarding activities financing, in 2012 the Bank actively sought cheaper sources in a bid to lower its average passive interest rates and interest expenses.

On the foreign currency market, last year the Bank achieved positive results, despite decreased import-export business activities on the macroeconomic level. The number of FX statements and transactions with corporate clients increased by more than 3%, while the number of newly acquired clients in 2012 grew by more than 10%.

In 2012, the Bank earned 31,6 thousand denars from net-positive FX trading, which is 5% less than in 2011. This comes as an upshot of the slowdown in Bank lending and the shrunken loan portfolio, which led to less income from FX differences arising from lending activities.

7. Processing

During 2012, the Domestic Payment Operations Division within the Bank was relentless in efforts to strengthen daily operational control mechanisms in a bid to better support the sales divisions, which, in turn has a direct effect on the provision of quality services, increasing client satisfaction and raising loyalty levels. Much of the back-office operations were fully revised and adapted to customer needs. Activities in recent years in this scope of work were aimed at setting up bases for centralized management, thus establishing control and efficiency in the performance of daily operations.

7.1 Domestic Payment Operations

Domestic payment operations services were utilized in 2012 by 9,179 businesses, which represents a 22,0% increase over 2011, while the number of retail customers who took part in domestic payment operations reached 97,386, 10% more than in 2011.

During the course of the year, the Bank introduced a centralized process for opening and updating business accounts, thus establishing a strong control and quality instrument in that segment. As for the payment orders processing segment, there were improvements in the majority of activities by the automation of processes, which contributed to higher efficiency and speed in daily processing, which, in turns, offers greater trust and security in client eyes.

The safety of electronic payments and the advantages offered by electronic banking increased the number of users of all types of services that are part of the electronic banking packages. The clients used the existing services for:

- electronic payments;
- electronic monitoring of balances on denar and foreign currency accounts;
- electronic monitoring of available balances on credit cards;
- delivery of daily statements by e-mail to retail customers and businesses, and
- electronic processing of payment orders on loans and credit cards.

The number of standing orders increased as clients use this service to perform routine payments, mainly on utility bills and loan products.

7.2 Foreign Payment Operations

In 2012, the Bank noted growth in the scope of FX payment operations resulting from existing correspondent relations and the Bank’s proactive role within the Group.

There is considerable growth in FX inflows for retail clients, which was the result of the Bank’s brand recognition. The number of retail FX inflows in 2012 increased by 26% compared to 2011, while the FX inflows for business clients rose by 11%. This suggests that we should expect an increase in FX transactions, which is one of the Bank’s ultimate goals.

8. Information technology

The Organization and IT Division plays a special role in the Bank’s organization and operations. In March 2012, a new 3-year IT strategy was adopted that anticipates migration to the Group’s software solution “IBIS Cluster”.

Project preparations began in the second half of 2012, thus laying the project foundations for:

- clarifying, defining and collecting the required information for drafting the Project Charter;
- defining the cooperation model with communication and escalation rules;
- defining the financial model with financial rules;
- defining the Project Charter, including the goals, scope, timeframes, resources, budget, organization, risks;
- appointing dedicated project resources;
- all other activities for launching the project preparation phase.

The project for migrating to the Group software solution is scheduled to get underway in the second quarter of 2013.

In 2012, internal resources were bolstered by hiring a team of programmers and administrators who completely took over the maintenance of the current software solution and who will be able to support the migration to the Group’s software solution.

One of the IT Division’s main activities was system stabilization and performance enhancement, which was carried out through the following steps:

- improvement of the overall system performances;
- minimizing downtime;
- changing the backup strategy for production databases;
- optimization and improvement of procedures and modules.

Other activities undertaken in the course of 2012 were the following:

- implementation of an online solution for processing cards through the “Cashy” processor;
- implementation of a process of automated processing of domestic payment operations;
- migration to the secondary location in the data centre of Telekom in Strumica;
- implementation of a new and improved fully redundant electronic mail server.
9. Marketing and Communication

The Marketing and Communications Department emphasized the importance of building a local brand in 2012, implementing a large number of activities in accordance with the marketing strategy and Corporate Social Responsibility (CSR) Strategy. The focus was placed on creativity, innovation, as well as the initiation of and participation in a larger number of CSR projects. This produced continuity in the Bank’s communication.

The marketing platform in 2012 created benefits. Existing new Bank products were promoted via several communication channels and in a hybrid way, i.e. traditional TV ads alone were not used, but also shorter commercial forms, such as ‘pre’ and ‘post-Roll’, interactive web ads, animations, etc. We also created presence on the social networks – Facebook, as an inevitable tool in the marketing platform. Indeed, the products promotion and the use of marketing tools were shaped by the consumers and their needs, as the only way of gaining new advantages, while not losing the old commercial advantage. We also worked on educating our employees to sell the new products.

Active communication using PR activities was also part of the marketing platform. These PR activities ensured interesting and continuity in the Bank’s communication.

9.1 New Products Promotion

We supported organizations whose fundamental mission is social engagement and partnership in creating benefits to society, with a special package of products and services with special perks for NGOs active on the territory of the Republic of Macedonia.

9.2 Projects, Sponsorships and Events

We endorsed the sixth annual “Check In!” conference organized by Steiermärkische Sparkasse and the Austrian Federal Chamber of Commerce, on the topic “Invest in Macedonia”. The event was attended by some of the most influential people in politics and business from SEE countries and the main topic was Macedonia and its investment opportunities.

For the third year in a row, the Bank is the partner and general sponsor of the Film Festival “Manaki Brothers”. In support of arts and culture, during the days of the festival, the Bank carried out a series of activities in Skopje and Bitola, with a special accent on the education of the young, through Medo Shtedo workshops, in the domain of film, film camera and the magic of the seventh art.

Sparkasse Bank Makedonija is one of the eight banks that participated in the project of the Government of the Republic of Macedonia – “Buy a house, buy an apartment”. This was the 5th consecutive year that we supported the Kuklis festival “Horticulture Days,” organized by the “Kukla-Gradinar” Civic Association, also sponsored by the Ministry of Agriculture, Forestry and Water Economy, the local self-government and the business sector.

We marked the year 2012 as general sponsors of the movie “The Third Half”, directed by Darko Mitredski, and we were given the opportunity to witness a magnificent creation in the making. “The Third Half” is further proof of our commitment to supporting the movie industry in Macedonia.

Medo Shtedo

„For all wishes it worth saving with Medo Shtedo” is the catch phrase under which Sparkasse Bank Makedonija marked savings month by organizing promotional activities for our kids’ product “Medo Shtedo”.

In order to motivate, educate and encourage kids to save, throughout October, the Bank organized visits to a number of kindergartens in Skopje and organized open events and socializing with the mascot “Medo Shtedo”, through Medo Shtedo workshops, in the domain of film, film camera and the magic of the seventh art.

In cooperation with the Mavrovo Ski Center, Sparkasse Bank also took part in the annual charity race, with numerous surprises and gifts.

Mavno – partner of the ski centre and participation in the Humanitarian Cup

Sparkasse Bank supported the development of winter sports in Macedonia, in cooperation with the Mavrovo Ski Center. This long-term project in cooperation with S - Leasing was held for the 3rd time in a row. Always ready to act and support the true goals and needs of our society, Sparkasse Bank also took part in the annual charity race, with numerous surprises and gifts.

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In order to motivate, educate and encourage kids to save, throughout October, the Bank organized visits to a number of kindergartens in Skopje and organized open events and socializing with the mascot “Medo Shtedo”, every weekend in the “Kids Land” play center in Ramstore Mall. At the end of the month, the “Humane Week of Sparkasse Bank” was organized, which was attended by children without parental care from the orphanage “11 Oktomvri” – Skopje and “SOS Children’s Village”, children with special needs from the school “Zlaten Sremac”, children with autism, ADHD and Asperger syndrome in cooperation with the civic association “In my world” and other rare and specific, in conjunction with the organization “Humane Heart”.

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Sparkasse Bank supported the development of winter sports in Macedonia, in cooperation with the Mavrovo Ski Center. This long-term project in cooperation with S - Leasing was held for the 3rd time in a row. Always ready to act and support the true goals and needs of our society, Sparkasse Bank also took part in the annual charity race, with numerous surprises and gifts.
10. Corporate social responsibility

A socially responsible relationship has great legitimate, ethical and economic justification and is part of our sustainable development in society as a Bank. We see social responsibility as actually forming “common values” and our role is to create value for all stakeholders in a way that will also create value for the society in which we live.

The commitment of our Bank to social responsibility, its essence and areas in which it is active is the corporate identity and presents an advantage that is seen as a strategic resource when building credibility and support for the clients.

Partnership with the Film Festival “Manaki Brothers”, sponsorship of the movie “The Third Half”, the programme “Best of South-East”, the employees targeted project “Ideas Exchange” are projects with a tradition that is honoured each year, already into its fourth year. They are complemented by many other different types of projects. Looking through the prism of our approach for corporate social responsibility, we mostly focused on events in culture, with an accent on film art, education, that enables us to also attract quality personnel and also protect the environment.

Our most distinct characteristic in the implementation of the social responsibility strategy is the effort that we selflessly put into the promotion of this concept in our country, through our internal employee projects, as well as through projects of public interest or areas in which it is active is the corporate identity and presents an advantage that is seen as a strategic resource when building credibility and support for the clients.

The project “Best of South-East” is a project conducted in cooperation with the University of Graz and Steiermärkische Sparkasse to encourage and additionally educate graduates and students from the Republic of Macedonia. The purpose of the program is to offer opportunities for gaining international work experience, training, and additional education, thus easing the students’ entry into the workforce.

In 2012, the project “Best of South-East” was implemented by Sparkasse Bank Makedonija in conjunction with the Faculty of Economics within the University Sts. “Cyril and Methodius” - Skopje. Of the 30 best students selected, three students from Macedonia became participants in this programme.

In an effort to encourage healthy habits among the young, Sparkasse Bank Makedonija and the Red Cross of Centar Municipality – Skopje, designed and conducted training courses and lectures on healthy living habits. The lectures were held last year in 15 high schools in Skopje.

The main objective of this project was – through Q&A with the young, advice and the opportunity to participate in a rewarding or humane activity, to instill confidence in the young, personal responsibility and responsibility for our environment.

Through practical exercises and education, the teenagers got to see how our Bank operates, given that it is a desired employer among the young, as well as the essence and benefits of saving, as part of our daily life.

The first blood donation campaign in the Bank was organized in June 2012, which also constituted the beginning of the cooperation between Sparkasse Bank Makedonija and the Red Cross of Centar Municipality. Roughly 30 Bank employees responded to the call. The Bank is specific for the fact that most of its employees are young people, and as a result of this 80% of them were first-time donors which made the action more than successful.

The Red Cross of Centar Municipality inceptioned the partnership with Sparkasse Bank Makedonija at the initiative of some Bank employees, who expressed wishes to become members of the organization. In the first half of 2012, the basic Red Cross organization was formed and it has 40 members. It was actively involved in the election process at Red Cross Centar, where it has one delegate’s seat in the assembly.

By encouraging the innovation of Sparkasse employees, we recognize than the investment in continuous process innovations and innovations in the final product, is a precondition for meeting client needs. The aim of the project “Ideas Exchange” was to enable the employees to have a complete say in our operations, because the cornerstones of the main business activities are the development markets, new technologies, expertise and employee ideas. Innovation is the driving force of the entire world.

This project is into its second year and has met with positive reactions among employees, who are stimulated to put more effort in the development of products and greater creativity in designing something more diverse and different on the market in the Republic of Macedonia.

Sparkasse Bank Makedonija social awareness is acknowledged by the Ministry of Economics of the Republic of Macedonia and the Coordination body for social responsibility of enterprises. As organizers of the competition “National Award for best socially responsible practices of Macedonian enterprises for 2011,” they awarded Sparkasse Bank Makedonija the recognition for participating in the competition for the project “Employee Care”, in the category “Employee relations in large enterprises.”

The employees are our main advantage. Their development through training seminars, sharing of ideas and experiences is of essential importance for the Bank. The internal team of experts is the guarantee that the methods we use for any kind of project are always the best methodology in the field of Bank operations. The Bank strives to take care of its employees, to stimulate them and raise the standards of work. Internal resources are our vital component in overall Bank operations.
11. Human resources

The focus of the Human Resources Department in 2012 corresponded with the Bank’s strategy, i.e. harmonization of the operations with Group standards and fulfilling the vision and mission of the Bank in order to achieve higher satisfaction and security for our employees, and also building trust among our clients and partners.

