KOMERCIJALNA BANKA AD SKOPJE

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2008

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PricewaterhouseCoopers
REVIZIJA DOO
ul. Marshal Tito 12,
"Palata Makedonija" IV floor
1000 Skopje
Republic of Macedonia
Telephone +389 (02) 3116 638
+389 (02) 3111 012
+389 (02) 3110 623
Facsimile +389 (02) 3116 525
www.pwc.com/mk

Independent auditor's report

To the Shareholders of Komercijalna Banka AD - Skopje

We have audited the accompanying financial statements of Komercijalna Banka AD - Skopje, which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 accompanying financial statements give a true and fair view of the financial position of Komercijalna Banka AD –Skopje as of 31 December 2008, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

27 February 2009

Income statement

	Notes	Year ended 31 December	
		2008	**2007**
Interest and similar income	5	3,886,908	3,123,544
Interest expense and similar charges	5	(1,309,455)	(1,001,630)
Net interest income		**2,577,453**	**2,121,914**
Fee and commission income	6	899,384	940,776
Fee and commission expense	6	(135,191)	(113,894)
Net fee and commission income		**764,193**	**826,882**
Dividend income	7	20,119	8,106
Foreign exchange gains (net)		101,194	124,667
Net trading (loss)/income		(16,442)	76,279
Other operating income	8	301,677	217,257
Administrative expenses	9	(722,182)	(705,223)
Other operating expenses	10	(1,001,830)	(840,656)
Impairment charge for credit losses	11	(487,004)	(763,346)
Operating profit		**1,537,178**	**1,065,880**
Share of gain from associate		14,174	3,621
Profit before income tax		**1,551,352**	**1,069,501**
Income tax expense	12	(172,685)	(57,613)
Profit for the year		**1,378,667**	**1,011,888**
Basic earnings per share	13	690	508
Diluted earnings per share	13	685	504

Balance sheet

	Notes	At 31 December	
		2008	**2007**
ASSETS			
Cash and balances with the National Bank of Republic of Macedonia	14	7,708,973	7,364,628
Treasury and other eligible bills	15	3,353,838	3,191,943
Financial assets at fair value through profit or loss	16	222,781	1,003,542
Loans and advances to banks	17	5,550,640	13,833,618
Loans and advances to customers	18	35,048,476	24,588,063
Investment securities	19	557,222	296,981
Investments in associates	20	49,693	35,520
Property and equipment	21	1,582,488	1,448,151
Investment property	22	8,488	57,855
Intangible assets	23	40,191	41,233
Other assets	24	976,138	1,002,561
Deferred income tax assets	29	438	608
Total assets		**55,099,366**	**52,864,703**
LIABILITIES			
Deposits from banks	25	1,572,461	792,918
Other deposits	26	45,769,870	45,272,556
Borrowings	27	984,103	1,065,592
Current income tax liabilities		62,649	9,665
Provisions	30	181,380	175,595
Other liabilities	28	269,611	288,063
Total liabilities		**48,840,074**	**47,604,389**
SHAREHOLDERS' EQUITY			
Share capital	33	2,014,067	2,014,067
Share premium		109,026	109,026
Retained earnings		1,373,346	1,140,837
Statutory reserves	34	2,653,136	1,886,667
Other reserves	34	109,717	109,717
Total shareholders' equity		**6,259,292**	**5,260,314**
Total equity and liabilities		**55,099,366**	**52,864,703**

The notes on pages 8 to 63 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Share premium	Treasury Shares	Statutory Reserves	Other reserves	Retained Earnings	Total equity
Balance at 1 January 2007	**2,014,067**	**32,146**	**(121,651)**	**1,468,948**	**109,717**	**876,911**	**4,380,138**
Net profit for the year	-	-	-	-	-	1,011,888	1,011,888
Total recognized income for 2007	-	-	-	-	-	1,011,888	1,011,888
Dividends	-	-	-	-	-	(330,243)	(330,243)
Transfer to statutory reserve	-	-	-	417,719	-	(417,719)	-
Treasury shares acquired	-	-	-	-	-	-	-
Treasury shares sold	-	76,880	121,651	-	-	-	198,531
Balance at 31 December 2007	**2,014,067**	**109,026**	**-**	**1,886,667**	**109,717**	**1,140,837**	**5,260,314**
Balance at 1 January 2008	**2,014,067**	**109,026**	**-**	**1,886,667**	**109,717**	**1,140,837**	**5,260,314**
Net profit for the year	-	-	-	-	-	1,378,667	1,378,667
Total recognized income for 2008	-	-	-	-	-	1,378,667	1,378,667
Dividends	-	-	-	-	-	(379,689)	(379,689)
Transfer to statutory reserve	-	-	-	766,469	-	(766,469)	-
Balance at 31 December 2008	**2,014,067**	**109,026**	**-**	**2,653,136**	**109,717**	**1,373,346**	**6,259,292**

Detailed information is provided in Notes 33 and 34.

Cash flow statement

	Notes	Year ended 31 December 2008	2007
Cash flows from operating activities			
Profit before tax		1,551,352	1,069,501
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets	10	187,227	176,927
Gain on sale of property and equipment	8	(11,593)	(3,003)
Loss on sale of collected collateral	10	18,953	22,529
Decrease in value of assets acquired through foreclosure procedure	10	12,677	-
Depreciation of investment property	10	546	1,844
Impairment losses	11	487,004	763,346
Dividend income	7	(20,119)	(8,106)
Interest income	5	(3,886,908)	(3,123,544)
Interest expense	5	1,309,455	1,001,630
Net trading income		16,442	(76,279)
Share of gain from associate		(14,174)	(3,621)
Interest and commission receipts		3,658,396	2,975,223
Interest paid		(1,193,126)	(779,359)
Cash flows from operating profits before changes in operating assets and liabilities		**2,116,132**	**2,017,088**
(Increase)/Decrease in operating assets			
Restricted accounts		(13,788)	(25,320)
Current accounts with foreign banks		67,819	12,776
Balances with NBRM		908,888	(1,960,184)
Financial assets at fair value through profit or loss		780,761	(920,368)
Placements with and loans to banks		8,282,978	3,503,619
Loans and advances to customers		(11,009,469)	(7,872,149)
Other assets		26,423	16,393
Increase/(Decrease) in operating liabilities			
Deposits from banks and other financial institutions		779,543	146,518
Amounts owed to other depositors		497,314	8,496,783
Other liabilities		(15,217)	(10,329)
Net cash from operating activities		**2,421,384**	**3,404,827**

Cash flow statement (continued)

Cash flows from investing activities			
Acquisition of property and equipment		(289,850)	(236,130)
Proceeds from the sale of property and equipment		9,376	9,158
Proceeds from sale of investments		674,203	64,614
Purchase of investments		(934,444)	(8,741)
Dividends received		18,929	4,549
Net cash used in investing activities		**(521,786)**	**(166,550)**
Cash flows from financing activities			
Proceeds from borrowed funds		322,580	1,359,277
Repayments of borrowed funds		(438,778)	(1,726,536)
Treasury shares sold		-	198,531
Dividends paid		(383,325)	(368,813)
Net cash used in financing activities		**(499,523)**	**(537,541)**
Net increase in cash and cash equivalents		**1,400,075**	**2,700,736**
Cash and cash equivalents at beginning of year		**5,018,351**	**2,317,615**
Cash and cash equivalents at end of year	**35**	**6,418,426**	**5,018,351**

1 General Information

A Introduction

Komercijalna Banka AD Skopje (further "the Bank") is a joint stock company incorporated and domiciled in the Republic of Macedonia. The Bank is listed on the Macedonian Stock Exchange under the ID code KMB. The Bank is licensed to perform all banking activities and the main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. In addition, it provides trade finance facilities to companies for export and import purposes.

The address of its registered office is as follows:
Kej Dimitar Vlahov 4,
1000 Skopje
Republic of Macedonia

These financial statements have been approved for issue by the Supervisory Board on 26 February 2009.

Directors
The names of the Directors of the Bank serving during the financial year and to the date of this report are as follows:

Chief Executive Officer	Hari Kostov
Chief Operative Officer	Ilija Iloski
Chief Financial Officer	Maja Stevkova Sterieva
Liquidity and Financial Market Division Manager	Suzana Moskovska
Corporate Lending Division Manager	Biljana Maksimovska Popovik
International Division Manager	Vesela Curilova
Retail Banking Division Manager	Gabriela Stojanovska
Human resources and General Affairs Division Manager	Slavko Razmilik
Legal Affairs, Problem Loans Workout and Management Division Manager	Teodora Guskova Prodanova
Information Technology Division Manager	Zorica Cerepnalkoska
Finance Department Manager	Violeta Markovska Valjak
Domestic Payment Operations Department Manager	Biljana Mitevska
Vault Operation Department Manager	Aneta Velevska
Marketing Department Manager	Jasmina Bucevska
Branch Managing Department	Margarita Ognenovska
Compliance and Anti Money Laundering Department Manager	Milica Georgieva
Head of Internal Audit Department	Vesna Maslinko

B Operating Environment of the Bank

The year 2008 was a year with outstanding growth rates compared to the previous few years, and the whole picture of strong domestic demand and increasing investment would have been favourable if it hasn't been the slowdown of fourth quartile, influenced by financial turmoil. Industrial production growth reached double digits and unemployment decreased to 33%, although still high. Still, strong investment growth (reflecting higher foreign direct investment and higher investment in tangible assets), and the high unemployment rate, suggested few capacity constraints in domestic economy and considerable scope for continuing favourable supply response.

The slowdown in the world economy especially EU countries as strategic export markets for Macedonian companies put under a pressure the whole operating environment and decreasing of exports, increase of foreign currency outflows of the companies and decrease of foreign individuals remittances inflows. Reduced export demand, falling export prices, and slightly weaker remittances boosted foreign trade deficit over 2 billion EUR and significantly pressed the current account.

