Grant Thornton

Financial Statements and Independent Auditors' Report

Capital Bank A.D., Skopje

31 December 2008

Contents

Independent Auditors' Report

Grant Thornton DOO
M.H.Jasmin 52 v-1/7
1000 Skopje
Macedonia

T +389 (2) 3214 700
F +389 (2) 3214 710
www.grant-thornton.com.mk

To the Management and Shareholders of

Capital Bank A.D., Skopje

We have audited the accompanying financial statements of Capital Bank A.D., Skopje (the "Bank") which comprise of the Balance sheet as of 31 December 2008, and the Statement of income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 38.

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

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

Opinion

In our opinion the financial statements of the Bank present fairly, in all material respects, the financial position at 31 December 2008, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Grant Thornton

Skopje,

20 February 2009

Statement of Income

	Notes	2008	2007
			In thousand MKD For the year ending 31 December
Interest income		32,111	45,504
Interest expense		(1,908)	(242)
Net interest income	5	**30,203**	**45,262**
Fee and commission income		11,270	17,982
Fee and commission expense		(4,161)	(6,235)
Net fee and commission income	6	**7,109**	**11,747**
Foreign exchange gains/(losses), net	7	1,691	(4,844)
Other operating income	8	6,153	5,591
Income from release of provision/ impairment (losses), net	9	6,998	(7,136)
Personnel expenses	10	(34,238)	(27,988)
Depreciation	17, 18	(3,415)	(3,614)
Other operating expenses	11	(46,903)	(42,731)
(Loss) before tax		**(32,402)**	**(23,713)**
Income tax	12	-	-
(Loss) for the year		**(32,402)**	**(23,713)**

Balance Sheet

	Notes	2008	In thousand MKD At 31 December 2007
Assets			
Cash and cash equivalents	13	218,953	229,549
Loans and advances to customers	14	115,074	91,631
Securities available for sale	15	21,972	24,306
Foreclosed assets	16	107,658	104,798
Intangible assets	17	5,824	1,353
Property, plant and equipment	18	11,835	6,478
Other receivables	19	3,226	6,665
Total assets		**484,542**	**464,780**
Liabilities			
Due to customers	20	76,742	22,870
Provisions	21	1,798	3,242
Other liabilities	22	9,972	9,368
Total liabilities		**88,512**	**35,480**
Equity and reserves			
Share capital	23	782,489	782,489
Revaluation reserves		368	1,236
Accumulated losses		(386,827)	(354,425)
Total equity and reserves		**396,030**	**429,300**
Total liabilities, equity and reserves		**484,542**	**464,780**
Commitments and contingencies	24	46,990	48,599

These financial statements have been approved by the Bank's Board of Directors on 19 February 2009 and signed on its behalf by:

President of the Board of Directors
Georgi Kehajov

Member of the Board of Directors
Aco Ilieski

Statement of Changes in Equity

In thousand MKD	Share Capital	Revaluation reserves	Accumulated losses	**Total equity and reserves**
At 01 January 2007	782,489	-	(330,712)	**451,777**
Fair value adjustment of securities available for sale (Note 15)	-	1,236	-	1,236
(Loss) for the year	-	-	(23,713)	(23,713)
At 31 December 2007/ At 01January 2008	**782,489**	**1,236**	**(354,425)**	**429,300**
Fair value adjustment of securities available for sale (Note 15)	-	(868)	-	(868)
(Loss) for the year	-	-	(32,402)	(32,402)
At 31 December 2008	**782,489**	**368**	**(386,827)**	**396,030**