The key goals were directed toward differentiating a critical mass of high-quality personnel from the existing human resources, proper allocation of internal resources and hiring new qualified personnel as needed. In conjunction with the organizational units, we selected a professional team that will ensure long-term progress and business stability. In 2012, a new practice was introduced, announcing new job openings internally, which allows employees to advance in their careers, in addition to bringing adequate redistribution and development both for the personnel and the business. An accent was placed on maintaining continuous training to raise the level of employee skills and knowledge, particularly the development of line management. For the key personnel, the required additional qualifications were identified and the relevant know-how transfer was designed.

The Bank had the goal of providing a work environment that is stimulating and supportive, providing competitive working conditions, increasing the motivation and job satisfaction of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services. The year was marked with changes and optimization of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services. The year was marked with changes and optimization of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services. The year was marked with changes and optimization of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services. The year was marked with changes and optimization of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services. The year was marked with changes and optimization of all employees and achieving a higher quality of delivered services. The year was marked with changes and optimization of organizational processes, new job systematization was prepared, the catalogue of job positions was revised and a new system for services.

The Bank will carry on its activities in the human resources segment. Investment in employees and their satisfaction is our main aim in the next years, as well as providing a healthy work setting, in keeping with regulations.

12. Internal Audit

The Internal Audit Division is an independent organizational unit, whose organizational setup and responsibility are regulated by the Bank’s Supervisory Board.

The unit answers for its work directly to the Audit Committee and the Supervisory Board.

Internal Audit has an independent, objective and advisory role, designed to raise the value and improve the organization’s operations. It helps the Bank achieve its goals through the application of a systematic and disciplinary approach to the evaluation and enhancement of the effectiveness of risk management, control and the management process.

The audit activities were affected to a certain degree by the personnel changes, changes in the Organizational structure and processes, adoption of the new Strategy for abandoning the old IT system and transferring to the Group’s BIS, as well as the necessary efforts relating to the NBRM requirements concerning the Bank’s responsiveness to NBRM recommendations. This Division implemented all legal obligations related with the reports, and also prepared a large number of audits findings in accordance with risk evaluation. This Division also monitored the implementation of the measures prescribed in its reports and filed quarterly reports with the Audit Committee and the Supervisory Board.

In the course of 2012, the Internal Audit Division prepared the Annual Plan, the 3-Year Strategic Plan (2013-2015) and the Risk Evaluation Methodology.

A draft report on Rules of Procedure was also written, which represents harmonization with Group standards, while complying with national regulations. Furthermore, an Information systems audit procedure was also adopted.

The aforementioned documents were approved by the Audit Committee and adopted by the Bank’s Supervisory Board.

This Division conducted consistent and full audits of the regular audits in order to provide:

- evaluation of the services that the Bank gets from outsourced companies and
- Internal Audit Division personnel are employed by the Bank and they work only for the Division.

Moreover, the Internal Audit Division performs other duties, such as proving support to external auditors and supervision by the NBRM, as well as consultative and other services at the request of the Supervisory or Management Board. In 2012, this Division conducted an audit of the Bank’s responsiveness to the NBRM risk-related findings and recommendations.

In its operations, the Internal Audit Division follows the guidelines set out in the Audit Map, in accordance with Group standards.

Pursuant to the Banking Law, the performance of the Bank’s Internal Audit Division, presented in the Annual Report on Division Operations, is evaluated by the Supervisory Board, which, in turn, reports its opinion to the Bank’s Shareholders’ Assembly.
13. Anti-money laundering and terrorism financing

In 2012, the Bank successfully handled risks associated with money laundering and terrorism financing in an effort to preserve and protect its integrity. The system in place complies with domestic regulation, as well as with Group standards, thus helping to build trust with clients and establish culture, where adherence to regulations and established standards plays an integral part in the business relationship.

Speaking in terms of organizational setup, the Bank has ensured the full independence of the anti-money laundering and counter terrorism financing service in the form of a Department that answers directly to the Bank’s Management Board.

The following measures were taken as part of Anti-money laundering and terrorism financing terrorism (AML-CFT) efforts:

- continued monitoring of AML-CFT regulations and standards,
- reports preparation to the Bank and Supervisory Boards, internal acts harmonization with regulation changes and amendments, coordination of activities for implementing changes exclusive to the AML-CFT, as well as modifications applicable to other organizational parts, cooperation with internal audit and instructing other organizational parts on measures needed in order to be in compliance with AML-CFT rules, as well as with Group standards;
- cooperation with regulatory bodies in the sense of: cooperation during control, submission of accurate reports within given deadlines, receiving orders from the Financial Intelligence Office and execution thereof as prescribed;
- reporting lines have been put in place in accordance with Bank regulations, standards and internal needs, reports preparation to the Group in keeping with requirements, and active participation in Compliance/AML Group projects, and submission of requested analyses and data at the request of the Group;
- preparations were made to launch a very important project for administration of client files, as well as provide support throughout, which led to its successful completion;
- active participation in providing consent, i.e. opinions and limitations from the aspect of AML-CFT;
- regular reporting to the Management Board on all identified problems in Department operations and proposals for rationalizing essential work processes, all conditions that are required or essential for work, problems identified in other Bank areas, which affect Department operations or the risk of money laundering, and any failure to comply with the requirements submitted by the Department;
- training courses have been carried out in accordance with the annual training plan by the principal of personal physical presence, trainings of trainers and reporting to the Management Board about the training topics and the number of employees which participated in those training sessions.

Continued increase of professionalism and problem area knowledge, coupled with know-how in the field of combating money laundering and terrorism financing, is a source of experience when it comes to identifying the products, customers and activities that pose risks associated with money laundering and terrorist financing, as well as a source of identifying ways and methods to commit these criminal acts.

14. Control and compliance with regulations

In 2012, the Control and Compliance Department conducted its activities within its scope of competence and in accordance with the applicable laws and planned operational activities for 2012 (hereinafter referred to as: the Plan), as follows:

- identification and risk evaluation from non-compliance to which the Bank is or might be exposed;
- advising the Management Board and other persons responsible on the implementation of applicable laws, standards, rules and other regulatory requirements, including reporting developments in these areas;
- issuing the prescribed and insider information related with the Bank as a company with special reporting obligations in accordance with the Law on Trade Companies and the Law on Securities;
- prevention of abuse of insider information and conflicts of interest;
- training employees in the Bank and associates..

The Control and Compliance Department successfully implemented the measures for prevention of insider information abuse and conflicts of interest pursuant to regulatory requirements.

During its work, the Control and Compliance Department found no irregularities or non-compliances.

15. Corporate governance

SUMMARY OF MOST IMPORTANT FACTS

In 2012, the Management Board Cabinet carried out all activities within its competences in accordance with applicable laws and corporate management regulations for 2012, as follows:

- induction of the newly appointed members of the Management Board, the appointed Chairman of the Management Board and key boards/committees;
- revision of the Code of Corporate Governance and the Code of Ethics and related employee training courses;
- the Code of Corporate Governance was harmonized with Group standards;
- regulatory and legal supervision of the corporate governance brought significant progress in the identification of changes in the Bank, changes in the Bank’s Statute pursuant to legal and regulatory requirements and Group standards;
- continued to follow and evaluate the regulatory developments have the necessary knowledge, ability and expertise.

The Supervisory Board respects the professional and gender diversity in the Bank, particularly in the process of appointing members of the Management Board and forming proposals for the election of members of the Supervisory Board. For the purpose of international Bank activities, the Supervisory Board has an appropriate number of members with extensive international experience, as well as an appropriate number of independent members.

The members who represent our shareholders were elected at the Shareholders’ Assembly in 2008 and appointed on 27th November 2008, with the exception of Sava Ivanov Dalbokov, who was elected to the Shareholders Assembly in 2010 and appointed on 11th November 2010, and Hans Ludwig Desire, who was elected at the Annual Shareholders meeting held in 2012 and was appointed to the Shareholders Assembly on 31st May 2012.

Audit Committee

In the course of 2012, the Audit Committee held 7 meetings. The Audit Committee monitors financial accounting, including the accounting process and effectiveness of the internal controls system, risk management, the efficiency of the risk management system in particular, as well as the efficiency of the internal audit system, the harmonization and audit of annual financial reports. The Committee reviewed the documentation pertaining to the annual financial reports and analysed the audit reports with an external auditor. Members of the Audit Committee, as of 31st December 2012 are Sava Dalbokov, Franz Kerber, Walburga Steidl, Hans Ludwig Desire, Panče Jovanovski and Ljupko Pecov.
Members of the Supervisory Board of Sparkasse Bank Makedonija AD Skopje

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<tr>
<th>Member Name</th>
<th>Main activity</th>
<th>Areas of responsibility and main business activity</th>
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<tr>
<td>Sava Ivanov Dalbokov</td>
<td>Chairman of the Supervisory Board of Sparkasse Bank Makedonija AD Skopje</td>
<td>• risk management; • human resources; • compliance with legal regulations; • prevention of money laundering and financing terrorism; • organisation and IT; • legal activities; • coordination with MB Cabinet; • coordination with internal audit; • Member of Risk Management Board, IT Monitoring Committee and ALCO.</td>
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<td></td>
<td>Deputy Chairman of the Supervisory Board of Erste &amp; Steiermärkische Bank AG, Rijeka</td>
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<td>Member of the Supervisory Board of Erste &amp; Steiermärkische Bank AD, Sarajevo</td>
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<td>Member of the Supervisory Board of Sparkasse Bank AD, Ljubljana</td>
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<tr>
<td>Franz Kerber</td>
<td>Director of Strategic Risk Management in Steiermärkische Bank und Sparkassen AG, Graz</td>
<td>• processing; • accounting and control; • activities of the property office; • coordination with security activities; Member of IT Monitoring Committee and ALCO.</td>
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<td>Member of the Supervisory Board of Sparkasse Bank Makedonija AD Skopje</td>
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<td>Member of the Audit Committee of S Leasing, Belgrade</td>
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<td>Member of the Audit Committee of Sparkasse Bank AD, Sarajevo</td>
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<td></td>
<td>Member of the Risk Management Committee of the Association of Austrian Savings Banks with joint responsibility</td>
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<td>Walburga Seidl</td>
<td>Director of Finance in Steiermärkische Bank und Sparkassen AG, Graz</td>
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<td>Hans Ludwig Döser</td>
<td>Partner in Polenak Law Firm</td>
<td>• risk management; • human resources; • compliance with legal regulations; • prevention of money laundering and financing terrorism; • organisation and IT; • legal activities; • coordination with MB Cabinet; • coordination with internal audit; • Member of Risk Management Board, IT Monitoring Committee and ALCO.</td>
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<td>Kristijan Polenak</td>
<td>Chairman of the Chamber of Commerce of the Republic of Macedonia</td>
<td>• risk management; • human resources; • compliance with legal regulations; • prevention of money laundering and financing terrorism; • organisation and IT; • legal activities; • coordination with MB Cabinet; • coordination with internal audit; • Member of Risk Management Board, IT Monitoring Committee and ALCO.</td>
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<td>Blanko Azecki</td>
<td>Director of International Division of Steiermärkische Bank und Sparkassen AG, Graz</td>
<td>• processing; • accounting and control; • activities of the property office; • coordination with security activities; Member of IT Monitoring Committee and ALCO.</td>
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Management Board

A few changes were made to the Management Board in 2012. Srgjan Krstić and Vladimir Ettimoski withdrew from office as Chairman of the Management Board and member of the Management Board, in February 2012 and April 2012, respectively. Their functional competences were taken over by the member of the Supervisory Board, Sava Dalbokov, who acted as member of the Management Board for a period of 6 months. At the end of 2012, the Bank appointed two new members of the Management Board.
SPARKASSE BANK MAKEDONIJA AD SKOPE  
2013 BUSINESS POLICY AND DEVELOPMENT PLAN

A. Macroeconomic Projections for 2013

While the preparation of the 2013 Business Policy was underway, Sparkasse Bank Makedonija (hereinafter: the “Bank”) based its business expectations on the Bank’s long-term Vision and Mission and the internal services’ estimates about potential and realistically achievable growth rates. In quantifying its business expectations, the Bank’s management took into consideration the available information from relevant domestic institutions, such as the National Bank of the Republic of Macedonia (hereinafter: NBRM), and the Ministry of Finance, which came out with their own analyses and expectations concerning the main macroeconomic parameters in 2013.

NBRM’s expert bodies made a downward adjustment of the latest macroeconomic projections and consolidated their expectations for 2013 to more moderate growth rates. In accordance with the domestic economy’s performances and results to-date, NBRM, and the Ministry of Finance, which came out with their own analyses and expectations concerning the main macroeconomic parameters in 2013.

The forecasts of the Government of Republic of Macedonia, quantified by the projections of the Ministry of Finance concerning the expected economic growth rate of GDP in 2013, suggest that it may reach 2.0%, which is not significantly different from NBRM’s statistical data. At the same time, this corresponds with the projections of the European Bank for Recovery and Development for our economy, estimated at 1.8%.