The year was characterized by increasing inflation, mainly due to external influences and price spill over. Thus it has jumped to around 10% in early 2008, similar to other countries in the region, mostly because of oil, electricity and food price increases. By the end of the year it has stabilized around 8.3%, and combined with higher nominal wage increases a fall in real incomes was prevented.

In 2008 the central government budget was in balance, although fiscal policy has been turning expansionary. Tax revenue increased despite substantial tax cuts in previous years, owing to improved tax administration, domestic demand growth (which boosts VAT), and a near-doubling of corporate income tax revenues.

During 2008 the growth rate of loans increased to almost 40% annually. In order to protect the system from potential worsening of credit portfolio combined with intention of providing stable macroeconomic indicators NBRM started to undertake various measures and to tighten the monetary policy. NBRM has increased CB bill rates to 7% p.a. (5% p.a. in 2007), raised capital requirements for overdrafts and credit card loans up to 125%, and introduced controls on household credit growth. The measure of inhibiting the retail credit growth continued and by the end of the year the NBRM imposed stricter limits of 11% annual growth on household loans for 2009.

The denar exchange rate is pegged to euro. Despite the pressure on currency market, Macedonian denar (MKD) has slightly depreciated (0.34%) against Euro in 2008. The official EUR exchange rate of NBRM increased from MKD 61.2016 at 31 December 2007 to MKD 61.4123 at December 2008 [and MKD 61.4090 at 26 January 2009], while the foreign currency reserves of Macedonia decreased from EUR 1,524 million at 31 December 2007 to EUR 1,495 million at 31 December 2008.

It is expected that the current account deficit will be the main risk to continued growth in 2009. The forecasts for growth are at 3% with macroeconomic stability and expectations for further slowdown of the world economy. The declining export which has started to fall in second half of 2008, lower foreign direct investments, portfolio investments, and remittances could additionally create pressure on balance of payments.

Despite the fact that Macedonian Banks were not directly influenced by the impact of the crisis, the negative impact in the industrial sector is very likely to grow.

Additionally recent increases in commercial interest rates and measures of NBRM to limit the credit growth will have strong influence on the banking growth and profits. Yet, liquidity of the banking sector in Republic of Macedonia remains strong, mostly supported by stable private savings. Future economic direction of the Republic of Macedonia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the Government and their timely adjustment. It is expected that the protection of the exchange rate will remain priority of monetary policy in 2009.

The Bank's, management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Bank.

Recent volatility in global and Macedonian financial markets. The ongoing global liquidity crisis which started in spring 2008 has mostly resulted in a lower level of capital market funding while liquidity levels across the banking sector remained high. It is expected that there will be no liquidity shocks in domestic banking in 2009. Hence, to preserve structural liquidity NBRM has imposed minimum 100% fulfilment of obligatory one and six month liquidity limits. Additionally, starting from 2009 NBRM will organize foreign currency deposits auctions with interest rates equal to those of Central Banks in euro zone, international financial institutions and yields of government bills of countries in euro zone.

Impact on liquidity: The funding base of the Bank is mostly dependant on stable deposit base, which is to be under pressure of increasing interest rates bidding by the Banks' that are changing financing strategies. This may influence the costs' of funding, but it is not expected to have significant influence on the deposit base.

Impact on customers/borrowers: The Bank’s clients both the borrowers and depositors may be affected by declining market consumption which could in turn impact their liquidity and their ability to repay the amounts owed or deposits placed with the Bank. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Impact on collateral (especially real estate): The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral. The market in Macedonia for many types of collateral, especially real estate, has not been severely affected by the recent volatility in global financial markets since the supply of real estate especially residential is still lower than demand. Nevertheless, expected lower incomes of households and possible lower liquidity of companies in 2009 may decrease liquidity for certain types of assets. As a result, the actual realizable value on foreclosure may differ from the value ascribed in estimating allowances for impairment.

Fair value of financial assets and liabilities: The fair values of quoted investments in active markets are based on current bid prices (financial assets) or offer prices (financial liabilities). If there is no active market for a financial instrument, the Bank establishes fair value using valuation techniques. These include the use of recent arm’s length transactions, discounted cash flow analysis, option pricing models and

other valuation techniques commonly used by market participants. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

A Basis of presentation

The financial statements of Komercijalna Banka AD - Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Macedonian Denars (MKD).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Those areas where assumption and estimates are significant to the financial statement are disclosed in Note 4.

(a) Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Bank from 1 January 2008:

- ***IFRIC 11, IFRS 2—Bank and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008);

These interpretations did not have any significant effect on the Bank's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures **and a subsequent amendment,** ***Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in

rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. Bank has not elected to make any of the optional reclassifications during the period.

(b) New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Bank's financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Bank does not expect the amendment to affect its financial statements.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalize such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The Bank does not expect the amended standard to have a material effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

The Bank expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Bank does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Bank as it does not expect a business combination to occur.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Bank does not operate any loyalty programme.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for

sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Bank does not expect the amendments to have any material effect on its financial statements.

- ***IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.*** The amendment requires benefits arising from government loans at below-market interest rates to be accounted for as government grants, with the benefit calculated as the difference between the proceeds and the initial fair value of the loan, net of transaction costs. The amendment applies prospectively to government loans received in periods beginning on or after 1 January 2009.

- ***IAS 40, Investment Property (and consequential amendments to IAS 16).*** Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which the fair value becomes reliably measurable. The Bank will amend its accounting policies accordingly and will apply the amendment prospectively from 1 January 2009.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Bank's operations because it does not distribute non-cash assets to owners.

B Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Bank has only one business segment. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns different from those of segments operating in other economic environments. The Bank has operations only on the territory of the Republic of Macedonia which represent one geographic segment.

C Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in MKD thousands, which is the Bank's functional and presentation currency.

Transactions and balances

Assets and liabilities denominated in foreign currency are translated into MKD at exchange rates ruling at the balance sheet date. Transactions denominated in foreign currency are translated into MKD at the exchange rates valid at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange rate:	**31 December 2008 MKD**	**31 December 2007 MKD**
USD	43.56	41.66
EUR	61.41	61.20

D Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

E Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. When loans become doubtful of collection, they are written down to their recoverable

amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

F Fee and commission income

Fees and commissions consist mainly of fees received from enterprises arising from guarantees and letter of credits and fees arising from domestic and foreign payment traffic and other banking activities. Fees and commissions are generally recognized on an accrual basis when the service has been provided.

G Rental income

Rental income from investment property is recognized in the income statement on a straight line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income.

H Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. There are no financial assets at fair value through profit and loss that are not held for trading.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term and for which there is evidence of a recent actual pattern of short-term profit-taking. The only trading assets held by the Bank are Treasury bills and government treasury bills.

Income from debt and other fixed-income instruments is recognised in interest income. Income from equity investments and other non-fixed income instruments is recognised in dividend income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money to a debtor with no intention of trading the receivable.

Loans are recognized when cash is advanced to the borrowers and are carried at amortized cost using the effective interest method.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity.

Available-for-sale financial assets are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques.

Unrealized gains and losses arising from changes in the fair value of securities classified as available-for sale are recognized in equity. All regular way purchases of available-for-sale investments are recognized at trade date, which is the date that the Bank commits to purchase the asset.

I Impairment of financial assets

Assets carried at amortized cost

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral;

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

When a loan is uncollectible, it is written off against the related provision for loan impairment.

Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Any accrued interest on impaired loans is immediately subject to impairment allowance recognised in the income statement (as part of carrying value of the loan measured at amortized cost).

Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

J Property and equipment

All property and equipment is stated at cost or valuation less accumulated depreciation.

Assets in course of construction are reported at their cost of construction including costs charged by third parties. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to

the relevant tangible property and equipment category and subsequently subject to the applicable depreciation rates.

Gains and losses on disposal of property and equipment are recognized in the income statement.

Depreciation on all assets except assets in the course of construction is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	40 years
Furniture and equipment	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

K Intangible assets

Intangible assets consist of computer software and licences. The initial cost of acquiring the intangible asset is recognised as an asset and amortised on a straight-line basis over the estimated useful life, not exceeding a period of 5 years.

L Investment property

Investment property is defined as property held by the owner to earn rental income. Investment property is stated at cost less accumulated depreciation. The depreciation rate based on the estimated useful life is 40 years.

M Assets held for sale

Collected collateral is classified as assets held for sale. Collected collateral include apartments, equipment and business premises which are not used by the Bank for its core operations. These assets are stated at the lower of carrying amount and fair value less costs to sell. The Bank plans to dispose the collected collateral within three years of forced acquisition.

N Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with NBRM and treasury bills and government treasury bills.

O Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

P Employee benefits

The Bank, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, food allowances and travel expenses according to the legislation. The Bank makes these contributions to the

Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments. The Bank pays contributions to public pension insurance fund on a mandatory basis. Once the contributions have been paid, the Bank has no further payment obligations. The regular contributions constitute costs for the year in which they are due and as such are included in staff costs. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Bank does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions. In addition, the Bank is not obliged to provide further benefits to current and former employees.

The Bank recognizes liability and expense for share in profit and payments for bonuses to employees, members of the managing board and management.

Q Taxation

Income tax on the profit or loss comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The tax on income in accordance with the Law on Profit tax is at a rate of 10%.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in the determination of deferred income tax.

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

R Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequent to the initial recognition, interest-bearing borrowings are stated at amortized cost. If debt is settled before maturity, any difference between the amount repaid and the carrying amount is recognized in the income statement for the period.

S Share capital

Share capital comprises ordinary and preference shares.

Share issue costs

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

Dividends

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

Treasury shares

Share capital consists of ordinary and non-voting shares. The consideration paid for purchase of Bank's own share capital is deducted from total shareholders' equity as treasury shares until they are cancelled or sold. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

T Investment in associates

An associate is an entity over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost.

U Financial guarantees contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due. Such financial guarantees are given to Banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date.

These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. Any increase in the liability relating to guarantees is taken to the income statement under other operating expenses.