Statement of Cash Flows

	Notes	In thousand MKD For the year ending 31 December 2008	2007
Operating activities			
Profit/(loss) before tax		(32,402)	(23,713)
Adjusted for:			
Depreciation		3,415	3,614
(Income) from provision for impairment / impairment losses, net		(6,998)	7,136
Dividend income		(210)	(24)
Gain from securities available for sale		(1,171)	(1,811)
Loss from securities available for sale Master Card, net		1,974	5,716
Impairment on foreclosed assets, net		696	-
(Loss) from sold/ written off foreclosed assets		-	5,888
Net carrying value of property, plant and equipment and intangible assets written off		-	1,739
Income from interest, fees and commissions		(43,382)	(63,486)
Expenses from interest, fees and commissions		6,068	6,477
(Loss) before changes in operating assets and liabilities		*(72,010)*	*(58,464)*
Changes in operating assets			
Placements with banks		(236)	(360)
Loans and advances to customers		(17,604)	83,016
Foreclosed assets		(3,556)	10,151
Other assets		1,477	2,476
Due to banks		-	(104)
Due to customers		52,640	744
Other liabilities		752	(592)
(Loss) / Profit after changes in operating assets and liabilities		*(38,537)*	*36,867*
Proceeds from interest, fees and commissions		45,173	65,387
Interest, fees and commissions paid		(4,984)	(6,726)
Income tax paid		(125)	(564)
		1,527	**94,964**
Investing activities			
Purchase of property, plant and equipment		(13,243)	(1,489)
Sale of securities available for sale		318	6,334
Maturity of securities held-to-maturity		-	23,580
Dividends received		210	24
		(12,715)	**28,449**
Changes in the provision for impairment included in cash and cash equivalents		356	(643)
Net change in cash and cash equivalents		**(10,832)**	**122,770**
Cash and cash equivalents at beginning	13	228,148	105,378
Cash and cash equivalents at end	**13**	**217,316**	**228,148**

Notes to the Financial Statements

1 General

Capital Bank ad, Skopje (further referred to as “the Bank”) is a Shareholding Company incorporated and headquartered in the Republic of Macedonia. The address of its registered head office is No. 1 “27 March” Street, 1000 Skopje, Republic of Macedonia.

The Bank is licensed by the National Bank of the Republic of Macedonia for conducting of payment transfers, credit and deposit services on the territory of the Republic of Macedonia and abroad.

At 31 December 2008 and 2007, the total number of employees in the Bank is 56 i.e. 39 employees, respectively.

2 Accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described further in this note.

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

The financial statements have bean prepared as of and for the years ended 31 December 2008 and 2007. Current and comparative data stated in these financial statements are expressed in Denar thousand. Where necessary, comparative figures have been adjusted to conform with the changes in presentation for the current year.

a) Interpretations effective in 2008

- **IFRIC 11 - IFRS 2 – Group and treasury share transactions**, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Bank's financial statements.

- **IFRIC 12 - Service concession arrangements**, applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Bank's operations because the Bank does not provide public sector services.

- **IFRIC 13 - Customer loyalty programs**, 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 in using fair values. IFRIC 13 is not relevant to the Bank's operations because the Bank does not operate any loyalty programs.

- **IFRIC 14 - IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction**, provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation is not relevant to the Bank's operations because the Bank does not operate any defined benefit asset.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 01 January 2009 or later periods, but the Bank has not early adopted them.

- **IFRS 8 - Operating segments** (effective from 01 January 2009), introduces the 'management approach' to segment reporting, under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard will have no effect on the Bank's reported total profit or loss or equity. Currently the Bank does not present segment information since there are no distinguishable business and geographical segments.

Basis of preparation (continued)

- **IAS 1 (Revised) - Presentation of financial statements** (effective from 01 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as of the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Bank will apply IAS 1 (Revised) from 01 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- **IAS 23 Borrowing Costs (Revised)** (effective from 01 January 2009). The revised standard removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the asset's cost. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 financial statements.

- **IFRS 3 Business Combinations (Revised 2008)** (effective from 01 July 2009). The standard is applicable for business combinations occurring in reporting periods beginning on or after 01 July 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in reporting periods beginning on or after 01 July 2009.

- **IAS 27 Consolidated and Separate Financial Statements (Revised 2008)** (effective from 01 July 2009). The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Bank's interest in subsidiaries. Management does not expect the standard to have a material effect on the Bank's financial statements.

- **Amendments to IFRS 2 Share-based Payment** (effective from 01 January 2009). The IASB has issued an amendment to IFRS 2 regarding vesting conditions and cancellations. Management does not consider the amendments to have an impact on the Bank's accounting policies since the Bank does not operate any share - based payment schemes.

Basis of preparation (continued)

- **Annual Improvements 2008**. The IASB has issued Improvements for International Financial Reporting Standards 2008. Most of these amendments become effective in annual periods beginning on or after 01 January 2009. The Bank does not expect these amendments to have any significant impact on the Bank's financial statements.