The Government lists the following as its global economic policy priorities in 2013:
- maintaining strong public financing;
- providing sustainable economic growth, increasing the employment rate and reducing the poverty rate by raising competitiveness, investment growth and improvement of the business climate;
- further development of agriculture and economic infrastructure;
- maintaining macroeconomic stability through fiscal and monetary balance and consistency;
- achieving 0.2% Return on Assets (ROA);
- improving the collection process among corporate clients and implementing a rating system for retail clients;
- launching a project to replace the banking information system;
- improving cost control and profitability;
- centralization of back office functions;
- launching a project to replace the banking information system; and
- reducing the share of non-performing loans in the portfolio.

B. Business Policy Objectives and Tasks for 2013

The Bank’s global strategic commitments, its Vision and Mission were defined as soon as it was acquired by Steiermärkische Bank und Sparkassen from Graz as a dominant shareholder. The business objectives define the activities planned for 2013 in more detail and are geared toward realising the Bank’s non-financial and financial strategic objectives. The key non-financial objectives of the 2013 Business Policy are presented in the Bank’s Mission and they remain the same - maximizing the values of the three major target groups:

- clients – providing quality services and structuring the offer with products arising from and addressing their needs;
- shareholders – increasing the equity value;
- employees – organizing a process of on-going training and advancement, as well as the introduction of an adequate rewards system.

The 2013 strategy of Sparkasse Bank is focused on achieving the revised objectives by optimizing its internal resources, business network, risks and expenses, whilst complying with regulatory restrictions. The priorities and tasks of the Business Policy in the upcoming period remain as follows:
- increasing market share and improving market presence;
- improving the quality of the loan portfolio by granting loans to creditworthy companies with quality projects;
- improving efficiency and effectiveness by developing and improving business processes;
- increasing the share of “a vista” deposits and long-term foreign currency deposits in the overall deposit base;
- maintaining a high capital adequacy rate.

All of the objectives and measures mentioned previously are expected to result in the achievement of the main financial objectives of the Bank’s Business Policy:
- achieving a liquidity indicators prescribed by the regulatory body;
- increasing the share of non-performing loans in the overall portfolio;
- increasing the share of foreign currency deposits in the overall deposit base;
- maintaining strong public financing.

Quantified into key indicators, the financial objectives of the Bank’s Business Policy foresee the following:
- achieving 1.4% Return on Equity (ROE);
- achieving 0.2% Return on Assets (ROA);
- 131.0% Loan to Deposit Ratio;
- 59.7% Cost/Income Ratio;
- 16.1% Share of non-performing loans in the overall loan portfolio;
- 83.6% Non-performing Loan Coverage Ratio;
- 1.9% ratio of risk costs to total loan portfolio (ARCI) at the end of the year.
1.1 Operational Liquidity Management

The Bank’s liquidity represents the Bank’s readiness to settle all due liabilities at any moment. Liquidity is an indicator of a bank’s business capability and efficiency, which is a prerequisite for ensuring the clients’ trust. The bank’s liquidity reflects the depositors’ trust, thus enabling its uninterrupted operation in uncertain and risky operating circumstances.

The process of liquidity management includes undertaking measures and activities for maintaining the same at optimal levels. With this in mind, the Bank will manage operational liquidity by maintaining:

- primary liquidity reserve;
- secondary liquidity reserve;
- liquidity loans.

The primary liquidity reserve is comprised of denar and foreign currency cash (vault and treasury cash, funds in current accounts in domestic and foreign banks, as well as in the operational current account at NBRM) which may be converted into the required liquidity in the easiest and fastest way. The primary reserve, as needed, may vary between 4% and 10% of the total assets.

The secondary liquidity reserve supplements the primary reserve in case the cash flow of the latter has been exhausted. The secondary reserve is comprised of investments in short-term securities issued by the Central Bank, short-term domestic government securities, possibly long-term domestic government securities, which are highly liquid and traded on the secondary capital market, and liquid corporate securities from large solvent banks and companies.

The liquid securities comprising the secondary reserve will have short maturity periods, guaranteed collection at maturity and may be converted into cash quickly and without high losses prior to their maturity. Unlike the primary reserves, which are mostly non-interest bearing placements, the secondary reserves are interest-bearing placements with a defined, but not very high active interest rate. However, the secondary reserves are primarily used as liquidity reserve, and secondarily for profitability purposes.

If needed, the secondary reserve would vary between 10% minimum and 15% maximum of total assets, depending on the restrictiveness of the monetary policy and the available instruments on the market, that is, the level of secondary reserve will be counter-proportionate to the restrictiveness of the monetary policy.

Liquidity loans will be used only in case of insufficient primary and secondary liquidity reserves, that is, for temporary coverage of cash deficits and as investment of operational cash surpluses. If cost-effective and available, liquidity loans can also be used as a primary source for ensuring liquidity. However, due to weak market accessibility, and provisional and limited availability, they are the tertiary form of liquidity reserve.

In its business policy related to this essential part of operations, the Bank will operationally plan, monitor and maintain:

- an adequate level of statutory reserve, as well as satisfactory levels of denar and foreign currency liquidity indicators, as regulated in NBRM’s Decision;
- achieving the internal liquidity indicators;
- monitoring of the status and transactions on depositors’ accounts, including setting short-term (weekly and monthly) schedules of all inflows and outflows;
- monitoring of maturity coordination between receivables and liabilities;
- maintaining liquid assets at optimum level in order to have daily coverage of all requirements for liquidity of due current liabilities.

1.2 Currency Position Management

The main instrument for managing currency risk is the open foreign currency position – a basic indicator of the Bank’s exposure to currency risk. In 2012, the Bank continuously maintained its open foreign currency position within the legally prescribed limits, individually by currency and at aggregate level of up to 30%.

In 2013, the Bank will manage its currency position by:

- consistently implementing the Bank’s policy for currency risk management;
- maintaining an adequate currency structure of foreign currency assets that will, depending on FX exchange rate movements, allow foreign exchange gains;
- analysing the effects of currency risk management on the Bank’s operating results;
- taking specific measures for identifying, measuring, monitoring and controlling the currency positions via:
  - monitoring of economic and other conditions in which the Bank operates, for the purpose of foreseeing potential adjustments in foreign currencies and denars with foreign exchange clauses, and changes in the foreign exchange rates;
  - identifying sources of currency risk;
  - currency risk measurement methods;
  - setting limits;
  - reporting forms.

The internal criteria for successful management of currency position are as follows:

- accurate and timely information flow;
- complete and efficient interaction among all head offices and departments involved in the process of currency position management;
- clearly defined functions, duties, and levels of delegated authority and responsibility.

1.3 Securities Investment and Management

According to the Business Policy for 2013, the Bank will continue to perform the prescribed internal activities undertaken in cases when the Bank, on its own behalf and for its own account, trades with equity securities and debt securities (shares, bonds and other instruments that may be traded on the domestic capital market). The Bank will do this in compliance with the Law on Securities and other laws and bylaws, taking into account the trading limits for specific securities and instruments, the list of authorised securities that may be traded, authorised market participants, prohibited actions related to operations with the said securities, settlement of securities transactions, recording ownership of securities and other issues within the domain of securities trading.

The Bank will continue to invest in shares and bonds listed on the Macedonian Securities Exchange and will invest in securities issued by the Ministry of Finance and the National Bank.

Securities position management always plays a key role in maintaining an adequate liquidity position and improving profitability by investing the surplus of free assets in government and treasury bills. This segment of operations envisages the following activities:

- active monitoring and participation in auctions organised by the monetary and fiscal authorities, in accordance with the favourability of the offered yield rate;
- investing in treasury bills;
- investing in government bonds (denars and denars with foreign exchange clause);
- investing in government bonds on the domestic and foreign market;
- capital investments in shares of solvent and profitable domestic companies;
- calculating and measuring internal indicators and their maintenance within prescribed limits;
- diversifying and managing the securities investment risk by investing with adequate maturity limits;
- managing short-term securities investments aimed at meeting regulatory requirements for the prescribed liquidity minimums up to 30 and 180 days.

PROGRAM OF MEASURES AND ACTIVITIES FOR ACHIEVING THE 2013 BUSINESS POLICY STRATEGIC OBJECTIVES
2. Corporate Strategy and Working with Commercial Clients

In 2013, the Corporate Management Division plans to dedicate its activities to strengthening its capacities and increasing and improving the quality of the loan portfolio. The strategic principle is to be a strong partner to our clients and offer attractive and sustainable solutions that will match their financial needs. The main strategic priorities this year are as follows:

- Increasing the loan portfolio by further supporting our existing clients and attracting new solvent clients;
- Increasing the “a vista” deposits base, but also attracting long-term foreign currency deposits;
- Shifting the focus to sales of loans in the domestic currency;
- Supporting net-exporters by offering favourable terms;
- Supporting the clients when it comes to letters of credit and guarantees, as well as documentary collection by improving the terms and making the decision process faster and more efficient;
- Introducing new products in the products catalogue for commercial clients and continuously improving existing ones in accordance with our clients' requirements and for the purpose of addressing their needs:
  - Introducing the Overdraft – Framework loan for gyro accounts;
  - Introducing a service package for corporate clients (VIP/Gold);
  - Improving project financing;
  - Cross-selling;
  - Introducing the FIT Payment 2.0 – fast cash transfer (foreign currency transactions) within the EGB and STSP Group;
- Amending the operational policies and procedures in order to ease the accomplishment of the Division’s objectives;
- Strongly focusing on pricing methods;
- Best transaction services (daily banking / non-risk products), domestic and foreign payment operations, improving electronic banking.

Key objectives of the Business Policy for 2013 are as follows:

- Active relations with the clients – relationship, offers and services will be the key instruments for winning the loyalty of existing clients and increasing the number of new clients;
- Establish a new service department – Corporate Service Centre – CSC, within the Commercial Management Division;
- In order for the Corporate Management Division to provide overall services to corporate clients, i.e. loans, foreign payment operations, electronic banking, debit cards for businesses, deposits, assistance in resolving client claims, etc, opening this Centre is of great significance to the Bank. This service centre’s establishment is expected and planned to improve services to corporate clients.

3. Retail and Branch Network Management

With regard to loan and deposit operations with retail clients, the Retail Management Division will focus on the following activities:

- Active denar loans sales and offer, credit cards and permitted overdrafts on gyro accounts in order to increase profitability;
- Actively promoting and selling deposit products with a focus on interrelated sales of long-term deposits in EUR and attracting “a vista” retail deposits;
- Introducing new and revising existing loan and deposit products in order to meet the needs of existing clients and attract new ones, as well as adapt to market changes;
- Developing and introducing products and services for specific target groups;
- Increasing non-interest earning revenues by introducing new commissions and fees, and revising existing ones;
- Targeting solvent companies and creating offers for their employees;
- Maintaining current, and establishing new business relations with construction companies in terms of financing apartment sales, in a bid to increase long-term placements for specific purposes;
- Continuous and active monitoring of market conditions, shifts in the business landscape, and adapting to trends in the banking sector for the purpose of maintaining the Bank’s competitiveness.

As far as alternative distribution channels are concerned, the following activities will be undertaken:

- Improving the features of existing credit card products by introducing non-interest payments in instalments and SMS notifications for card-based transactions;
- Introducing new products and co-branded cards;
- Expanding the network of ATMs and POS devices and relocation of existing ones in case of insufficient utilisation. Considering the prospect of obtaining a license to accept VISA cards at the Bank’s POS devices;
- Implementing a new technical solution for electronic banking which includes new functions addressing client needs;
- Implementing a mobile payment solution in cooperation with T-Mobile Macedonia for holders of Bank gyro accounts in the Bank.

Regarding the network of branch offices, the Retail Management Division will keep up activities designed to:

- Improve services, increasing client satisfaction and raising loyalty;
- Raise the level of communication with clients by improving and developing the communication and sales skills of branch employees;
- Cross-selling activities for overall sales improvement;
- Support the branch network in daily activities with a view to providing quality services and successful sales results;
- Organizational and personnel development by way of continuously training employees in branch offices in order to increase their knowledge;
- Evaluating the employees’ knowledge by conducting tests on various operational aspects;
- Maintaining standards for a stable and quality loan portfolio by intensifying collection activities.
4. Risk Management and Collection

4.1. Risk Management Policy

In 2013, in the area of risk management it is planned to further develop the risk management system, especially in the segment of new risk management perspectives, that is, placing risk management in a support function to improve the loan process. This includes achieving the desired portfolio growth by improving the credit risk management process, while controlling risk parameters and indicators. Major limiting factors to the achievement of these objectives may be the newly expected wave of impacts resulting from the economic crisis, and the reduced liquidity of the clients on the market, and at the same time the internally instigated processes such as the project for implementation of IBIS, the limited resources of the banking system, and the limited know-how.