3 Financial risk management

The Bank's activities expose it to a variety of financial risks, so the adequate risk management is basic Bank's aim. The efforts to maintain adequate balance between accepted risk level and business stability and profitability are permanent. Also, operative risk is monitoring, evaluating and managing on regular basis.
The most important types of risks identified, evaluated and mitigated by the Bank's risk management policies are credit risk, liquidity risk, interest rate and currency risk, market risk and operational risk.

Risk management framework

Bank's Shareholders Assembly appoints the members of the Supervisory Board and the Audit Committee. Supervisory Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Supervisory Board has established the Board of Directors, Credit Committee, Risk Management Committee and Liquidity Committee, which are responsible for

monitoring and developing risk management policies in specific areas.
Regarding the organizational structure of the Bank, the Risk Management and Planning Division is responsible for monitoring and reporting of global risk exposure, while the organizational units of the Bank which creates risk exposure are responsible for operative risk management. Internal audit is responsible for the independent review of risk management.

According to the Bank's risk management policies which includes set of appropriate risk limits and controls, identifying, monitoring and risk's analysis are made on regular basis.

3.1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk of the Bank's business, so the Bank carefully manages its exposure to credit risk. Principally, credit exposure arises in the lending activities and investment activities.

Taking in consideration the latest events arising from the global financial crisis, the Bank applies more restrictive credit policy (higher precautious in assessing the creditworthiness of customer and projects subject to financing) and increased the interest rates of loans and advances. In line with the current circumstances, the Bank maintains a high quality loan portfolio, which is closely monitored, with tightening the credit collection activities.

Furthermore, the Bank restructured its low interest rate placement in foreign banks which are considered more risky into higher interest rate placement in the country mainly to loans to customers which are considered less risky.

A Credit risk management

Decision-making authorities of the Supervisory Board are defined by law and by-law regulations of Central Bank according to which the Supervisory Board makes decisions for rescheduling of claims and write-off of Bank's claims.

- Supervisory Board is responsible for creation and implementation of the Credit Policy and Procedures for monitoring the implementation of the policy and procedures for assessment of loans and their management. All credit exposures exceeding 10% of the of the Bank up to the legally determined limit of exposure towards single client (up to 25% of regulatory capital) are subject to approving of the Supervisory Board.
- Credit Committee oversees the overall credit operation of the Bank. Also, Credit Committee is mainly responsible for approving and proposing to the Risk Management Committee and Board of Directors, all policies, procedures and amendments thereto relating to the extension of credit, to ensure that these policies are applied consistently and complied with throughout the Bank, to approve credit exposure between 3% and 10% from the regulatory capital.
- Board of directors, Corporate Lending Division Manager and Department Managers of the Bank are authorized for approving credit exposures up to 3% of the Bank's regulatory capital.

B Credit risk assessment

(a) Loans and advances

In assessing credit risk of loans and advances to customers and to Banks at a counterparty level, the Bank uses three components: (I) the 'probability of default' by the client or counterparty on its contractual obligation (expected cash flows); (ii) the likely recovery ratio on the defaulted obligations, the 'loss given default'; (iii) the amount and quality of the collateral for the exposure.

These credit risk assessments, which reflect expected loss (the 'expected loss model') and are required by the IAS 39, are based on losses that have been incurred at the balance sheet data (the 'incurred loss model') rather than expected losses.

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Clients of the group are segmented in four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. These means that, in principal, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Bank's internal rating scale

Bank's rating	**Description of the grade**
A	Pass/acceptable for financing
B	Watch (careful)
C	Sub-standard
D+E	Suspicious (doubtful)+Loss

Bank's rating grade A (Pass/acceptable for financing) includes:

- Claims from National Bank of the Republic of Macedonia and the Republic of Macedonia;
- Credit exposure towards customer who settles its obligation towards the Bank at maturity or up to 15 days overdue;
- Credit exposure being fully secured by first class security instruments, as defined in NBRM Decision on classification of claims of Banks, up to realization of the instrument, provided that the realization is not in term longer than 30 days after the claim's maturity.

Bank's rating grade B (Watch (careful)) includes:

- Credit exposure towards customer, for whom on the basis of credit worthiness evaluation, the Bank assesses that the cash flow will be sufficient for regular settlement of the due obligations, regardless to the presented current financial weaknesses, showing no signs of further worsening of the customer's condition;
- Credit exposure towards customer who repays its due obligations up to 30 days or by exception in period from 31 up to 90 days, if the delay is only periodical in the interval of 31 to 90 days.

Bank's rating grade C (Sub-standard) includes:

- Credit exposure towards customer who is confirmed and assessed to have inadequate cash flow which will enable fulfilment of its obligations at the maturity;
- Credit exposure towards customer being inadequately capitalized;
- Credit exposure towards customer with inadequate term structure of the assets and liabilities, i.e. insufficiency in the long-term sources for financing customer's long-term activities;
- Credit exposure towards customer for which the Bank does not have satisfactory information available, i.e. the Bank does not have the required documentation for the Credit File in accordance with the Guidelines for keeping credit files passed by NBRM;
- Credit exposure towards customer who has restructured obligations or other prolongation of repayment of loan or other types of credit exposure due to serious financial difficulties;
- Credit exposure towards customer for whom payment has been settled for the issued letters of credit, guarantees, banking guarantees and other forms of guarantee (warranty);
- Credit exposure towards customer who usually fulfils its obligations with a delay from 31 up to 90 days, or as an exception from 91 up to 180 days, if the delay is only periodical in the interval from 91 up to 180 days.

Bank's rating grade D+E (Suspicious (doubtful) loss) includes:

- Credit exposure towards customer who is illiquid or insolvent and credit exposure towards customer in bankruptcy or liquidation;
- Credit exposure towards customer whose creditors has written-off their claims;
- Credit exposure towards customer in financial recovery;
- Credit exposure towards a customer for whom a proposal is submitted to the authorized court for initiating a procedure for liquidation or bankruptcy and out of which the Bank fairly expects to collect a part of its claims;
- Credit exposure towards customer with a suspicious legal base;
- Credit exposure towards customer whose debts collection depends on the realization of the security instruments;
- Credit exposure with expectations that the Bank will collect only a part of its claims from the customer;
- Credit exposure towards customer that is being subject to litigation and at the same time it is not being secured with a qualitative security instrument;
- Customer with undefined legal status;
- Credit exposure towards customer for whom there are firm expectations that the Bank will not be in position to collect its claims from the customer;
- Credit exposure towards customer who usually fulfils its obligations with a delay from 91 up to 180 days, or as an exception from 181 up to 365 days, if the delay is only periodical in the interval from 181 up to 365 days and credit exposure towards customer who fulfils its obligations with delay longer than 365 days or does not fulfil them at all.

(ii) Loss given default or loss severity represent the Bank's expectations of the extent of loss on a clime should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigations.

iii) Amount and quality of the collateral depends on the terms, type (non movables, movables (inventories, receivables) and the possibility for its enforcement. The Bank divides the clients in two groups: one where the exposure of the Bank is secured with value of the collateral that is lower than the amount of the exposure and second where the value of the collateral is higher than the amount of the exposure.

(b) Debt securities and other bills

The Bank is striving to maintain acceptable level of credit risk exposure regarding debt securities, so investment activities are dominantly in government debt securities.

C Risk limit control and mitigation policies

The Bank manages and controls concentration of credit risk to individual and group basis, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

As measures for specific control and mitigation of credit risk prescribed in Bank's act that regulates credit activities and procedures are obtaining collateral and credit-related contingencies.

(a) Collateral

Collateral always is considered as a secondary factor in granting a credit facility. Security by itself, in lack of ability to generate cash flow, is insufficient to justify the granting of credit facilities. The principal collateral types for loans and advances are:

(i) For corporate entities

- Cash
- Property
- Equipment and vehicles
- Inventory
- Receivables
- Guarantees (Bank guarantees, guarantees from legal entities)
- Securities (Debt securities issued by the Government of RM, Securities issued by legal entities).

Loans to corporate entities are generally secured.

(ii) For individuals

- Property
- Cars
- Deposits
- Securities (Debt securities issued by the Government of RM, Securities issued by legal entities)
- In some cases draft or draft with endorsers covering the total receivables.

Loans to individuals are generally secured.

(b) Credit-related contingencies

The primary purpose to these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. The Bank issues collateralized and uncollateralized guarantees and letters of credit. The Bank monitors the term of maturity of these credit commitments, because long-term commitments have greater degree of credit risk than short-term commitments, also as uncollateralized commitments regarding collateralized commitments.

D Impairment and provisioning policies

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

According to the Bank's policy, there are four internal rating grades. The majority of the impairment provision comes from the bottom two grading. The table below shows the structure of Bank's loans and advances portfolio regarding internal rating system and the associated impairment provision for each internal rating grade:

	2008		**2007**	
	Loans %	**Impairment %**	**Loans %**	**Impairment %**
Pass/acceptable for financing (A)	72.8	1.8	73.5	2.8
Watch (careful) (B)	14.4	6.8	10.2	10.3
Sub-standard (C)	5.1	25.0	6.2	24.6
Suspicious (doubtful)+Loss (D) + (E)	7.7	84.2	10.1	75.0
Total	**100**	**10.1**	**100**	**12.2**

E Maximum exposure to credit risk before collateral held or other credit enhancement

	2008	2007
Loans and advances to banks	5,550,640	13,833,618
Loans to customers		
Loans to individuals		
- overdrafts (exemption off-balance sheet exposure)	1,044,527	712,249
- credit cards (exemption off-balance sheet exposure)	735,990	576,820
- loans	5,094,198	4,024,274
- other	14,136	18,934
Loans to corporate entities		
- Large corporate clients	8,862,131	5,882,869
- Small and medium size companies (SMEs)	19,297,494	13,372,917
Financial assets held for trading	3,353,838	3,191,943
Financial assets at fair value through Profit and loss	222,781	1,003,542
Financial assets available for sale	380,746	68,437
Financial assets held to maturity	176,476	228,544
Other assets	976,138	1,002,561
Off balance sheet items		
Financial guaranties	8,211,030	8,434,592
Latter of credit	853,353	921,026
Unused overdrafts for current accounts	2,262,602	1,504,068
Unused overdrafts for Master card	788,651	740,460
Overdrafts for legal entities for salary payments	628,584	557,616

The above table presents a worse case scenario of credit risk exposure to the Bank as at 31 December 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet items, the exposure set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 69% of the total maximum exposure is derived from loans and advances to banks and customers (2007: 69%); 22% represents off-balance-sheet items (2007: 22%).