One of the 2013 priorities is the adequate implementation of the 2013 plan for the Risk Governance Projects, including harmonisation and approximation to the Group's standards for risk management.

In regard to credit risk management, the following activities have been envisaged:

- improving the loan portfolio quality which will be achieved by:
  - targeted acquisition of clients with better internal rating (4.5) and clients working in acceptable industry sectors;
  - integration of KRIM APIs in the loan-approval process for retail clients;
  - defining a financial model for certain client segments, and efficient execution of exit strategies;
- more efficient management of transaction risks, involving improvements in cash-flow analysis and adequate structuring of loans intended as turnover cash;
- improving the process of collateral management by:
  - improving the quality of estimates concerning client creditworthiness by contracting experts in this area;
  - improved standards for cross-collateralisation, and maintaining an adequate level of quality of collateral data;
- improving service quality by:
  - understanding the needs of the clients and adequately structuring the offered products in accordance with client needs;
  - improving the quality of loan applications, and
- introducing a strategy for financing micro clients and
- developing and implementing a model for project financing.

Concerning strategic risk management, the priorities for 2013 are as follows:

- improving IT support for strategic risks in order to establish a quality database that will enable reports with better quality;
- developing a historical database in order to facilitate the calculation of risk parameters;
- developing a risk pricing model in order to improve the policy for determining risk-based prices;
- new regular reports as part of the MIS;
- improving the methodology for calculating impairments and special reserves;
- harmonisation of legislation novelties regulating the internal capital adequacy assessment process (ICAAP), and
- fully implementing the methodology for calculating liquidity indicators LCR and NSFR.

4.2. Workout and foreclosed assets management

4.2.1 Collection Improvement Measures

The need to improve the collection rates for non-performing loans is one of the basic priorities necessary to achieve the set goals. Therefore, the following activities are undertaken:

- introducing a software for collection monitoring among retail clients with >1 day default;
- changing the collection system by product to a collection system by client within the Workout Department;
- improving the technical capabilities for communication and monitoring of results (system monitoring of payments on daily basis);
- reporting by holding meetings for collection monitoring;
- increased contacts with debtors and direct on-site visits;
- aggressive collection through enforcement procedures for the purpose of achieving better results.

4.2.2 Collection Targets

The collection target is the sum of collected cash and assets acquired through foreclosure. Our focus will be preferred cash collection, as opposed to collection of foreclosed assets.

4.2.3 Foreclosed Assets Management Policy

The Bank’s strategy concerning foreclosed assets management includes the acquisition of property only in cases of known buyers with expressed intent to buy, which means fast and adequate conversion into cash.

Therefore, the following activities will be undertaken:

- drafting plans for sale of property acquired through foreclosure;
- active internet sales (continuous website updates with property acquired through foreclosure);
- direct contacts with potential buyers - private individuals and businesses and
- contacts with renowned real estate agencies.

4.2.4 Collateral Improvement Measures

The implementation of the new loan-processing system for retail clients and for on-site visits, will enable the active use of the data from the Workout Department, including

- improving the process of collateral management by:
- improving the quality of estimates concerning client creditworthiness by contracting experts in this area;
- improved standards for cross-collateralisation, and maintaining an adequate level of quality of collateral data;
- improving service quality by:
- understanding the needs of the clients and adequately structuring the offered products in accordance with client needs;
- improving the quality of loan applications, and
- introducing a strategy for financing micro clients and
- developing and implementing a model for project financing.

5. Pricing Policy and Assets and Liabilities Management

The Bank will frame its 2013 pricing policy in a way that will ensure product competitiveness, but also improve the interest margins. The current situation on European financial markets and the uncertainties surrounding the Eurozone are a sufficient indicator that the upcoming period will require more intensive monitoring of the fluctuations of active and passive rates and their harmonisation with market circumstances.

The internal operational body for conducting the key activities in this domain is the Assets and Liabilities Management Commission (ALCO) in charge of assessing the proper utilisation of prescribed limits (currency, interest, liquidity, securities investment risk). Also, the Commission evaluates and gives recommendations concerning the strategic positions for the purpose of profiting from certain mid-term and long-term investments.

In 2013, the focus will be on achieving an adequate level of profitability by maintaining the projected level of 2.0% net interest margin (calculated from interest-bearing assets and liabilities),
6. Human Resources

The implementation of the General Business Policy of Sparkasse Bank Makedonija in 2013 is related to the strengthening of top and line management, attracting highly professional staff that will bring additional know-how, knowledge and skills, contribute to the development of processes and services within the Bank, and will raise the capacity for delivering top services to clients, as well as building a new corporate culture.

In 2013, the Bank will implement and start using the new business processes organisation. It will develop and implement a basic rewards system, supplemented by a system of bonuses and key personnel performance indicators. Building these systems in a transparent manner, following the market, and creating competitive conditions will have an impact on increasing staff loyalty, dedication and motivation.

The policy for developing additional know-how and skills will also be the focus of 2013, with a special emphasis on improving client relations and sales skills. Personnel training and development will be conducted through external specialised training centres, exchange of employees within the Group, and internal transfer of know-how.

7. Marketing and Communication

The platform of the Marketing and Communication Department in 2013 will be based on the Bank’s benefits, that is, the promotion of quality services by way of promotion of existing and new Bank products. Product advertising will continue to focus on key sales indicators, product, price, distribution and promotion, with an emphasis on service quality. Based on the existing recognisable image, classic advertising services will not be used, except for traditional TV ads. Shorter forms, such as “pre-roll” and “post-roll” adverts, interactive web ads, animations, etc. will be used instead. Our Facebook page, created in 2012, will also be used as an advertising tool, since the presence on social networks is unavoidable, having in mind their influence. The product promotions and use of marketing tools mirror consumer needs, which will be based on the defined financial and non-financial objectives of the Bank’s Business Policy and the targets in the Marketing Plan.

The Marketing and Communication Department also suggests a proactive communication platform. More and more examples show the various aspects of new communication forms that are used by the Bank in an original and inventive manner, such as public announcements, press-conferences, organised events and sponsorships. We build the sponsorships by approaching long-term projects, in order to achieve long-term positive impacts. The events are our extended reach in the places where we operate, following the principle of target groups.

In the upcoming period, internal communication within the Bank will be reflected, above all, in the personnel development via trainings, and sharing of ideas and experiences. Our employees are our best competitive advantage. Therefore the internal team of experts is a guarantee that the methods used in any project are of top quality in the Bank’s operating domain. The Bank’s commitment to caring for its employees, encouraging, and raising their work standards will continue in 2013. Then there is the project Ideas Exchange.

In 2013, the Bank will place an emphasis on corporate social responsibility. This year we are planning to achieve significant progress with the new CSR projects. We have the strategic direction and responsibility, where the database of good practices in this case refers to topics which are of highest relevance for wider social development and are grounded in social, economic and community relations. The projects have to be in compliance with the ethical, moral and all other corporate values of Sparkasse and our Group. Viewed from the perspective of our approach to CSR, we will focus mainly on culture, particularly film, education, protection of the environment and employee relations.
8. Property Management and Cost Control

In 2012, the Bank implemented a project aimed at improving the efficiency and cost-effectiveness of its operations and establishing a cost control system, which resulted in optimizing many costs related to administrative operations and the operations of the branch network. The 2013 Business Policy also gave special attention to controlling non-productive expenditures for the purpose of maximizing financial results. The project will continue in 2013 with the same objective - better management of procurements (price reductions, quality improvements, stable procurements) and optimization of work processes for the purpose of lowering non-productive costs.

The 2013 Business Policy includes continuous improvement of this process by establishing an internal monitoring and reporting system that will ensure rationalisation and additional cost-cutting. As an additional activity in the same direction, we might mention the project for linking the Bank to the Group’s procurement system and the utilisation of the benefits thereof. The key area where this measure is expected to produce effect and cost-saving is IT expenses, electronic services and communication services.

The activities performed during the project for reducing and optimizing administrative costs will remain in force as a daily obligation for the respective departments:

- constant revision of existing contracts with suppliers of various types of services for the purpose of harmonisation with market prices;
- decision-making based on the principle most favourable bidder, without proceeding service quality;
- identifying areas of potential savings and improving the cost/revenue ratio as a main objective and indicator of efficiency.

A long-term imperative of the Bank’s management is the simplification of business processes and maximisation of their efficiency. Therefore, the 2013 Business Policy envisions additional activities for the same purpose:

- implementation of cost centres in accordance with the latest organisational structure and implementation of monthly cost monitoring and cost centre level;
- direct involvement, education and notification of the employees as bearers of the cost budget with a view to achieving better effects by way of regularly reporting on the status of the set budgets.

The expected outcome of the activities mentioned above is incorporated in the 2013 Financial Plan.

9. Regulatory Compliance

Efficient corporate management in compliance with the high Group standards is part of our Bank’s identity. The Bank, as always, will continue to have responsible, value-based management and bank control through our system of corporate governance, more accurately through the four established key principles: good relations with shareholders, effective collaboration between the Management Board and the Supervisory Board, performance-based evaluation and rewards system for the management and the employees, as well as transparent and timely reporting. The fundamental basis for this, above all, is the established and implemented Corporate Governance Code.

The Management Board Cabinet is a tool that coordinates the bodies established by the Bank and enables adequate dissemination of information in the decision-making process. This role is continuously enabled through the following tasks and responsibilities:

- providing current and relevant information for the Management Board and the Supervisory Board;
- consulting and advisory services for the employees and the management at all levels, based on the instructions received from the members of the Management Board and the Supervisory Board on operational and strategic decisions;
- preparation and verification of the decisions adopted by the relevant Bank bodies.

The function regulatory control and compliance, as part of the Management Board Cabinet, will maintain efforts aimed at identifying inconsistencies within the Bank’s operations by conducting regular controls and staying abreast of regulations that may have an impact on the Bank’s business segments, on the overall banking operations, as well as regular harmonisation review of the business development, especially transactions, products and processes.

10. Anti-Money Laundering and Terrorism Financing

In an effort to facilitate the implementation of the outlined strategy and plan for 2013 in terms of increasing the volume of loans and deposits by attracting new clients, and by developing business relations with existing clients, the AML Division will strive to take an active part in the decision-making process for establishing business relations - opening accounts, and signing loan or deposit agreements. The accent will be on developing the process “know your client” which will be a significant element in client evaluation in order to develop a business relationship with serious companies, but also individuals, successful in their respective sectors and operating in compliance with the legislation. An integral part of this process is client risk profiling, which will be developed in the direction of achieving effective risk assessment for money laundering, financial crimes and terrorist financing. Such a classification of clients will enable efficient allocation of resources in regard to measures that have to be undertaken by the Bank in order to reduce the exposure to these risks.

11. Internal Audit

Nowadays, internal audit is a modern profession that evolved from an accounting oriented skill to a management oriented profession. Today, internal audit is considered a separate discipline with a much wider scope.

Internal audit has an independent, objective and advisory role, designed to increase the value and improve the operations of an organisation. It helps the organisation achieve its goals by applying a systematic and disciplinary approach to assessing and improving the effectiveness of risk management, process control, and management.

The main audit objectives in 2013 will be harmonisation with the Group standards, whilst complying with national regulation. This refers to internal acts, the form and content of the audit reports, and also to other methodologies and elements relevant to auditing. This is of great importance, since one of the key objectives of the Group is to have as much uniformity in all segments as possible, thus allowing easier comparability within the Group.

One of the division’s priorities in 2013 will be the operational improvement of reporting quality, and increasing the efficiency of all employees in the Internal Audit Division.

Internal audit is to provide objective and independent assessment of the adequacy and efficiency of internal audit systems, the accuracy of accounting records and financial statements, harmonisation of the Bank’s internal policies and procedures with the legislation in force, and the Bank’s general operational efficiency.

Systemic, objective assessments by the internal auditors of various activities and controls within an organisation are designed to determine whether:

- the financial and operational information is precise and reliable;
- business risks have been identified and minimized;
- external regulations and generally accepted internal policies and procedures are followed;
- the respective operating criteria are met;
- resources are used efficiently and cost-effectively;
- the objectives of the organisation are being met in an effective manner – for the purpose of providing advice to the management and assisting the members of the organisation to effectively perform their managerial duties;
- the adequate setup and implementation of the Internal Audit Division’s tasks is of particular importance to the Supervisory Board and the Bank’s shareholders.

In 2013, the Internal Audit will conduct its activities in accordance with the 2013 Annual Operating Plan of the Internal Audit Division, which has been approved by the Bank’s Supervisory Board pursuant to Article 96 on the Law on Banks, the Statute of the Bank and the internal operating acts.

At the same time, the Annual Plan has been drafted in accordance with the Group standards, on a daily basis by person, thus ensuring adequate evaluation and an opportunity to measure the performance of each individual within the Division.
Balance Sheet Plan

In accordance with the targets outlined in the 2013 Business Policy, the Bank’s total assets by the end of year should have a moderate growth of 4.4% compared to the previous year. The total assets growth will depend, above all, on the planned increase of the loan portfolio and cash, as opposed to the intention to reduce investments in securities.

1. Sources of Financing

1.1. Deposits from clients – the Bank’s deposit base is expected to increase its share to 51.3% of the Bank’s total sources. A 6.4% total growth of the deposit base is planned in 2013. At the same time, compared to 2012, the term deposits from retail clients are expected to increase 3.1%, and other deposits by 9.6%. The envisioned growth of total term and sight deposits from retail clients is 3.4%, whereas the anticipated increase of total deposits from commercial clients is estimated at 10.3%. The focus on this financing source is on sight deposits by retail and commercial clients, as well as on long-term foreign currency deposits by retail clients.

1.2 Loans and Borrowings – the gap between the planned growth of assets on one hand, and of liabilities and equity on the other, will be financed by long-term borrowings in the form of credit lines from foreign banks and financial institutions. Aside from regular servicing of matured debt incurred by existing credit lines, it is planned to replace the short-term deposits in the amount of EUR 30.0 million from the parent bank with a long-term line of credit. Additional EUR 10.0 million will be withdrawn from the EIB, and the remaining funds will be obtained from EBRD, MBDP and IFAD, as well as from certain domestic banks in the form of short-term liquidity loans.

1.3 Capital and reserves - in 2013, no increase in equity by issuing additional shares is planned, and the only equity growth has to do with reinvesting the anticipated annual profit.

2. Assets

2.1 Monetary assets and cash held in foreign banks - the planned increase in cash and monetary assets held in the National Bank and foreign banks is 24.1% compared to 2012. The planned amount includes cash assets in sight and term nostro accounts in correspondent banks, cash in hand and cash in the accounts at the National Bank. The largest part of 61.3% of cash assets refers to the planned level of denar and foreign currency statutory reserve calculated on the basis of expected deposits at the end of the year. The remaining 38.7% largely apply to the planned amounts of cash required for optimal and unobstructed payment operations with foreign banks and transactions with correspondent banks arising thereof.

The planned amount will enable the maintenance of liquidity at the desired level, an adequate level of statutory reserves in denars and foreign currency, and meeting the liquidity indicators prescribed internally and by the regulatory body.

2.2 Loans to customers - in accordance with the trend analyses of previous years, and the estimation of the market absorption potential, in 2013, the Bank envisions 9.9% growth of the loan portfolio. Apart from available macroeconomic projections from relevant domestic institutions, upon preparing the planned figures, the relevant departments also took into account the information obtained from current projects and the expectations obtained through direct communication with the clients. In accordance with management’s strategy, 2.8% growth of the retail clients’ loan portfolio and 11.2% growth of the loan portfolio of financial and non-financial commercial clients (including the public sector) is foreseen. For the Bank, the envisioned growth will also mean a change in the portfolio’s currency structure in favour of domestic currency loans, which will in turn result in more favourable interest-earning revenues and general profitability.

Faced with still unstable macroeconomic surroundings, however, the Bank management’s main priority is to maintain the growth while successfully managing the risks arising from the planned and the existing portfolio.
2.3 Securities – in accordance with the strategies for liquidity management and investments in securities, the 2013 Business Policy sets out two key strategic changes in terms of investments in securities, which are as follows:

- the first refers to a reduction of the total invested amount by -17,1% by the end of the year,
- the second deals with the structure of securities, that is, restructurings EUR 7,5 million from short-term into long-term government bills. The main reason for this is the lowered interest rates on long-term securities, whereas the objective is to maximize profitability by simultaneously achieving the liquidity indicators prescribed internally and by the regulatory body.

Income and Expenditures Plan

1. Interest income and expenditures – in planning the interest incomes and expenditures, the Bank was guided by the existing and planned structure of disbursements and sources and their dynamics during the year. In accordance with these assumptions, the net planned interest income is projected to grow by 3,4%, and is lower compared to the previous year as a result of the reduced loan portfolio in 2012, the strategic principle to have controlled and moderate loan growth, and also due to the expected lowered average interest rate, as a result of the changed market conditions.

The investments in securities, that is, their restructuring in favour of long-term government bills, will have a positive impact on interest income. The expected revenue from this position is 10,3% higher than the revenue in the previous year. On the issue of liabilities, it is planned to reduce the interest expenditures by -28,7%. It is a result of several factors, the most important being:

- the effect of the lowered average interest rate on deposits deposited in 2012;
- the effect of the reduced concentration of large deposits by VIP corporate clients compared to 2012;
- planned moderate growth of the deposit base.

The net interest margin, as a difference between the interest-bearing assets and liabilities is projected at 3,0%.

<table>
<thead>
<tr>
<th></th>
<th>Average price of interest-bearing assets</th>
<th>Average price of interest-bearing liabilities</th>
<th>NET INTEREST MARGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>6,5</td>
<td>3,1</td>
<td>3,4</td>
</tr>
<tr>
<td>2011</td>
<td>6,2</td>
<td>3,1</td>
<td>3,1</td>
</tr>
<tr>
<td>2012</td>
<td>5,8</td>
<td>2,9</td>
<td>2,9</td>
</tr>
<tr>
<td>2013</td>
<td>5,1</td>
<td>2,1</td>
<td>3,0</td>
</tr>
</tbody>
</table>

2. Fees and commissions income – the planned net growth of banking fees and commissions for 2013 is 3,0%, where the revenue and expenditure growth related to this position is projected at 2,0% and 1,0% respectively. The low planned growth of net revenue from commissions is a result of two reasons: the first one is related to the low planned growth of the loan portfolio, and the second is related to the planned turnover in 2013. In a situation where the net effect of the transactions from regular banking activities is expected to be at relatively the same level compared to the previous year, the growth of net commissions is attributed, above all, to savings and lower expenditures for fees related to guaranteed deposits of VIP clients compared to 2012.

3. General Administrative Expenses - Cost management will be monitored by following the cost/income ratio, and at the end of 2013 it is expected that operating costs will account for 59,7% of operating revenues. When planning the administrative costs, the Bank followed the principle of rational and cost-effective spending, with the intention to increase the maximum yields by incurring lower costs.

3.1. Personnel costs – aside from salaries, remuneration and mandatory contributions for healthcare and retirement benefits, the employee costs include provisions for various employee benefits, and compensations such as bonuses resulting from the fulfilment of set targets. The planned growth of this cost item in 2013 is 14,0%. The increase is a result of the following more relevant factors:

- new job systematisation in accordance with the new organisational structure which will enter into effect in the first quarter of 2013;
- planned increase of the number of employees.

3.2. Administrative costs and amortization - the total operating expenditures are projected to grow by 9,8% compared to 2012. The increased costs result primarily from higher planned IT expenses, office management costs, and costs for staff training:

- planned increase in IT expenses is due to expenses related to: applicative solutions necessary to harmonise with the Group standards, back-up location costs and a new application for electronic banking;
- increased office management costs and rental costs due to the leasing of new business premises to expand the Head Office and costs related to maintenance;
- planned training costs.

In accordance with the Business Policy, the amortization will be 5,2% lower compared to the previous year, since the amortisation periods for a large part of the equipment and inventories expired in 2012. The amortisation amount includes the plans and schedules for new investments.

3.3. Other operating expenses – these costs include impairments and effects from processing foreclosed assets, expenses for the Deposits Insurance Fund, taxes and fees paid to regulatory bodies, as well as other revenues and expenditures of no material significance. The Business Policy plans to reduce the other operating expenditures by 40,8% compared to 2012.

The largest effect on the reduced costs planned in 2013 comes from the significantly lower planned amount as impairment for repossessed assets compared to last year (71,5%). Another significant item is the 8,5% increased cost for deposits of retail clients paid to the Deposits Insurance Fund as a result of the planned growth of the retail deposit base.

4. Risk provisions – in accordance with the planned operating volume in 2013, the expected changes in the quality of the loan portfolio and the planned collection volume, in 2013 the Bank plans to allocate an additional amount as provisions which is 3,5% lower compared to the previous year. When defining the provisions budget, the Bank adhered to the Group standards and the requirements of the National Bank. The amount allocated for provisions will provide improved coverage for non-performing loans with provisions of 81,6%, compared the 78,0% in 2012, since the portfolio of non-performing loans is planned to increase by 8,1% compared to the previous year. Stagnation and mild reduction by -0,3% of the non-performing loans is expected in the overall portfolio. The risk management costs are expected to be 217,0 million denars or 1,9% of the total gross loan portfolio at the end of the year, of which 10,9 million denars will be allocated for off-balance exposures for guarantees and letters of credit.
### Appendix 1: Balance Sheet

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money and monetary assets in Central Banks</td>
<td>2,060,689</td>
<td>84,120 4.1%</td>
<td>2,144,808</td>
</tr>
<tr>
<td>Loans in other loan institutions</td>
<td>310,676</td>
<td>487,232 156.8%</td>
<td>797,908</td>
</tr>
<tr>
<td>Loans to customers</td>
<td>10,445,787</td>
<td>1,034,951 9.9%</td>
<td>11,480,737</td>
</tr>
<tr>
<td>Public sector</td>
<td>64,554</td>
<td>148,971 230.8%</td>
<td>213,525</td>
</tr>
<tr>
<td>Corporate clients</td>
<td>7,098,417</td>
<td>794,006 11.2%</td>
<td>7,892,423</td>
</tr>
<tr>
<td>Retail clients</td>
<td>3,282,811</td>
<td>91,973 2.8%</td>
<td>3,374,790</td>
</tr>
<tr>
<td>Provisions for the loan portfolio</td>
<td>-1,336,899</td>
<td>173,389 13.0%</td>
<td>-1,510,188</td>
</tr>
<tr>
<td>Derivatives</td>
<td>10</td>
<td>-100.0%</td>
<td>0</td>
</tr>
<tr>
<td>Securities</td>
<td>4,654,739</td>
<td>-74,484 -17.1%</td>
<td>3,860,256</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>20,583</td>
<td>-2,142 -10.4%</td>
<td>18,441</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>301,955</td>
<td>72,064 23.9%</td>
<td>374,019</td>
</tr>
<tr>
<td>Other assets</td>
<td>178,877</td>
<td>25,028 14.0%</td>
<td>203,905</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>16,636,418</td>
<td>733,470 4.4%</td>
<td>17,369,888</td>
</tr>
<tr>
<td>Deposits from banks</td>
<td>4,962,502</td>
<td>136,352 2.7%</td>
<td>5,098,854</td>
</tr>
<tr>
<td>Deposits from clients</td>
<td>8,234,964</td>
<td>526,002 6.4%</td>
<td>8,761,566</td>
</tr>
<tr>
<td>Retail saving deposits</td>
<td>4,075,292</td>
<td>126,000 3.1%</td>
<td>4,201,292</td>
</tr>
<tr>
<td>Other deposits</td>
<td>4,159,672</td>
<td>399,702 9.6%</td>
<td>4,559,374</td>
</tr>
<tr>
<td>Derivatives</td>
<td>425</td>
<td>25 6.0%</td>
<td>450</td>
</tr>
<tr>
<td>Other provisions</td>
<td>128,565</td>
<td>12,248 9.5%</td>
<td>140,813</td>
</tr>
<tr>
<td>Tax liabilities</td>
<td>0</td>
<td>6,293 6.2%</td>
<td>6,293</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>141,075</td>
<td>18,617 13.2%</td>
<td>159,692</td>
</tr>
<tr>
<td>Subordinated liabilities</td>
<td>1,020,152</td>
<td>2,349 0.2%</td>
<td>1,022,501</td>
</tr>
<tr>
<td>Equity</td>
<td>2,148,732</td>
<td>30,884 1.4%</td>
<td>2,179,615</td>
</tr>
<tr>
<td>TOTAL LIABILITIES AND EQUITY</td>
<td>16,636,418</td>
<td>733,470 4.4%</td>
<td>17,369,888</td>
</tr>
</tbody>
</table>