Management is confident that in its ability to continue to control and sustain minimum exposure to credit risk to the Bank resulting from both loans and advances portfolio and off balance sheet items based on following:

- 87.2% of the loans and advances are categorized in top two grades on the internal rating system (2007: 83.7%);
- Loans and advances to customers are collateralized and loans to banks are mostly in first class banks;
- 57.64% of loans and advances are considered as to be neither past due nor impaired;
- The increase of off-balance-sheet items generally resulting of increase of unused overdrafts for current accounts as a result of the need in the whole economy for this kind of bank service.

F Loan and advances

Loans and advances are summarized as follows:

	31 December 2008		31 December 2007	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	20,164,196	5,507,638	10,986,630	13,653,705
Past due but not impaired	4,862,725	-	2,804,981	-
Impaired	13,956,047	44,532	14,206,243	181,731
Gross	**38,982,968**	**5,552,170**	**27,997,854**	**13,835,436**
Less: allowance for impairment	(3,934,492)	(1,530)	(3,409,791)	(1,818)
Net	**35,048,476**	**5,550,640**	**24,588,063**	**13,833,618**

The total impairment provision for loans and advances is MKD 3,936,022,000 (2007: MKD 3,411,609,000) of which MKD 1,988,963,000 (2007: MKD 1,714,906,000) represents the individually impaired loans and the remaining amount of MKD 1,947,059,000 represents the portfolio provision (2007 MKD: 1,696,703,000). Further information of the impairment allowance for loans and advances is provided in Notes 17 and 18.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Bank's internal rating system.

31 December

	Degree of investment (A) 2008	**Degree of investment (A) 2007**
Loans and advances to banks	5,507,638	13,653,705
Loans to customers		
Loans to individuals		
- loans	378,000	334,347
Loans to corporate entities		
- Large corporate clients	6,982,005	4,279,257
- Small and medium size companies (SMEs)	12,804,191	6,373,026
Other assets		
Total	**25,671,834**	**24,640,335**

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class of customer that were past due but not impaired were as follows:

31 December 2008	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to corporate entities				
- Small and medium size companies (SMEs)	4,155,931	706,794	-	**4,862,725**
Value of collateral				**7,240,608**

31 December 2007	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to corporate entities				
- Small and medium size companies (SMEs)	2,678,418	126,563	-	**2,804,981**
Value of collateral				**4,431,350**

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The breakdown of individually impaired loans and advances to customers by class and the fair value of related collateral held by the Bank as security, are as follows:

	31 December 2008		**31 December 2007**	
	Loans with individual provision	**Value of collateral**	**Loans with individual provision**	**Value of collateral**
Loans to corporate entities				
- Large corporate clients	2,923,786	3,508,543	2,323,540	2,265,300
- Small and medium size companies (SMEs)	3,910,288	3,832,082	3,163,837	2,231,294
Total	**6,834,074**	**7,340,625**	**5,487,377**	**4,496,594**

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2008 is MKD 44,532,000 (2007: MKD 181,731,000). Generally no collateral is held by the Bank.

(d) Loans and advances renegotiated

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and when the Bank has made concession that it would not otherwise consider. Once the loan is restructured it remains in the same rating grade at least two quarters independent of satisfactory performance after restructuring, except when the quality of the loan was improved and the loan was transferred in a less risky category. The renegotiated loans as at 31 December 2008 and 31 December 2007 are as follows:

31 December 2008	**Carrying amount**
Re-structured loans	373,144

31 December 2007	**Carrying amount**
Re-structured loans	575,543

G Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills regarding issuer as at 31 December 2008. Issuer of the investment securities is the Central Bank of the Republic of Macedonia and Republic of Macedonia. Standard & Poor's Ratings Services assigned its long and short term foreign currency ratings of 'BB+ and B respectively and 'BBB-' for local currency sovereign credit ratings to the Republic of Macedonia. Issuers of the investment securities are Banks which are unrated.

Issuer	**Treasury and other eligible bills**	**Trading securities**	**Investment securities**	**Total**
Central bank of Republic of Macedonia	3,186,502	-	-	3,186,502
Republic of Macedonia	167,336	200,597	176,476	544,409
Banks	-	-	306,071	306,071
Total	**3,353,838**	**200,597**	**482,547**	**4,036,982**

H Repossessed collateral

During 2008, the Bank obtained assets by taking possession of collateral held as security as follows:

	Carrying amount	
Nature of assets	**2008**	**2007**
Residential property	767,201	798,489

I Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's credit exposure at their carrying amount, categorized by geographic region, based on the country of domicile of our counterparties:

	Total	Republic of Macedonia	EU Countries	Non-EU Countries in Europe	Other countries
ASSETS					
Cash and balances with the National Bank of Republic of Macedonia	7,708,973	5,759,612	923,314	94,294	931,753
Treasury and other eligible bills	3,353,838	3,353,838	-	-	-
Financial assets at fair value through P&L	222,781	222,781	-	-	-
Loans and advances to banks	5,550,640	398,301	4,897,113	255,226	-
Loans and advances to customers	35,048,476	35,043,782	-	4,694	-
Loans to individuals	6,888,851	6,888,851	-	-	-
- Term Loans	5,094,198	5,094,198	-	-	-
- Overdrafts	1,044,527	1,044,527	-	-	-
- Credit cards	735,990	735,990	-	-	-
- Other	14,136	14,136	-	-	-
Loans to corporate entities	28,159,625	28,154,931	-	4,694	-
- Large corporate customers	8,862,131	8,862,131	-	-	-
- SMEs	19,297,494	19,292,800	-	4,694	-
Investment securities	557,222	555,586	1,247	-	389
Other assets	976,138	976,138	-	-	-
Total assets at 31 December 2008	**53,418,068**	**46,310,038**	**5,821,674**	**354,214**	**932,142**
Total assets at 31 December 2007	**51,281,336**	**36,523,212**	**11,368,435**	**3,222,507**	**167,182**

(b) Industry sector

The following table breaks down the Bank's credit exposure at their carrying amount, categorized by industry sector of our counterparties:

	Total	Industry	Commerce and finance	Retail customers	Agriculture	Gove. Instit. and local authorities	Construc-tion	Transport	Other
ASSETS									
Cash and balances with the National Bank of Republic of Macedonia	7,708,973	-	7,708,973	-	-	-	-	-	-
Treasury and other eligible bills	3,353,838	-	3,353,838	-	-	-	-	-	-
Financial assets at fair value through P&L	222,781	2,676	203,623	-	-	-	-	8,138	8,344
Loans and advances to banks	5,550,640	-	5,550,640	-	-	-	-	-	-
Loans and advances to customers	35,048,476	9,132,166	8,763,275	6,888,851	1,255,919	563,193	3,688,911	1,678,314	3,077,847
Loans to individuals	6,888,851	-	-	6,888,851	-	-	-	-	-
- Term Loans	5,094,198	-	-	5,094,198	-	-	-	-	-
- Overdrafts	1,044,527	-	-	1,044,527	-	-	-	-	-
- Credit cards	735,990	-	-	735,990	-	-	-	-	-
- Other	14,136	-	-	14,136	-	-	-	-	-
Loans to corporate entities	28,159,625	9,132,166	8,763,275	-	1,255,919	563,193	3,688,911	1,678,314	3,077,847
- Large corporate customers	8,862,131	2,873,989	2,757,895	-	395,251	177,243	1,160,939	528,183	968,631
- SMEs	19,297,494	6,258,177	6,005,380	-	860,668	385,950	2,527,972	1,150,131	2,109,216
Investment securities	557,222	2,637	554,585	-	-	-	-	-	-
Other assets	976,138	-	976,138	-	-	-	-	-	-
Total assets at 31 December 2008	**53,418,068**	**9,137,479**	**27,111,072**	**6,888,851**	**1,255,919**	**563,193**	**3,688,911**	**1,686,452**	**3,086,191**
Total assets at 31 December 2007	**51,281,336**	**6,923,720**	**24,496,109**	**5,332,278**	**675,459**	**811,270**	**2,586,586**	**1,340,429**	**9,115,485**

3.2 Market risk

The Bank takes on exposure to market risk. Market risk arises from open positions in interest rate, and currency, all of which are exposed to general and specific market movements. The Bank estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

A Market risk measurement

Regarding market risk managing and measuring, the Bank's management on a regular basis through adequate analysis and reporting process, is monitoring:

- interest rate changes regarding market movements and internal decisions, and the influence on interest bearing assets and liabilities and the interest rate margin;
- changes of foreign currency rates regarding foreign currency assets and liabilities and maintain adequate structure regarding foreign exchange risk exposure;

The aim of the Bank is maximizing the stability and profitability, by applying the optimum combination of foreign currency and interest rate structure of the assets and liabilities.

B Foreign currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight position, which are monitored daily. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by currency.