### Appendix 2: Profit and Loss Statement

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>656,226</td>
<td>22,243 3.4%</td>
<td>678,469</td>
</tr>
<tr>
<td>Provisions for the loan portfolio</td>
<td>-224,835</td>
<td>-7,835 -3.5%</td>
<td>-217,000</td>
</tr>
<tr>
<td>Net revenue from commissions</td>
<td>69,673</td>
<td>2,082 3.0%</td>
<td>71,755</td>
</tr>
<tr>
<td>Exchange rate differences</td>
<td>32,691</td>
<td>-2,191 -6.7%</td>
<td>30,500</td>
</tr>
<tr>
<td>Personnel costs</td>
<td>-205,020</td>
<td>28,757 14.0%</td>
<td>-233,777</td>
</tr>
<tr>
<td>Other administrative costs</td>
<td>-166,336</td>
<td>23,022 13.8%</td>
<td>-189,358</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-45,050</td>
<td>-2,356 -5.2%</td>
<td>-42,695</td>
</tr>
<tr>
<td>Impairment of securities</td>
<td>-116</td>
<td>996 856.1%</td>
<td>880</td>
</tr>
<tr>
<td>Other operating results</td>
<td>-103,862</td>
<td>42,363 40.8%</td>
<td>-61,499</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>13,370</td>
<td>23,906 178.8%</td>
<td>37,276</td>
</tr>
<tr>
<td>Profit tax</td>
<td>-12,122</td>
<td>-5,829 -48.1%</td>
<td>-6,293</td>
</tr>
<tr>
<td>Net Profit</td>
<td>1,248</td>
<td>29,735 &gt;999.9%</td>
<td>30,983</td>
</tr>
<tr>
<td>Net profit in 000 EUR</td>
<td>20</td>
<td>486 &gt;999.9%</td>
<td>506</td>
</tr>
<tr>
<td>Operating income¹</td>
<td>758,590</td>
<td>22,135 2.9%</td>
<td>780,724</td>
</tr>
<tr>
<td>General and administrative costs²</td>
<td>-436,406</td>
<td>49,423 11.5%</td>
<td>-460,829</td>
</tr>
<tr>
<td>Operational profit</td>
<td>342,184</td>
<td>-27,288 -8.0%</td>
<td>314,895</td>
</tr>
<tr>
<td>Income / Expenditures</td>
<td>54.9%</td>
<td>59.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>ROE</td>
<td>0.1%</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

¹: Net income less interest, commissions, exchange rate differences
²: Costs for employees, other administrative costs, amortization
FINANCIAL STATEMENTS
OF SPARKASSE BANK MAKEDONIJA
AD SKOPE FOR 2012

INDEPENDENT AUDITORS’ REPORT

To Sparkasse Bank Makedonija AD Skopje
Board of Directors

We have audited the submitted financial statements of Sparkasse Bank Makedonija AD – Skopje (hereinafter referred to as “the Bank”) comprising the Balance Sheet as of 31 December 2012 as well as the Income Statement, Statement of Changes in Equity and Cash Flow Statements for the year ending on that date and the Summery of Significant Accounting Policies and other explanatory information.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Macedonian accounting legislation, as well as for those internal controls that management designates as essential for rendering feasible 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 the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the Bank’s financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Macedonian accounting legislation.

Profit and loss statement

Profit and loss account for the period from 01.01.2012 to 31.12.2012

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>current year 2012</th>
<th>previous year 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interest income</td>
<td>1.017.644</td>
<td>986.341</td>
</tr>
<tr>
<td>2</td>
<td>Interest expense</td>
<td>(424.174)</td>
<td>(457.000)</td>
</tr>
<tr>
<td>6</td>
<td>Net interest income</td>
<td>593.470</td>
<td>529.341</td>
</tr>
<tr>
<td>7</td>
<td>Fee and commission income</td>
<td>121.556</td>
<td>92.673</td>
</tr>
<tr>
<td>8</td>
<td>Trading income, net</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>9</td>
<td>Trading income from other financial instruments, net</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>10</td>
<td>Foreign exchange gains, net</td>
<td>31.584</td>
<td>35.322</td>
</tr>
<tr>
<td>11</td>
<td>Other operating income</td>
<td>88.206</td>
<td>38.998</td>
</tr>
<tr>
<td>12</td>
<td>Impairment losses of financial assets, net</td>
<td>(184.582)</td>
<td>(800.179)</td>
</tr>
<tr>
<td>13</td>
<td>Impairment losses of non-financial assets, net</td>
<td>(80.196)</td>
<td>(44.885)</td>
</tr>
<tr>
<td>14</td>
<td>Personnel expenses</td>
<td>(205.826)</td>
<td>(180.672)</td>
</tr>
<tr>
<td>15</td>
<td>Depreciation and amortization</td>
<td>(42.173)</td>
<td>(45.855)</td>
</tr>
<tr>
<td>16</td>
<td>Other operating expenses</td>
<td>(308.669)</td>
<td>(391.617)</td>
</tr>
<tr>
<td>24</td>
<td>Share in the profit of associates</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Profit/(loss) before tax | 13.370 | (766.188) |

Income tax | 17 | 12.122 | 9.314 |

Profit/(loss) for the year of continuous work | 1.248 | (776.188) |

Profit/(loss) of assets and liabilities held for sale | - | - |

Profit/(loss) for the year | - | - |

Profit/(loss) for the year, belonging to:
- Bank’s shareholders | - | - |
- Minority share | - | - |

<table>
<thead>
<tr>
<th>Earnings per share:</th>
</tr>
</thead>
<tbody>
<tr>
<td>basic earning per share (in denars)</td>
</tr>
<tr>
<td>diluted earning per share (in denars)</td>
</tr>
</tbody>
</table>
### Statement of comprehensive income

<table>
<thead>
<tr>
<th>Description</th>
<th>In thousands of Denars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit / (loss) for the financial year</strong></td>
<td></td>
</tr>
<tr>
<td>Current year 2012</td>
<td>1,248</td>
</tr>
<tr>
<td>Previous year 2011</td>
<td>(776,188)</td>
</tr>
<tr>
<td><strong>Other profit / (losses) within the period that are not posted in the</strong></td>
<td></td>
</tr>
<tr>
<td>Profit / loss account</td>
<td></td>
</tr>
<tr>
<td><strong>Profit / (loss) for the financial year</strong></td>
<td></td>
</tr>
<tr>
<td>Revalued reserve for assets available for sale</td>
<td></td>
</tr>
<tr>
<td>Unrealized net changes in fair value of assets available for sale</td>
<td></td>
</tr>
<tr>
<td>Realized net gains / (losses) from assets available for sale, reclassified</td>
<td></td>
</tr>
<tr>
<td>in the Profit / loss account</td>
<td></td>
</tr>
<tr>
<td>Reserve for instruments for protection against cash flow risk</td>
<td></td>
</tr>
<tr>
<td>Unrealized net changes in fair value of instruments for protection against</td>
<td></td>
</tr>
<tr>
<td>cash flow risk, reclassified in the Profit / loss account</td>
<td></td>
</tr>
<tr>
<td>Reserve for instruments for protection against net foreign investment risk</td>
<td></td>
</tr>
<tr>
<td>From FX gains / losses of foreign investment</td>
<td></td>
</tr>
<tr>
<td>Share in other profit / (losses) from affiliated entities, not posted in</td>
<td></td>
</tr>
<tr>
<td>the Profit / loss Account</td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensive income for the financial year</strong></td>
<td>1,248</td>
</tr>
<tr>
<td><strong>Comprehensive income for the financial year, belonging to:</strong></td>
<td></td>
</tr>
<tr>
<td>Bank’s shareholders</td>
<td></td>
</tr>
<tr>
<td>Minority share</td>
<td></td>
</tr>
</tbody>
</table>

### Balance sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>In thousands of Denars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
</tr>
<tr>
<td><strong>As at 31.12.2012</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2,369,318</td>
</tr>
<tr>
<td>Trading financial assets</td>
<td>2,865,284</td>
</tr>
<tr>
<td>Financial assets at fair value through income statement designated as such</td>
<td></td>
</tr>
<tr>
<td>at initial recognition</td>
<td></td>
</tr>
<tr>
<td>Derivative assets held for risk management</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to banks</td>
<td></td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td></td>
</tr>
<tr>
<td>Investments in securities</td>
<td></td>
</tr>
<tr>
<td>Investments in associates (accounting evidence according “principal</td>
<td></td>
</tr>
<tr>
<td>method”)</td>
<td></td>
</tr>
<tr>
<td>Income tax receivable (current)</td>
<td>9,229</td>
</tr>
<tr>
<td>Other receivables</td>
<td>5,055</td>
</tr>
<tr>
<td>Pledged assets</td>
<td>600,000</td>
</tr>
<tr>
<td>Foreclosed assets</td>
<td>79,311</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets held for sale and group for sale</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>16,585,488</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Trading financial liabilities</td>
<td></td>
</tr>
<tr>
<td>Financial liabilities at fair value through income statement determined as</td>
<td></td>
</tr>
<tr>
<td>such at initial recognition</td>
<td></td>
</tr>
<tr>
<td>Derivative liabilities held for risk management</td>
<td></td>
</tr>
<tr>
<td>Deposits from banks</td>
<td>2,140,733</td>
</tr>
<tr>
<td>Deposits from customers</td>
<td>627,814</td>
</tr>
<tr>
<td>Issuance of debt securities</td>
<td>8,234,703</td>
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<tr>
<td>Borrowings</td>
<td>11,662,345</td>
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<tr>
<td>Subordinated debt</td>
<td></td>
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<tr>
<td>Special reserves and provisions</td>
<td></td>
</tr>
<tr>
<td>Income tax payable (current)</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td></td>
</tr>
<tr>
<td>Liabilities directly related to groups of assets for sale</td>
<td></td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>14,436,756</td>
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<tr>
<td><strong>Equity and reserves</strong></td>
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</tr>
<tr>
<td>Subscribed capital</td>
<td></td>
</tr>
<tr>
<td>Share premium</td>
<td></td>
</tr>
<tr>
<td>Registered shares</td>
<td></td>
</tr>
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<td>Other equity instruments</td>
<td></td>
</tr>
<tr>
<td>Revaluation reserves</td>
<td></td>
</tr>
<tr>
<td>Retained earnings / (accumulated losses)</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity and reserves</strong></td>
<td>2,148,732</td>
</tr>
<tr>
<td><strong>Total liabilities and equity and reserves</strong></td>
<td>2,148,732</td>
</tr>
<tr>
<td><strong>Total liabilities and equity and reserves</strong></td>
<td>16,585,488</td>
</tr>
<tr>
<td><strong>Commitments</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Contingencies</strong></td>
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</tr>
</tbody>
</table>
### Statement on changes in equity and reserves

#### As at January 01, 2011 (previous year)

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribed capital</td>
<td>679,147</td>
<td>3,247</td>
<td>-</td>
<td>-</td>
<td>1,081,672</td>
</tr>
<tr>
<td>Other data</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>679,147</td>
<td>3,247</td>
<td>-</td>
<td>-</td>
<td>1,081,672</td>
</tr>
</tbody>
</table>

#### Comprehensive profit (loss) for the financial year

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
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</thead>
<tbody>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Other profit (loss) for the period, not stated in the income statement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of assets available for sale</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against cash flow risk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against net investment in international operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign exchange gain / (loss) from foreign investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax (assets)/liabilities recognized in equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
<td>-</td>
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</table>

#### Transactions with shareholders, recognized in equity

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued shares within the period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocation of statutory reserve</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocation of other reserves</td>
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<td>-</td>
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<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Buyback of registered shares</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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</tr>
<tr>
<td>Sold registered shares</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes in equity and reserves (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
</tbody>
</table>

#### Transactions with shareholders, recognized in equity

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31st 2011 (previous year) / January 01 2012 (current year)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss) for the period, not stated in the income statement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of assets available for sale</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against cash flow risk</td>
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<tr>
<td>Changes in fair value of protection against net investment in international operations</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Foreign exchange gain / (loss) from foreign operations</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax (assets)/liabilities recognized in equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Transactions with shareholders, recognized in equity

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued shares within the period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocation of statutory reserve</td>
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<td>Allocation of other reserves</td>
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</tr>
<tr>
<td>Buyback of registered shares</td>
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</tr>
<tr>
<td>Sold registered shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes in equity and reserves (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Total comprehensive profit (loss) for the financial year

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31st 2011 (previous year) / January 01 2012 (current year)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss) for the period, not stated in the income statement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of assets available for sale</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against cash flow risk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against net investment in international operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign exchange gain / (loss) from foreign operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax (assets)/liabilities recognized in equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Transactions with shareholders, recognized in equity

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued shares within the period</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocation of statutory reserve</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Allocation of other reserves</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Buyback of registered shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sold registered shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other changes in equity and reserves (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Total comprehensive profit (loss) for the financial year

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31st 2011 (previous year) / January 01 2012 (current year)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss) for the period, not stated in the income statement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of assets available for sale</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against cash flow risk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Changes in fair value of protection against net investment in international operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign exchange gain / (loss) from foreign operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deferred tax (assets)/liabilities recognized in equity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Total unrealized profit (loss) recognized in equity

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31st 2011 (previous year) / January 01 2012 (current year)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss) for the period, not stated in the income statement</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
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<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tbody>
</table>

#### Total comprehensive profit (loss) for the financial year

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Revalued reserve</th>
<th>Other reserves</th>
<th>Retained earnings</th>
<th>Total equity and reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at December 31st 2011 (previous year) / January 01 2012 (current year)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit (loss) for the financial year</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>Other profit (loss) for the period, not stated in the income statement</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other profit (loss), not stated in the income statement (specify with details)</td>
<td>-</td>
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<td>-</td>
<td>-</td>
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</table>
## Cash flow statement

### Cash flow from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Year 2012</th>
<th>Previous Year 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit / (Loss) before tax</td>
<td>13,370</td>
<td>(766,874)</td>
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<tr>
<td>Adjusted for:</td>
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<td></td>
</tr>
<tr>
<td>Minority share, included in consolidated income statement</td>
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<td></td>
</tr>
<tr>
<td>Depreciation of:</td>
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</tr>
<tr>
<td>Intangible assets</td>
<td>8,119</td>
<td>6,213</td>
</tr>
<tr>
<td>Property and equity</td>
<td>34,054</td>
<td>39,641</td>
</tr>
<tr>
<td>Gain from:</td>
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<td></td>
</tr>
<tr>
<td>sale of intangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sale of property and equity</td>
<td>300</td>
<td>(960)</td>
</tr>
<tr>
<td>Loss from:</td>
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<td></td>
</tr>
<tr>
<td>sale of intangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sale of property and equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>(1,017,643)</td>
<td>(986,341)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>424,174</td>
<td>457,000</td>
</tr>
<tr>
<td>Net trading income</td>
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<td></td>
</tr>
<tr>
<td>Impairment loss of financial assets, net</td>
<td>184,582</td>
<td>800,179</td>
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<tr>
<td>Additional impairment loss</td>
<td></td>
<td></td>
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<tr>
<td>Impairment loss of non-financial assets, net</td>
<td>80,196</td>
<td>44,885</td>
</tr>
<tr>
<td>Additional impairment loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Release of impairment loss</td>
<td>(1,423)</td>
<td>(27,939)</td>
</tr>
<tr>
<td>Special reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional provisions</td>
<td>52,196</td>
<td>134,770</td>
</tr>
<tr>
<td>Released provisions</td>
<td>(24,068)</td>
<td>(38,347)</td>
</tr>
<tr>
<td>Dividend income</td>
<td>(1,050)</td>
<td>(2,780)</td>
</tr>
<tr>
<td>Share in profit / (loss) of associated companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other rectification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest receipts</td>
<td>1,000,189</td>
<td>977,587</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(350,151)</td>
<td>(425,042)</td>
</tr>
<tr>
<td>Operating profit before changes in operating assets</td>
<td>402,348</td>
<td>208,287</td>
</tr>
</tbody>
</table>

### Net cash flows from operating activities before tax

- (Paid) / returned income tax: 4,384 (1,488)
- Net cash flows from operating activities: 441,400 (518,831)

### Cash flows from investing activities

- Investments in securities: (1,085,825) (356,967)
- Inflows from sale of investments in subsidiaries and affiliates: -
- Inflows from sale of investments in subsidiaries and affiliates: -
- Acquisition of intangible assets (8,490) (15,593)
- Inflows from sale of intangible assets: -
- Acquisition of property and equipment: (20,720) (10,079)
- Inflows from sale of property and equipment: 2,355 2,233
- Inflows from non current assets held for sale: -
- Inflows from non current assets held for sale: 34,540 186,146
- Other inflows for investing activities: -
- Other inflows for investing activities: 1,055 2,730
- Net cash flows from investing activities: (1,077,085) (191,530)

### Cash flows from financing activities

- Repayment of issued debt securities: -
- Inflows from of issued debt securities: -
- Repayment of loans payable: (345,569) -
- Increase of loans payable: 600,000 159,191
- Repayment of issued subordinated debt: -
- Inflows from of issued subordinated debt: -
- Inflows from issued shares / equity instrument within the period: 921,000 921,000
- Acquisition of registered shares: -
- Other sources of cash: -
- Other inflows from financing activities: -
- Other inflows from financing activities: -
- Net cash flows from financing activities: 1,175,431 1,080,191

### Effects from impairment loss of cash and cash equivalents

- Effects from foreign exchange gain / losses of cash and cash equivalents: -

### Net increase / (decrease) of cash and cash equivalents

- (343,054) 259,825
- Cash and cash equivalents as at January 01: 1,972,315 1,702,486
- Cash and cash equivalents as at December 31: 1,629,261 1,972,315
GENERAL INFORMATION

1. Organizational chart

2. Contacts

Management Board Cabinet
Tel: +389 2 3200 501
Fax: +389 2 3200 515
contact@sparkasse.mk

Marketing & Communication Department
Communication
Tel: +389 2 3200 759
Fax: +389 2 3200 510
marketing@sparkasse.mk

Marketing
Tel: +389 2 3200 531
Fax: +389 2 3200 510
marketing@sparkasse.mk

Customer Experience Management
Tel: +389 2 3200 594
Fax: +389 2 3200 510
poplaki@sparkasse.mk
marketing@sparkasse.mk

Corporate Management Division
Tel: +389 2 3200 546
Fax: +389 2 3200 575
corporate@sparkasse.mk

Retail Management Division
Tel: +389 2 3200 613
Fax: +389 2 3200 630
nasinfo@sparkasse.mk

Treasury Management Division
Tel: +389 2 3200 590
Fax: +389 2 3200 591
smcinfo@sparkasse.mk

Risk Management Division
Tel: +389 2 3200 527
Fax: +389 2 3200 540
contact@sparkasse.mk

Finance Division
Tel: +389 2 3200 669
Fax: +389 2 3200 578
smetinfo@sparkasse.mk

Legal Department
Tel: +389 2 3200 559
Fax: +389 2 3200 540
pravnainfo@sparkasse.mk

Human Resources Department
Tel: +389 2 3167 122
Fax: +389 2 3200 515
hr@sparkasse.mk

Organization & IT Division
Tel: +389 2 3200 674
Fax: +389 2 3200 710
t@sparkasse.mk

Property & Safety Management Division
Tel: +389 2 3200 610
Fax: +389 2 3200 631
suib@sparkasse.mk

Processing Division
Deposit Administration Unit
Tel: +389 2 3167 151
Fax: +389 2 3200 591
vplinfo@sparkasse.mk

Payment Operation Department
Tel: +389 2 3167 113
Tel: +389 2 3167 114
Fax: +389 2 3167 116
Fax: +389 2 3167 117
vplinfo@sparkasse.mk

Foreign Payment Unit
Tel: +389 2 3167 108
Tel: +389 2 3167 109
Fax: +389 2 3167 119
devinfo@sparkasse.mk

Multi Channel Department
Credit cards
Tel: +389 2 3200 637
Tel: +389 2 3200 717
Fax: +389 2 3200 671
cards@sparkasse.mk

E-banking
Tel: +389 2 3200 618
Fax: +389 2 3200 750
Fax: +389 2 3200 671
netbanking@sparkasse.mk
3. Branches Location

1. SKOPJE – HEAD OFFICE
   St. Makedonija 9-11, 1000 Skopje
   Tel.: +389 (0)2 3200 500, fax: +389 (0)2 3200 515

2. SKOPJE – TC BEVERLI HILS
   St. Naroden front No. 82, 1000 Skopje
   Tel.: +389 (0)2 3225 991, 225 992
   Fax: +389 (0)2 3225 992

3. SKOPJE – TC LEPTOKARIJA
   Bul. Partizanski odredi No. 64, 1000 Skopje
   Tel.: +389 (0)2 3074 750, fax: +389 (0)2 3074 760

4. SKOPJE – TC BISER
   Bul. Jane Sandanski No. 82 TC Biser, 1000 Skopje
   Tel./fax: +389 (0)2 2403 925

5. SKOPJE – AUTOKOMANDA
   St. Trifun Hadzi Janev No. 1, 1000 Skopje
   Tel.: +389 (0)2 3173 593, fax: +389 (0)2 3173 594

6. SKOPJE – KISELA VODA
   St. Sava Kovacevic No. 10, 1000 Skopje
   Tel.: +389 (0)2 2780 750

7. SKOPJE – GIORGIE PETROV
   St. Gjorce Petrov No. 33, 1000 Skopje
   Tel.: +389 (0)2 2050 514, fax: +389 (0)2 2050 515

8. SKOPJE – CHAIR
   St. Cvetan Dimov No. 153/1, 1000 Skopje
   Tel.: +389 (0)2 2601 013, fax: +389 (0)2 2601 013

9. SKOPJE – BUNJAKOVEC
   St. Rajko Zinzifov No. 18, 1000 Skopje
   Tel.: +389 (0)2 3245 210, fax: +389 (0)2 3245 212

10. BRANCH OFFICE – BITOLA
    St. Masa Tito, 7000 Bitola
    Tel.: +389 (0)47 220 165, 220 170

11. BRANCH OFFICE – KUMANOV
    St. Moja Pijada No. 1, 1000 Kumanovo
    Tel.: +389 (0)33 411 833, fax: +389 (0)33 411 833

12. BRANCH OFFICE – KAVADARCI
    St. Indjenski No. 107, 1430 Kavadarci
    Tel.: +389 (0)43 400 246, fax: +389 (0)43 400 247

13. BRANCH OFFICE – GJORSILJA
    St. Dimitar Vlahov No. 7/3, 1480 Gevgelija
    Tel.: +389 (0)34 213 803

14. BRANCH OFFICE – BEROVO
    St. 23. Avgust No. 2, 2330 Berovo
    Tel./fax: +389 (0)33 470 755

15. BRANCH OFFICE – STRUMICA
    St. Filipova No. 1, 2400 Strumica
    Tel.: +389 (0)34 340 812, fax: +389 (0)34 329 512

16. BRANCH OFFICE – OHRID
    St. Filipova No. 3, 1000 Ohrid
    Tel.: +389 (0)46 231 161, fax: +389 (0)46 231 161

17. BRANCH OFFICE – STIP
    St. Vladimir Naor No. 2, 1400 Veles
    Tel./fax: +389 (0)43 212 177

18. BRANCH OFFICE – TETOVO
    St. Mara Tito No. 10, 1200 Tetovo
    Tel./fax: +389 (0)44 353 700

19. BRANCH OFFICE – VELES
    St. Gjorce Petrov No. 33, 1000 Skopje
    Tel.: +389 (0)31 377 851

20. BRANCH OFFICE – KOCANI
    St. Marsal Tito No. 24, 2300 Kocani
    Tel./fax: +389 (0)33 270 611

21. BRANCH OFFICE – GOSTIVAR
    St. Indjenski No. 109, 1230 Gostivar
    Tel.: +389 (0)42 221 613, fax: +389 (0)42 221 614

22. BRANCH OFFICE – KOCANI
    St. Marsal Tito No. 24, 2300 Kocani
    Tel./fax: +389 (0)33 270 611

23. BRANCH OFFICE – STRUGA
    St. 15. Korpus No. 2, 6330 Struga
    Tel.: +389 (0)784 260, 260

24. BRANCH OFFICE – DEBAR
    St. 8. Septemvri No. 1, 1250 Debar
    Tel.: +389 (0)46 838 050, 831 111, fax: +389 (0)46 838 053

25. BRANCH OFFICE – PRILEP
    St. Maksimska No. 1/1, 7500 Prilep
    Tel.: +389 (0)48 400 115, 400 118, fax: +389 (0)48 400 116

26. BRANCH OFFICE – NEGOINIO
    St. 15. Korpus No. 2, 6330 Struga
    Tel.: +389 (0)43 365 166, fax: +389 (0)43 365 179

27. BRANCH OFFICE – KICEVO
    Bul. Okoobudovanje No. 20, 6250 Kicevo
    Tel./fax: +389 (0)45 222 300
4. ATM's Locations