Concentrations of assets and liabilities

The Bank had the following significant currency positions:

As at 31 December 2008	EUR	USD	MKD	Other	Total
Assets					
Cash and balances with the NBRM	3,353,501	1,134,743	2,886,182	334,547	7,708,973
Treasury and other eligible bills	-	-	3,353,838	-	3,353,838
Financial assets at fair value through profit or loss	8,281	-	214,500	-	222,781
Loans and advances to banks	2,814,782	2,039,547	170,666	525,645	5,550,640
Loans and advances to Customers	15,546,951	281,636	18,557,223	662,666	35,048,476
Investment securities	486,878	393	69,951	-	557,222
Investments in associates	-	-	49,693	-	49,693
Property and equipment	-	-	1,582,488	-	1,582,488
Investment property	-	-	8,488	-	8,488
Intangible assets	-	-	40,191	-	40,191
Deferred tax asset	-	-	438	-	438
Other assets	64,589	73	911,350	126	976,138
Total assets	**22,274,982**	**3,456,392**	**27,845,008**	**1,522,984**	**55,099,366**
Liabilities					
Deposits from banks	794,722	218,660	548,882	10,197	1,572,461
Other deposits	19,856,004	3,135,242	22,073,415	705,209	45,769,870
Borrowings	835,985	926	147,192	-	984,103
Provisions	57,300	10,496	113,057	527	181,380
Current tax liability	-	-	62,649	-	62,649
Other liabilities	3,424	10,210	255,018	959	269,611
Total liabilities	**21,547,435**	**3,375,534**	**23,200,213**	**716,892**	**48,840,074**
Contingencies and commitments	3,968,777	726,959	7,830,604	36,500	**12,562,840**
Net balance sheet position	**727,547**	**80,858**	**4,644,795**	**806,092**	**6,259,292**
As at 31 December 2007					
Total assets	**22,392,656**	**2,761,131**	**26,100,244**	**1,610,672**	**52,864,703**
Total liabilities	**21,008,913**	**2,781,554**	**22,966,444**	**847,478**	**47,604,389**
Net balance sheet position	**1,383,743**	**(20,423)**	**3,133,800**	**763,194**	**5,260,314**
Contingencies and commitments	4,038,626	602,294	7,010,161	331,087	**11,982,168**

At 31 December 2008, had the exchange rate between the MKD and EUR increased or decreased by 0.5%; between MKD and USD increased or decreased by 3%; between MKD and other foreign currencies increased or decreased by 1%; with all other variables held constant, the pre-tax profit for the twelve month period ended 31 December 2008 would have been approximately MKD 14,125,000 (2007: MKD 13,938,000) lower or higher.

C Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, and three or six months EURIBOR/LIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2008							
Assets							
Cash and balances with the NBRM	4,298,012	-	-	-	-	3,410,961	7,708,973
Treasury and other eligible bills	3,182,634	167,056	-	-	-	4,148	3,353,838
Financial assets at fair value through profit or loss	8,281	-	149,776	-	-	64,724	222,781
Loans and advances to banks	4,302,822	534,509	704,148	667	-	8,494	5,550,640
Loans and advances to Customers	2,796,626	1,996,882	10,724,517	11,574,747	4,814,025	3,141,679	35,048,476
Investment securities	-	-	355,223	120,444	-	81,555	557,222
Investments in associates	-	-	-	-	-	49,693	49,693
Property and equipment	-	-	-	-	-	1,582,488	1,582,488
Investment property	-	-	-	-	-	8,488	8,488
Intangible assets	-	-	-	-	-	40,191	40,191
Deferred income tax asset	-	-	-	-	-	438	438
Other assets	-	-	-	-	6,023	970,115	976,138
Total assets	**14,588,375**	**2,698,447**	**11,933,664**	**11,695,858**	**4,820,048**	**9,362,974**	**55,099,366**
Liabilities							
Deposits from banks	765,014	102,251	401,562	116,998	-	186,636	1,572,461
Other deposits	29,152,828	6,974,568	7,567,237	519,965	-	1,555,272	45,769,870
Borrowings	40,630	181,535	224,031	333,668	73,032	131,207	984,103
Current tax liability	-	-	-	-	-	62,649	62,649
Provisions	-	-	-	-	-	181,380	181,380
Other liabilities	-	-	-	-	-	269,611	269,611
Total liabilities	**29,958,472**	**7,258,354**	**8,192,830**	**970,631**	**73,032**	**2,386,755**	**48,840,074**
Total interest re - pricing gap	**(15,370,097)**	**(4,559,907)**	**3,740,834**	**10,725,227**	**4,747,016**	**6,976,219**	**6,259,292**
As at 31 December 2007							
Total assets	**26,700,984**	**8,217,948**	**7,425,511**	**2,432,156**	**738,432**	**7,349,672**	**52,864,703**
Total liabilities	**29,396,045**	**6,778,401**	**8,530,461**	**658,090**	**29,200**	**2,212,192**	**47,604,389**
Total interest re- pricing gap	**(2,695,061)**	**1,439,547**	**(1,104,950)**	**1,774,066**	**709,232**	**5,137,480**	**5,260,314**

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2008, if interest rates had been 100 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2008 would respectively increase/decrease by approximately MKD 7,169,000 (2007: MKD 1,228,000) and other equity components would respectively decrease/increase by 3,061,000 MKD (2007: nil).

3.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of liquidity risk may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

A Liquidity risk management process

Liquidity risk management policy of the Bank defines the method of managing the Bank's liquidity.

Perception and monitoring of Bank's liquidity is a postulate of its stability and successful working. Implementation of the liquidity risk management policy is done using defined risk management process which includes planning and managing with cash flows, maintaining adequate structure of assets and liabilities, financial instruments for liquidity risk management, adequate diversification of deposits and other liabilities by maturity and client, procedures for identification and monitoring the deposit's stability, monitoring the maturity of assets and liabilities, monitoring the off-balance sheet items, monitoring liquidity ratios, liquidity stress testing and continuity plan in irregular conditions reporting to Bank's bodies and adequate management information system and responsibilities of Bank's organizational units in liquidity risk management process.

The aim of the Bank is maximizing the profitability, by applying the optimum combination of maturity and foreign currency structure of the assets and liabilities.

However, as a result of the ongoing financial crisis, the Bank strives to use adequate term structure of funds adjusted to term structure of placements, based on contractual and expected maturity of the deposit base. In such conditions, the primary strategy of the Bank is to maintain its liquidity on the highest level and not to promote significant increase of loan portfolio and increase of profit. In that direction the Bank increased the interest rates of deposits and introduced attractive deposit products.

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

Although the Bank has shortage of short-term assets over short-term liabilities maturing within one month, one to three months, the Bank's management considers its deposit base as being stabile and liquidity not jeopardized. This is based on statistical data and calculations of expected maturity in order to determine the funding and stability of the deposit base.

Maturities of assets and liabilities

As at 31 December 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks	949,582	102,433	94,683	486,621	-	1,633,319
Other deposits	30,647,382	6,981,381	7,537,510	634,468	-	45,800,741
Borrowings	47,411	28,482	171,353	557,739	250,473	1,055,458
Provisions	61,327	18,553	66,374	23,318	11,808	181,380
Other liabilities incl. current tax liability	197,218	133,130	202	1,710	-	332,260
Total liabilities (contractual maturity dates**)**	**31,902,920**	**7,263,979**	**7,870,122**	**1,703,856**	**262,281**	**49,003,158**
Total assets (expected maturity dates)	**15,360,726**	**2,304,280**	**9,798,841**	**14,438,640**	**12,555,242**	**54,457,729**

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks	483,916	148,454	116,548	44,127	-	793,045
Other deposits	29,771,208	6,650,284	8,377,810	495,698	85	45,295,085
Borrowings	50,535	16,925	155,437	700,737	234,960	1,158,594
Provisions	56,769	34,639	44,605	31,711	7,871	175,595
Other liabilities incl. current tax liability	192,542	103,214	1,972	-	-	297,728
Total liabilities (contractual maturity dates**)**	**30,554,970**	**6,953,516**	**8,696,372**	**1,272,273**	**242,916**	**47,720,047**
Total assets (expected maturity dates)	**23,223,193**	**5,456,899**	**7,020,083**	**10,983,485**	**6,240,286**	**52,923,946**

B Off-balance sheet items (uncollateralized)

(a) Guarantees

The maturity buckets based on the remaining period to the contractual maturity date of guarantees are summarized in the table below.

(b) Letter of credit

The maturity groupings based on the remaining period to the contractual maturity date of letter of credit are also included in the table below.

(c) Other

This item includes approved undistributed overdrafts on current accounts and cards and loans in MKD for out limiting of the condition of the funds on the current accounts of legal entities in domestic payment operation. The maturity buckets based on the remaining period to the contractual maturity date are summarized in the table below.

As at 31 December 2008	Up to 1 year	1-5 years	Over 5 years	Total
Guarantees	5,616,150	1,602,186	811,314	8,029,650
Letter of credit	853,353	-	-	853,353
Other	3,679,837	-	-	3,679,837
Total	**10,149,340**	**1,602,186**	**811,314**	**12,562,840**

As at 31 December 2007	Up to 1 year	1-5 years	Over 5 years	Total
Guarantees	5,575,437	2,149,910	533,650	8,258,997
Letter of credit	921,026	-	-	921,026
Other	2,802,144	-	-	2,802,144
Total	**9,298,607**	**2,149,910**	**533,650**	**11,982,167**

3.4. Financial Instruments

Fair value

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

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities not presented on balance sheet at their fair value.

	Carrying value		Fair value	
	2008	2007	2008	2007
Financial assets				
Loans and advances to banks	5,550,640	13,833,618	5,550,640	13,833,618
Loans and advances to customers	35,048,476	24,588,063	34,855,501	24,461,083
- Retail customers(individuals)	6,888,851	5,332,277	6,888,851	5,332,277
- large corporate customers	8,862,131	5,882,869	8,862,131	5,882,869
- SMEs	19,297,494	13,372,917	19,104,519	13,245,937
Investment securities	557,222	296,981	565,766	372,404
Financial liabilities				
Deposits from banks	1,572,461	792,918	1,572,461	792,918
Other deposits	45,769,870	45,272,556	45,769,870	45,272,556
Borrowings	948,103	1,065,592	948,103	1,065,592

Loans and advances to banks

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

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Investment securities

Investment securities include interest-bearing assets held to maturity and assets classified as available for sale are measured at fair value. Fair value for held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Other financial assets

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

Deposits and borrowings

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

The fair value of the term deposits at variable interest rates approximates their carrying values as of the balance sheet date. Term deposits over 12 months represent insignificant part of the total deposits and do not have material impact on the fair value of the total deposits.