<table>
<thead>
<tr>
<th>Ordinal Number</th>
<th>ATM Address</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Head office</td>
<td>St. Makedonija No. 9-11</td>
</tr>
<tr>
<td>2</td>
<td>Cathedral &quot;St. Kliment Ohridski&quot;</td>
<td>Buš: JNA No. 24</td>
</tr>
<tr>
<td>3</td>
<td>Branch office Bursinovac</td>
<td>St. Rajko Zrnčev No. 18</td>
</tr>
<tr>
<td>4</td>
<td>Branch office TC Beovci Hila</td>
<td>St. Naroden front No. 82</td>
</tr>
<tr>
<td>5</td>
<td>Branch office TC Zupanja</td>
<td>St. Pantokrator odredi No. 64</td>
</tr>
<tr>
<td>6</td>
<td>Sport Center &quot;Boris Trajkovski&quot;</td>
<td>Buš: 8 m Septemberi</td>
</tr>
<tr>
<td>7</td>
<td>Branch office TC Biser</td>
<td>Buš: Jane Sandanski No. 82</td>
</tr>
<tr>
<td>8</td>
<td>Branch office Atokomenda</td>
<td>St. Trajan Džemal Janes No. 3</td>
</tr>
<tr>
<td>9</td>
<td>Branch office Kavala Vida</td>
<td>St. Sava Kovačev No. 10</td>
</tr>
<tr>
<td>10</td>
<td>Branch office Char</td>
<td>St. Cvitan Dimovic No. 15-3</td>
</tr>
<tr>
<td>11</td>
<td>Branch office Gjorce Petrov</td>
<td>St. Gjorce Petrov No. 33</td>
</tr>
<tr>
<td>12</td>
<td>TC Ramstore – ground floor</td>
<td>St. Mito Hadzivasilev Jasmin</td>
</tr>
<tr>
<td>13</td>
<td>Petrol Station “Marpetrol”</td>
<td>St. Industriska</td>
</tr>
<tr>
<td>14</td>
<td>Restaurant “Maratonci”</td>
<td>Bul. 8-mi Septemvri</td>
</tr>
<tr>
<td>15</td>
<td>Restaurant “Makpetrol”</td>
<td>St. Industriska</td>
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<tr>
<td>16</td>
<td>Elektrometal</td>
<td>St. Pero Nakov</td>
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<tr>
<td>17</td>
<td>Restaurant “Makpetrol”</td>
<td>St. Industriska</td>
</tr>
<tr>
<td>18</td>
<td>G.T.C. floor “Kuzman J. Pitu”</td>
<td>St. Teodosij Gologanov No. 28</td>
</tr>
<tr>
<td>19</td>
<td>Complex “Letnica”</td>
<td>St. Kliment Ohridski</td>
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<tr>
<td>20</td>
<td>Zito lab</td>
<td>St. Jane Sandanski No. 32</td>
</tr>
<tr>
<td>21</td>
<td>Branch office Orva</td>
<td>St. Pantokrator L’1</td>
</tr>
<tr>
<td>22</td>
<td>Branch office Bitola</td>
<td>St. Marsal Tito</td>
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<tr>
<td>23</td>
<td>Modlo Lobla</td>
<td>St. Vasko Karangjelovski</td>
</tr>
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<td>24</td>
<td>Branch office TC Boma</td>
<td>Square &quot;Marsal Tito&quot; No. 1-1</td>
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<td>25</td>
<td>Branch office Georgjka</td>
<td>St. Dimitar Varov No. 7/3</td>
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<td>26</td>
<td>Gevgeljka Shop</td>
<td>St. Stibro Jani Varov No. 90</td>
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<td>27</td>
<td>Branch office Strumica</td>
<td>St. Lenkrada No. 17</td>
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<tr>
<td>28</td>
<td>Branch office Prilep</td>
<td>St. Marko No. 1-1</td>
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<tr>
<td>29</td>
<td>Branch office Berovo</td>
<td>St. 23 H August No. 2</td>
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<tr>
<td>30</td>
<td>Branch office Sil</td>
<td>St. Vansko Plij No. 18</td>
</tr>
<tr>
<td>31</td>
<td>Branch office Kavadarci</td>
<td>St. Tinkovska No. 109</td>
</tr>
<tr>
<td>32</td>
<td>House of Culture “Ivan Mazov – Kimko”</td>
<td>St. 7 m Septemberi No. 1</td>
</tr>
<tr>
<td>33</td>
<td>Branch office Tetovo</td>
<td>St. Tira No. 10</td>
</tr>
<tr>
<td>34</td>
<td>Branch office Vele</td>
<td>St. Vladimir Nazer No. 2</td>
</tr>
<tr>
<td>35</td>
<td>Vele Shop</td>
<td>St. Bregi Gjone No. 42</td>
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<tr>
<td>36</td>
<td>Branch office Kocani</td>
<td>Bul. Oslobodovanje No. 20</td>
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<tr>
<td>37</td>
<td>Branch office Atokomenda</td>
<td>St. Marsal Tito No. 163</td>
</tr>
<tr>
<td>38</td>
<td>Branch office Gostivar</td>
<td>St. Ilindenova No. 509</td>
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<tr>
<td>39</td>
<td>Boglani Shop</td>
<td>St. Marsal Tito No. 171</td>
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<tr>
<td>40</td>
<td>Branch office Kocani</td>
<td>St. Marsal Tito, Kocani</td>
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<tr>
<td>41</td>
<td>Branch office Struga</td>
<td>St. 15 H Korpus No. 2</td>
</tr>
<tr>
<td>42</td>
<td>Branch office Debar</td>
<td>St. 8 m Septemberi No. 1</td>
</tr>
<tr>
<td>43</td>
<td>Branch office Negotino</td>
<td>St. Straja Podgor No. 2</td>
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5. Correspondent banks

<table>
<thead>
<tr>
<th>Country</th>
<th>Banks</th>
<th>Currency</th>
<th>Acc nr</th>
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<tbody>
<tr>
<td>AUSTRIA</td>
<td>Steiermaerkische Bank und Sparkassen AG Graz (STSPAT2G)</td>
<td>EUR</td>
<td>00005-508130</td>
</tr>
<tr>
<td></td>
<td>Erste Group Bank AG (GIBAATWG)</td>
<td>EUR</td>
<td>04033266700</td>
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<td></td>
<td>Raiffeisen Zentralbank Oesterreich AG Vienna (RZBAATWW)</td>
<td>EUR</td>
<td>00055032684</td>
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<td></td>
<td>Steiermaerkische Bank und Sparkassen AG Graz (STSPAT2G)</td>
<td>CAD</td>
<td>00005-500186</td>
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<tr>
<td></td>
<td>Steiermaerkische Bank und Sparkassen AG Graz (STSPAT2G)</td>
<td>CHF</td>
<td>00005-500178</td>
</tr>
<tr>
<td></td>
<td>Steiermaerkische Bank und Sparkassen AG Graz (STSPAT2G)</td>
<td>AUD</td>
<td>00005-500236</td>
</tr>
<tr>
<td>DENMARK</td>
<td>Danske Bank A/S Copenhagen (DAKBAKKK)</td>
<td>DKK</td>
<td>DK19300003996027554</td>
</tr>
<tr>
<td>BELGIUM</td>
<td>ING Belgium NV/SA Brussels (IBBUBEEB)</td>
<td>EUR</td>
<td>301010247729EUR</td>
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<tr>
<td>GERMANY</td>
<td>Deutsche Bank AG Frankfurt/M (DEUTDEFF)</td>
<td>EUR</td>
<td>93592821000</td>
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<tr>
<td></td>
<td>Commerzbank AG Frankfurt/M (COBADEFF)</td>
<td>EUR</td>
<td>400876876401EUR</td>
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<tr>
<td>RUSSIA</td>
<td>Euroasia Bank Joint Stock Commercial Bank (EABMRUMM)</td>
<td>EUR</td>
<td>03012978000000000315</td>
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<tr>
<td>ITALY</td>
<td>Intesa Sanpaolo SpA Milano (BCITITMM)</td>
<td>EUR</td>
<td>100100004294</td>
</tr>
<tr>
<td></td>
<td>UNICREDIT SPA MILANO (UNCRTTMM)</td>
<td>EUR</td>
<td>09953986</td>
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<tr>
<td>NETHERLANDS</td>
<td>The Royal bank of Scotland NV Amsterdam (RBOSNL2A)</td>
<td>EUR</td>
<td>05306573687</td>
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<tr>
<td>SWEEDEN</td>
<td>Svenska Handelsbanken Stockholm (HANOSSESS)</td>
<td>SEK</td>
<td>40339599</td>
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<tr>
<td>UK</td>
<td>Barclays Bank PLC London (BARCGB22)</td>
<td>GBP</td>
<td>20325300866325</td>
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<tr>
<td>USA</td>
<td>Deutsche Bank Trust Company Americas New York (BKTRUS33)</td>
<td>USD</td>
<td>04406219</td>
</tr>
</tbody>
</table>

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73 Sparkasse Bank Makedonija AD Skopje - Annual Report 2012
6. Locations in Southeast Europe

SLOVENIA

Ljubljana
Banka Sparkasse d.d.
Cesta v Hodoč 13
SI-1000 Ljubljana
Tel.: + 386 1 583 05 68
Fax: + 386 1 583 23 33
www.sparkasse.si

S Leasing d.o.o.
Cesta v Hodoč 1 5
SI-1000 Ljubljana
Tel.: + 386 1 583 22 11
Fax: + 386 1 583 23 87
info@s-leasing.si

Maribor
Banka Sparkasse d.d.
Trnca cesta 6
SI-2000 Maribor
Tel.: + 386 2 235 2920
www.sparkasse.si

Celje
S Leasing d.o.o.
Cesta v Hodoč 1 5 (Makomljen)
SI-1000 Celje
Tel.: + 386 3 424 45 40
www.s-leasing.si
E-Mail: info@s-leasing.si

CROATIA

Rijeka
Erste & Steiermärkische Bank d.d.
Hauptsitz
Jadranski trg 3a
HR-51000 Rijeka
Tel.: + 385 62 37 6000
Fax: + 385 62 37 6000
www.erstebank.hr
E-Mail: erstebank@erstebank.hr

Zagreb
Erste & Steiermärkische Bank d.d.
Bana Lučića 2
HR-10000 Zagreb
Tel.: + 385 2 11 201 5005
Fax: + 385 2 11 201 5070
www.erstebank.hr
E-Mail: info@erstebank.hr

Erste & Steiermärkische 
S Leasing d.o.o.
Zagreb 1 5
HR-10000 Zagreb
Tel.: + 385 2 11 201 1200
Fax: + 385 2 11 201 0000
www.erstebank.hr
E-Mail: info@s-leasing.hr

Erste Card Club d.d.
20000 Zagreb, Pravila 5
Tel.: +385 1 4259 555
Fax: +385 1 4259 400
www.erestyecardclub.hr
E-Mail: info@erestyecardclub.hr

MONTENEGRO

Podgorica
Erste Bank a.d. Podgorica
Makedonija 9-11
81000 Podgorica
Tel.: + 382 20 440 440
Fax: + 382 20 440 432
www.erstebank.me
E-Mail: info@erstebank.me

S Leasing d.o.o., Podgorica
Gospodar Kneza Milana 123
82000 Podgorica
Tel.: +382 20 245 225
Fax: +382 20 245 225
info@s-leasing.co.me
www.s-leasing.co.me

BOSNIA AND 
HERZEGOVINA

Sarajevo
Sparkasse Bank a.d. Sarajevo
Travnea 12
BA-73200 Sarajevo
Tel.: +387 33 280 300
Fax: +387 33 280 235
www.sparkasse.ba
E-Mail: info@sparkasse.ba

S Leasing d.o.o., Sarajevo
Kartika Centar 4
BA-73200 Sarajevo
Tel.: +387 33 280 889
Fax: +387 33 280 885
info@s-leasing.ba
www.s-leasing.ba
E-Mail: info@s-leasing.ba

MACEDONIA

Skopje
Sparkasse Bank Makedonija AD Skopje
Makedonija 9-11
MK-1000 Skopje
Tel.: +389 (0) 2 3200 000
Fax: +389 (0) 2 3200 015
www.sparkasse.mk

S Leasing d.o.o., Skopje
Mitropolit Teodosij
Mitropolitska cesta 6
MK-1000 Skopje
Tel.: +389 2 307 7055
Fax: +389 2 307 7088
info@s-leasing.mk
www.s-leasing.mk

Erste & Steiermärkische
S Leasing d.o.o., Skopje
Mitropolit Teodosij
Mitropolitska cesta 6
MK-1000 Skopje
Tel.: +389 2 307 7055
Fax: +389 2 307 7088
info@s-leasing.mk
www.s-leasing.mk

Erste & Steiermärkische
S Leasing d.o.o., Skopje
Mitropolit Teodosij
Mitropolitska cesta 6
MK-1000 Skopje
Tel.: +389 2 307 7055
Fax: +389 2 307 7088
info@s-leasing.mk
www.s-leasing.mk

Erste Card Club d.d.
20000 Zagreb, Pravila 5
Tel.: +385 1 4259 555
Fax: +385 1 4259 400
www.erestyecardclub.hr
E-Mail: info@erestyecardclub.hr

IMPRESSUM

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SPARKASSE BANK MAKEDONIJA AD SKOPJE
Makedonija 9-11
MK-1000 Skopje
Tel.: +389 (0) 2 3200 000
Fax: +389 (0) 2 3200 015
www.sparkasse.mk

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