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

3.5 Capital management

The Bank's objectives regarding capital managements are:

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

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

The regulatory authority requires that each Bank has to maintain capital adequacy ratio above 8%.

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

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

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

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

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

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements to which the Bank is subject.

Tier 1 capital	**2008**
Ordinary and non-cumulative non-voting shares and share premium	2,214,206
Statutory reserves and retained earnings or loss	2,653,136
Items as result of consolidation	-
Deductions from Tier 1 capital	(4,937)
Total qualifying Tier 1 capital	*4,862,405*
Tier 2 capital	
Cumulative non-voting shares and share premium	18,563
Hybrid capital liabilities	-
Subordinated liabilities	-
Total qualifying Tier 2 capital	*18,563*
Deductions from regulatory capital	(96,267)
Total regulatory capital	**4,784,701**
Credit risk-weighted assets	
On-balance sheet	38,940,270
Off-balance sheet	7,696,428
Total credit risk-weighted assets	**46,636,698**
FX risk-weighted assets	**1,711,792**
Capital adequacy ratio	**9.9%**

Tier 1 capital	**2007**
Ordinary and non-cumulative non-voting shares and share premium	2,209,660
Statutory reserves and retained earnings or loss	2,020,929
Items as result of consolidation	-
Deductions from Tier 1 capital	(57,922)
Total qualifying Tier 1 capital	*4,172,667*
Tier 2 capital	
Cumulative non-voting shares and share premium	23,108
Hybrid capital liabilities	-
Subordinated liabilities	-
Total qualifying Tier 2 capital	*23,108*
Deductions from regulatory capital	(82,009)
Total regulatory capital	**4,113,766**
Credit risk-weighted assets	
On-balance sheet	29,646,630
Off-balance sheet	7,847,258
Total credit risk-weighted assets	**37,493,888**
FX risk-weighted assets	**1,602,001**
Capital adequacy ratio	**10.5%**

The increase of the regulatory capital in 2008 is mainly result of including a part of the profit realized in 2007 in the Bank's reserves. The increase of risk-weighted assets reflects the expansion of lending and off-balance activities.

4 Critical accounting estimates, and judgments in applying accounting policies

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

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

(b) Held to maturity investments

The Bank holds debt securities issued by the Republic of Macedonia, received in exchange for the settlement of certain non-performing loans, bearing interest at a rate of 2% per annum. The principal of bonds for frozen deposits is repayable in 20 equal semi annual instalments commencing from April 2002 to October 2011, the principal of bonds for denationalization IV issue is repayable in 10 equal annual instalments commencing from June 2006 to June 2015, and, the principal of bonds for denationalization V issue is repayable in 10 equal annual instalments commencing from June 2007 to June 2016. As at 31 December 2008 the outstanding balance of these receivables amounts MKD 176,476,000 (2007: MKD 228,544,000).

5 Net interest income

	2008	2007
Interest and similar income		
Loans and advances:		
- To banks	58,804	42,769
- To customers	3,088,928	2,252,972
Cash and short term funds	441,299	776,850
Investment securities	285,692	28,598
Other	12,185	22,355
	3,886,908	**3,123,544**
Interest expense and similar charges		
Deposits from banks	26,330	9,296
Due to customers	1,228,187	918,922
Other borrowed funds	39,010	57,157
Other	15,928	16,255
	1,309,455	**1,001,630**

6 Net fee and commission income

	2008	2007
Fee and commission income		
Payment operations		
-in the country	347,209	348,518
-abroad	258,253	240,927
Letters of credit and guarantees	176,819	136,093
Credit cards	23,128	17,469
Brokerage fees	14,429	75,252
Other	79,546	122,517
	899,384	**940,776**
Fee and commission expense		
Payment operations		
-in the country	31,645	29,004
-abroad	65,343	66,163
Brokerage fees	535	2,002
Other	37,668	16,725
	135,191	**113,894**

7 Dividend income

	2008	2007
Investment securities	20,119	8,106
	20,119	**8,106**

8 Other operating income

	2008	2007
Gain on sale of Property Plant and Equipment	11,593	3,003
Rental income	11,658	12,323
Recoveries on loans and advances previously written – off	151,670	124,684
Other	126,756	77,247
	301,677	**217,257**

9 Administrative expenses

	2008	2007
Salaries and wages	442,362	424,231
Pension costs	136,381	131,177
Other staff costs	73,153	75,977
Taxes and contributions	70,286	73,838
	722,182	**705,223**

10 Other operating expenses

	2008	2007
Materials and services	303,354	242,732
Insurance premiums	222,214	191,041
Depreciation of property and equipment (Note 21)	171,953	162,099
Administration and marketing costs	115,309	76,268
Bonuses to the Supervisory Board, Board of Directors, management and the employees	130,000	100,000
Impairment of assets	-	3,250
Decrease in value of assets acquired through foreclosure procedure	12,677	-
Amortisation of intangible assets (Note 23)	15,274	14,827
Loss on sale of collateral	18,953	22,529
Tax and contributions	5,466	5,236
Penalties	3,777	2,557
Depreciation of investment property (Note 22)	546	1,844
Other	2,307	18,273
	1,001,830	**840,656**

11 Impairment charge for credit losses

	2008	2007
Cash and bank balances with the NBRM (Note 14)	(67,549)	(12,776)
Loans and advances to banks (Note 17)	(288)	1,818
Loans and advances to customers (Note 18)	549,056	723,589
Contingencies and commitments (Note 30)	5,785	50,715
	487,004	**763,346**

12 Income tax expense

	2008	2007
Current tax	172,515	57,315
Deferred tax (Note 29)	170	298
	172,685	**57,613**

Further information about deferred income tax is presented in Note 29.
The tax on the Bank's profit before tax differs from the amount that would arise using the basic tax rate of the Bank as follows:

Profit before tax	**1,551,352**	**1,069,501**
Tax calculated at a tax of 10% (2007: 12%)	155,135	128,340
Increase for:		
- expenses non tax deductible according to local regulations	23,699	18,343
Decrease for:		
- dividends	(2,004)	(969)
- non-taxable income according to local Regulations	-	(84,291)
- tax exempt revenue	(4,145)	(3,810)
Income tax expense	**172,685**	**57,613**

Tax decrease in 2007 was based on the proportion of an investment in the share capital of the Bank by foreign investors for which the Bank is no longer eligible.

The tax authorities may at any time inspect the books and records up to 5 to 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

13 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the net profit attributable to ordinary shareholders of MKD 1,377,014,000 (2007: MKD 1,009,865,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 1,995,551 (2007:1,987,804), calculated as follows:

Net profit attributable to ordinary shareholders	**2008**	**2007**
Net profit for the year	1,378,667	1,011,888
Dividends on non-redeemable preference shares	(1,653)	(2,023)
Net profit attributable to ordinary shareholders	**1,377,014**	**1,009,865**

Weighted average number of ordinary shares	**2008**	**2007**
In number of shares		
Issued ordinary shares at 1 January	1,992,590	1,953,528
Effect of treasury shares sold in January	-	30,132
Effect of conversion of preference shares in January	63	77
Effect of conversion of preference shares in February	107	424
Effect of conversion of preference shares in April	2,398	935
Effect of conversion of preference shares in May	135	659
Effect of conversion of preference shares in June	83	1,058
Effect of conversion of preference shares in July	64	665
Effect of conversion of preference shares in August	-	199
Effect of conversion of preference shares in September	55	79
Effect of conversion of preference shares in October	55	27
Effect of conversion of preference shares in November	-	18
Effect of conversion of preference shares in December	1	3
At 31 December	**1,995,551**	**1,987,804**

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2008 was based on the net profit attributable to ordinary shareholders of MKD 1,378,667 (2007: MKD 1,011,888,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2008 of 2,012,483 (2007: 2,009,281), calculated as follows:

Net profit attributable to ordinary shareholders (diluted)	**2008**	**2007**
Net profit attributable to ordinary shareholders	1,378,667	1,011,888
Net profit attributable to ordinary shareholders	1,378,667	1,011,888

Weighted average number of ordinary shares (diluted)	**2008**	**2007**
In number of shares		
Issued ordinary shares at 1 January	1,995,551	1,987,804
Effect of issued potential ordinary shares	16,932	21,477
At 31 December	**2,012,483**	**2,009,281**

14 Cash and bank balances with the National Bank of Republic of Macedonia

	2008	**2007**
Cash in hand	1,098,663	974,734
Current accounts with local banks	7,229	6,616
Current accounts with foreign banks	1,949,561	822,421
Other short term highly liquid investments	9,135	22,637
Included in cash and cash equivalents (Note 35)	**3,064,588**	**1,826,408**
Restricted accounts	53,619	39,831
Current accounts with foreign banks	10	66,294
Balances with NBRM	4,591,036	5,499,924
Less: Provision for impairment	(280)	(67,829)
	7,708,973	**7,364,628**

Cash and bank balances with the National Bank of Republic of Macedonia include accrued interest of MKD 2,569,000 (2007: 2,350,000).

The Bank is obliged to provide mandatory reserve and mandatory deposit in MKD and mandatory reserve in foreign currency at the National Bank of the Republic of Macedonia.

The Bank has to set aside MKD mandatory deposit in amount which equals the difference between the actual loan retail balance at the end of each month and the balance determined in accordance with the prescribed limits for growth for each month. This mandatory deposit was for the first time set aside on 18 August 2008. The mandatory deposit as at 31 December is MKD 150,533,000 and National Bank of Republic of Macedonia pays 1% interest rate per annum.

The Bank has to set aside mandatory reserve in MKD at a rate of 10% on the average daily balance of the total MKD deposits on legal entities and retail customers during the preceding month. National Bank of Republic of Macedonia pays 2% (2007: 2%) interest on the mandatory reserve's amount in MKD.

The Bank has to set aside mandatory reserve in foreign currency at a rate of 10% on the average daily balance of the total foreign currency deposits on legal entities and retail customers during the preceding month denominated in EUR by applying the middle exchange rate issued by the National Bank of Republic of Macedonia on the last date of the calculation. National Bank of Republic of Macedonia pays no interest on the foreign exchange mandatory reserves.
The Bank is obliged to keep the amount of the calculated foreign currency mandatory reserve at a foreign Bank on a separate account of the National Bank of Republic of Macedonia.

Restricted accounts represent deposits for opened letters of credit, on behalf of the Bank's customers.

Movement in provisions for impairment are as follows:

Cash and bank balances with the National Bank of Republic of Macedonia

	2008	**2007**
Balance at 1 January	67,829	80,605
Net release to income statement (Note 11)	(67,549)	(12,776)
Balance at 31 December	**280**	**67,829**

In 2008 the Bank succeeded to collect major part of the cash in a Bank under liquidation, which was fully provisioned. Based on this, the Bank has released the provision.

15 Treasury and other eligible bills

	2008	2007
Treasury bills	3,186,502	3,191,943
Government bills with maturity up to 90 days	167,336	-
Included in cash and cash equivalents (Note 35)	**3,353,838**	**3,191,943**
	3,353,838	**3,191,943**

Treasury bills are debt securities issued by the National Bank of Republic of Macedonia with maturity due of 28 days. Treasury bills are categorized as assets held for trading and carried at their fair value. Government bills of MKD 167,336,000 are with maturity up to 90 days bearing interest at a rate of 7.52% – 7.59% per annum.

16 Financial assets at fair value through profit and loss

	2008	2007
Debt and other fixed-income investments		
Government bonds	159,334	159,718
Government treasury bills	41,263	764,261
	200,597	**923,979**
Listed	200,597	923,979
Equity investments and other non-fixed-income instruments		
Equity investments	22,184	79,563
	22,184	**79,563**
Listed	19,226	72,259
Unlisted	2,958	7,304
	222,781	**1,003,542**

17 Loans and advances to banks

	2008	2007
Placements with foreign banks	5,152,706	13,639,318
Placements with domestic banks	399,464	196,118
Less: Provision for impairment	(1,530)	(1,818)
	5,550,640	**13,833,618**
Current	4,409,764	12,819,221
Non-current	1,140,876	1,014,397

Loans and advances to banks include accrued interest of MKD 8,494,000 (2007: MKD 57,458,000).

Movement in provisions for impairment are as follows:
Loans and advances to banks

	2008	2007
Balance at 1 January	1,818	-
Net (release)/charge to income statement (Note 11)	(288)	1,818
Balance at 31 December	**1,530**	**1,818**

18 Loans and advances to customers

	2008	2007
Individuals (retail customers):		
- Overdrafts	1,156,031	794,634
- Credit cards	823,963	630,500
- Term loans	5,504,902	4,329,747
- Other	15,077	19,796
	7,499,973	**5,774,677**
Corporate entities:		
- Large corporate customers	10,000,379	7,021,931
- SMEs	21,482,616	15,201,246
	31,482,995	**22,223,177**
Gross loans and advances	38,982,968	27,997,854
Less: allowance for impairment	(3,934,492)	(3,409,791)
Net	**35,048,476**	**24,588,063**
Current	14,743,823	10,950,442
Non- current	20,304,653	13,637,621

Loans and advances to customers include accrued interest and other receivables of MKD 217,812,000 (2007: MKD 145,669,000).

Movement in provisions for impairment for 2007 are as follows: Retail customers

	Overdrafts	Credit cards	Loans	Other	Total
Balance at 1 January 2007	55,596	25,912	188,414	2,522	**272,444**
Provision for loan impairment	26,975	27,768	117,723	(1,660)	**170,806**
Write off	(186)	-	(664)	-	**(850)**
Balance at 31 December	**82,385**	**53,680**	**305,473**	**862**	**442,400**

Movement in provisions for impairment for 2007 are as follows: Corporate entities

	Large corporate customers	SMEs	Total
Balance at 1 January 2007	1,228,315	1,500,180	**2,728,495**
Provision for loan impairment	219,958	332,825	**552,783**
Write off	(309,211)	(4,676)	**(313,887)**
Balance at 31 December	**1,139,062**	**1,828,329**	**2,967,391**

Movement in provisions for impairment for 2008 are as follows: Retail customers

	Overdrafts	Credit cards	Loans	Other	Total
Balance at 1 January 2008	82,385	53,680	305,473	862	**442,400**
Provision for loan impairment	34,223	34,334	105,612	79	**174,248**
Write off	(5,104)	(41)	(381)	-	**(5,526)**
Balance at 31 December	**111,504**	**87,973**	**410,704**	**941**	**611,122**

Movement in provisions for impairment for 2008 are as follows: Corporate entities

	Large corporate customers	SMEs	Total
Balance at 1 January 2008	1,139,062	1,828,329	**2,967,391**
Provision for loan impairment	(814)	375,622	**374,808**
Write off	-	(18,829)	**(18,829)**
Balance at 31 December	**1,138,248**	**2,185,122**	**3,323,370**

Loans and advances to customers are all domestic.

19 Investment securities

	2008	2007
Debt and other fixed-income investments held - to - maturity		
Government bonds	176,476	228,544
	176,476	**228,544**
Listed	176,476	228,544
Equity investments and other debt investments available-for-sale		
Debt non-fixed income investments available for sale		
Bonds issued by banks	306,071	-
Equity investments available-for-sale		
Equity investments	74,675	68,437
	380,746	**68,437**
Unlisted	380,746	68,437
	557,222	**296,981**
Current	54,461	55,378
Non-current	502,761	241,603

Investments securities include accrued interest and other receivables of MKD 3,384,000 (2007: 1,320,000 MKD).

Government Bonds comprise MKD 176,476 (2007: MKD 228,544,000) received as a collection of certain non-performing loans, bearing interest at a rate of 2% per annum (2007: 2%). The principal is payable in 20 equal semi-annual instalments commencing from April 2002 up to October 2011.

Equity investments before allowance are carried at cost. There is no active market for these investments and there are no recent transactions, which would provide evidence for their current market value. Income from debt instruments held-to-maturity is recognized as interest income. Income from equity investments is recognized in dividend income.

Corporate bonds issued by domestic Banks classified as available for sale of MKD 306,071,000, represent bonds denominated in EUR, with variable interest rate, six months EURIBOR +1.2% annual. The corporate bonds were issued by NLB Tutunska Banka AD Skopje, with maturity of three years and semi-annual payment of interest. The bonds were acquired through Public announcement from NLB Tutunska banka AD Skopje- NLB TB1 and were registered in the Central depository for securities of Republic of Macedonia on 17 November 2008. The corporate bonds are not quoted on an official market. Income from debt securities available for sale is recognised in interest income.

20 Investments in associate

	2008	2007
KB Prvo Penzisko Drustvo AD Skopje	45,138	45,138
Share of results for the year ended 31 December	4,555	(9,618)
	49,693	**35,520**

Summary financial information on the associate is presented below:

2008

	Assets	Liabilities	Equity	Revenues	Profit	Interest held
KB Prvo Penzisko Drustvo AD Skopje	135,823	34,418	101,405	105,387	28,926	49%
	135,823	**34,418**	**101,405**	**105,387**	**28,926**	

2007

	Assets	Liabilities	Equity	Revenues	Profit	Interest held
KB Prvo Penzisko Drustvo AD Skopje	102,775	30,297	72,478	90,403	7,388	49%
	102,775	**30,297**	**72,478**	**90,403**	**7,388**	

21 Property and equipment

	Buildings	Furniture & Equipment	Assets in course of construction	Leasehold improvements	Total
Year ended December 2007	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**
Opening net book amount	1,124,100	273,230	42,529	12,254	1,452,113
Additions	-	-	193,098	-	193,098
Transfers	9,619	170,605	(188,271)	8,047	-
Transfers to intangible assets	-	-	(25,055)	-	(25,055)
Transfer from leasehold improvements	1,487	-	-	(1,487)	-
Transfer to investment property	(749)	-	-	-	(749)
Disposals and write off	(6,773)	(2,022)	-	(362)	(9,157)
Depreciation charge (Note 10)	(36,441)	(122,408)	-	(3,250)	(162,099)
Depreciation charge – transfer from leasehold improvement	(1,487)	-	-	1,487	-
Closing net book amount	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**
At 31 December 2007					
Cost	1,448,366	1,088,493	22,301	30,676	**2,589,836**
Accumulated depreciation	(358,610)	(769,088)	-	(13,987)	**(1,141,685)**
Net book amount	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**
Year ended December 2008	**1,084,587**	**313,608**	**170,903**	**13,390**	**1,582,488**
Opening net book amount	1,089,756	319,405	22,301	16,689	1,448,151
Additions	59	61	317,831	-	317,951
Transfers	26,840	126,407	(154,990)	1,743	-
Transfer to intangible assets	-	-	(14,239)	-	(14,239)
Transfer from investment property	5,977	-	-	-	5,977
Disposals and write off	(461)	(2,575)	-	(363)	(3,399)
Depreciation charge (Note 10)	(37,584)	(129,690)	-	(4,679)	(171,953)
Closing net book amount	**1,084,587**	**313,608**	**170,903**	**13,390**	**1,582,488**
At 31 December 2008					
Cost	1,482,408	1,000,967	170,903	28,344	**2,682,622**
Accumulated depreciation	(397,821)	(687,359)	-	(14,954)	**(1,100,134)**
Net book amount	**1,084,587**	**313,608**	**170,903**	**13,390**	**1,582,488**

22 Investment property

	2008	2007
At 1 January		
Cost	71,909	71,160
Accumulated depreciation	(14,054)	(12,210)
Net book amount	**57,855**	**58,950**
Year ended December		
Opening net book amount	57,855	58,950
Transfer to property and equipment	(5,977)	-
Additions	-	749
Disposals and write off	(42,844)	-
Depreciation charge (Note 10)	(546)	(1,844)
Closing net book amount	**8,488**	**57,855**
At 31 December		
Cost	10,525	71,909
Accumulated depreciation	(2,037)	(14,054)
Net book amount	**8,488**	**57,855**

23 Intangible assets

	2008	2007
Cost		
Balance at 1 January	118,434	93,378
Transfer from property and equipment	14,240	25,056
Disposals and write off	(80)	-
Balance at 31 December	**132,594**	**118,434**
Accumulated amortisation		
Balance at 1 January	77,201	62,374
Charge for the year (Note 10)	15,274	14,827
Disposals and write off	(72)	-
Balance at 31 December	**92,403**	**77,201**
Net book value at 31 December	**40,191**	**41,233**
Net book value at 1 January	**41,233**	**31,004**

24 Other assets

	2008	2007
Collected collateral	767,201	798,489
Receivable for sold collateral previously collected	38,013	39,831
Advances for property and equipment	31,353	59,334
Receivable from KB Prvo Penzisko Drustvo	24,087	24,038
Inventory of office materials	19,780	18,208
Inventory of numismatic collections	15,850	16,559
Other assets	79,854	46,102
	976,138	**1,002,561**
Current	253,606	339,998
Non-current	722,532	662,563

Collected collateral of MKD 767,201 (2007: MKD 798,489,000) represents collected business premises and apartments, received by foreclosure of collateral.

The market for certain types of collateral in Macedonia is in an early stage of development. Management has made an estimate of the expected recoverable amount net of costs to realise the assets, based on a number of factors, including independent assessment. However, given the foregoing, actual amounts realised may differ from the estimates made.

Other assets include assets leased out to customers under operating lease agreements for which the instalments fall due as follows:

	2008	2007
Not later than one year	2,592	12,566
Later than one year and not later than five years	7,751	4,372
Later than five years	5,611	6,485
	15,954	**23,423**

The Bank has operating leases on an indefinite lease term and management can not estimate the exact lease term. The minimum lease payments for these operating leases not later than one year are MKD 676,000 (2007: MKD 1,121,000). No contingent rent was recognized as income in 2008 (2007: nil).

25 Deposits from banks and other financial institutions

	2008	2007
Demand deposits:		
Banks and other financial institutions	299,763	132,238
Insurance companies	149,764	125,362
Time deposits:		
Banks and other financial institutions	1,021,538	535,283
Restricted deposits:		
Banks and other financial institutions	101,396	35
	1,572,461	**792,918**
Current	1,146,698	748,918
Non-current	425,763	44,000

Deposits from banks and other financial institutions include accrued interest payable of MKD 5,384,000 (2007: MKD 3,319,000).

26 Other deposits

	2008	2007
Public institutions		
- Current/settlement accounts	384,243	53,685
- Term deposits	89,933	113,572
Companies		
- Current/settlement accounts	10,053,815	9,022,515
- Term deposits	1,816,174	5,654,619
Retail customers		
- Current/demand accounts	12,008,485	12,348,481
- Term deposits	20,281,837	16,938,478
Restricted deposits		
Citizens	856,649	660,116
Companies	278,734	481,090
	45,769,870	**45,272,556**
Current	45,166,273	44,799,302
Non-current	603,597	473,254

Other deposits include accrued interest payable of MKD 234,274,000 (2007: MKD 160,199,000).

Restricted deposits represent deposits made by companies for payments to be made abroad by the Bank on their behalf, to facilitate the issuance of letters of credit, and the purchase of foreign currencies as well as collateral for loans and guarantees extended by the Bank to certain customers.

27 Borrowings

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Domestic borrowings				
Macedonian Bank for Development Promotion	-	284,566	-	395,393
Agency for Managing Accounts	-	115,970	-	115,970
NBRM	-	8,809	-	8,809
Ministry of Finance	36,381	144,764	-	53,412
Foreign borrowings				
Macedonian Bank for Development Promotion	39,790	135,543	59,979	168,325
ICDF Taiwan	179	748	218	1,036
Council of Europe Social Development Fund	15,820	107,663	15,754	122,568
Ministry of finance – Agriculture Credit Discount Fund (former lender European Investment Bank – EIB)	30,716	63,154	31,950	92,178
	122,886	**861,217**	**107,901**	**957,691**
Current	247,246	-	222,897	-
Non-current	-	736,857	-	842,695

Borrowings include accrued interest payable of MKD 6,428,000 (2007: MKD 8,056,000). The Bank's borrowings are secured with promissory notes.

28 Other liabilities

	2008	2007
Dividend payables	21,872	23,853
Suppliers payable	18,866	18,876
Fee and commission	3,900	5,154
Bonuses to the Supervisory Board, Board of Directors, management and the employees	130,000	100,000
Liabilities to Ministry of Finance	19,422	31,868
Other liabilities	75,551	108,312
	269,611	**288,063**
Current	267,901	288,063
Non-current	1,710	-

29 Deferred tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 10% (2007:12%).

The movement on the deferred tax is as follows:

	2008	2007
At 1 January	608	906
Income statement charge (Note 12)	(170)	(298)
At 31 December	**438**	**608**

Deferred tax assets are attributable to the following items:

	2008	2007
Deferred tax assets		
Property and equipment	438	608
At 31 December	**438**	**608**

30 Contingencies and commitments

The following table indicates the contractual amounts of the Bank's contingencies and commitments by category:

	2008	2007
Guarantees		
- in domestic currency	4,416,484	5,025,311
- in foreign currency	3,794,546	3,409,281
Less: provision for impairment	(181,380)	(175,595)
	8,029,650	8,258,997
Letters of credit	853,353	921,026
Limits on credit cards	788,651	740,460
Un- drawn overdraft facilities	2,262,602	1,504,068
Credit limits to legal entities for salary	628,584	557,616
	12,562,840	**11,982,167**

Movement in provisions for impairment are as follows:

	2008	2007
Balance at 1 January	175,595	124,880
Net charge to income statement (Note 11)	5,785	50,715
Balance at 31 December	**181,380**	**175,595**

31 Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and borrowings. These transactions were carried out on commercial terms and at market rates. The Bank has transactions with Companies which executive Directors are members of the Board of Directors of the Bank. The volumes of related party transactions, outstanding balances at the year-end, are as follows:

	Companies with members in the Bank' s Board of Directors		Associated companies	
Income statement	**2008**	**2007**	**2008**	**2007**
Interest and commission income	7,346	26,048	1,624	1,887
Interest and fee expense	180	2,292	2,045	1,056
Balance Sheet				
Loans				
Loans outstanding at 1 January	346,088	135,006	22	20
Loans issued during the year	99,561	404,725	-	150
Loan repayments during the year	(393,267)	(193,643)	(22)	(148)
Loans outstanding at 31 December	**52,382**	**346,088**	**-**	**22**
Other assets				
Receivables	-	-	24,087	24,038

	Companies with members in the Bank' s Board of Directors		Associated Companies	
Deposits	**2008**	**2007**	**2008**	**2007**
Balance at 1 January	63,314	48,627	238,773	123,059
Deposits received during the year	2,579,669	4,163,010	3,418,034	3,827,433
Deposits repaid during the year	(2,589,019)	(4,148,323)	(3,342,444)	(3,711,719)
Balance at 31 December	**53,964**	**63,314**	**314,363**	**238,773**

Key management compensation	**2008**	**2007**
Salaries and other short - term benefits	137,808	93,593
	137,808	**93,593**

32 Funds managed on behalf of third parties

	2008	**2007**
Banks and other financial institutions	118,154	247,621
Companies	66,463	64,442
Individuals	40,309	54,489
	224,926	**366,552**

The Bank manages assets on behalf of third parties which are in the form of loans to companies for various investments. The Bank receives fee income for providing these services. Funds managed on behalf of third parties are not assets of the Bank and are not recognized on balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments, however, has a fiduciary responsibility to properly handle and invest these client monies.

Income and expenses of the Funds managed on behalf of third parties are accrued to the account of the respective third party and the Bank has no liability in connection with these transactions.

33 Share capital and share premium

	Ordinary shares		Non-voting shares	
	2008	**2007**	**2008**	**2007**
In number of shares				
At 1 January	1,992,590	1,985,041	21,477	29,026
Conversion of Non-voting shares	4,545	7,549	(4,545)	(7,549)
At 31 December	**1,997,135**	**1,992,590**	**16,932**	**21,477**

Ordinary shares have a par value of MKD 1,000 (2007: MKD 1,000) and Non-voting shares have a par value of MKD 1,000 (2007: MKD 1,000). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. Non-voting shares give right to priority in the dividend payment, but do not carry the right to vote. All shares rank equally with regard to the Bank's residual assets.

The below stated shareholders have more than 5% ownership of the Bank's ordinary shares:

	% of voting share capital	
Shareholder	**2008**	**2007**
European Bank for Reconstruction and Development	5.98	5.99

34 Other reserves

	2008	**2007**
Other reserves	109,717	109,717
	109,717	**109,717**

Other reserves represent non distributable reserves.

Statutory reserves

The Bank's statutory reserves represent the Bank's own capital serving as a loss covering resource, which comes as a result of the risk exposure during the usual activities of the Bank.

35 Cash and cash equivalents

	2008	2007
Cash and balances with the NBRM (Note 14)	3,064,588	1,826,408
Treasury bills (Note 15)	3,186,502	3,191,943
Government bills (Note 15)	167,336	-
	6,418,426	**5,018,351**

36 Post balance sheet events

Based on the Decision from the Supervisory Board's meeting, dated 26 February 2009, part of the 2008 profit of MKD 996,420,000 will be distributed in the statutory reserves.