2.2 Foreign currency translation

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

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

	31 December 2008	31 December2007
1 EUR	61.4123 Denar	61.2016 Denar
1 USD	43.5610 Denar	41.6564 Denar
1 CHF	41.0427 Denar	36.8596 Denar

2.3 Offsetting

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

2.4 Interest income and expense

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

2.5 Fee and commission income

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

2.6 Dividend income

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

2.7 Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables, available-for-sale and held-to-maturity financial assets. Management determines the classification of its investments at initial recognition.

Loans and receivables

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

Available for sale financial assets

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 or changes in interest rates, exchange rates or share prices.

Financial assets (continued)

Purchases and sales of financial assets available for sale are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available for sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortized cost using effective interest method. Gains and losses arising from changes in the fair value of available for sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the income statement. Dividends on available for sale securities are recognized in the income statement when the entity's right to receive payment is established.

Held-to-maturity financial assets
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.

Purchases and sales of financial assets held-to-maturity and available for sale are recognized on the trade-date–the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

2.8 Impairment of financial assets

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

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

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

Impairment of financial assets (continued)

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate.
The carrying value of the asset is reduced through the use of an impairment provision account, recognizing the impairment loss in the income statement.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

When a loan is uncollectible, it is written off against the related provision for 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 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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

Assets carried at fair value
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Significant or prolonged decline in the fair value of the financial asset 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 is recognized in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

2.9 Intangible assets

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

Other intangible assets
Expenditure to acquire rights and licenses is capitalized and amortized using the straight-line method over a period of four years.

2.10 Property, plant and equipment

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

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

Buildings	20-25%
Furniture and equipment	10-25%

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged as expenses in the income statement during the financial period in which they are incurred.

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

2.11 Impairment of non financial assets

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

2.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central banks.

2.13 Provisions

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

2.14 Employee benefits

The Bank contributes to its employees as prescribed by the local social security legislation. Contributions, based on salaries, are made to the national Pension Fund and the obligatory private pension funds. There is no additional liability regarding these contributions. In addition, all employers in the Republic of Macedonia are obligated to pay to the employees a separate minimum amount regulated by law.

The Bank has not provided for the employees' accrued separate minimum amount on retirement, as this amount would not have a material effect on the financial statements.

2.15 Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is calculated and paid in accordance with the Macedonian Tax Law. Final taxes on profit of 10 % (2007: 12%) are payable based on the annual profit shown in the statutory statement of income as adjusted for items, which are non-assessable or disallowed. According to the current tax legislation, legal entities may use the tax losses of the current period either to recover tax paid within a specific carry-back period or to reduce or eliminate tax to be paid in future periods.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Bank has not recognized any deferred tax liability or asset at 31 December 2008 and 2007, as there are no temporary differences existing at that date.

2.16 Borrowings

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

2.17 Equity, reserves and dividend payments

(a) Shareholders' capital
Share capital represents the nominal value of shares that have been issued.

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

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

(d) Reserves
Reserves, which comprise of revaluation reserves, are generated throughout the period, based on gains/losses from revaluing tangible assets, as well as financial assets available-for-sale.

(e) Retained earnings
Retained earnings comprise of non-distributed earnings from the current and past periods.

(f) Dividends on ordinary shares
Dividends on ordinary shares are recognized as liabilities in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the subsequent events note.

2.18 Fiduciary activities

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

2.19 Off balance commitments and contingencies

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

2.20 Subsequent events

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

3 Financial risk management

The Bank's activities expose it to a variety of financial risks. The financial risk activities involve the analysis, evaluation, acceptance and management of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by Risk Management Department under policies approved by the Board of Directors. This department identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board of Directors provides written policies and procedures for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk and credit risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Therefore, the Bank's management carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. The credit risk management and control are centralized in Risk Management Department and reported to the Risk Committee and the Board of Directors regularly.

Credit risk measurement

Financial assets. The Bank's credit risk measurement is based on the established credit rating levels from A to D, each level bearing certain percentage of provision for possible impairment loss, i.e. 0-2%, 10%, 25%, 50% and 100%, respectively. This system takes into account the borrowers' ability to meet interest and capital repayment obligations and the respective collaterals, as well. The Bank monitors its credit risk exposure on a revolving quarterly basis.

Risk limit control and mitigation policies. The Bank manages, limits, and controls concentrations of credit risk wherever they are identified – in particular, to individual counter parties and groups, and to industrial sectors 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, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved quarterly by the Risk Committee and the Board of Directors.

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

Collateral is one of the most traditional and common practice to mitigate the credit risk. The Bank implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances are:

- Mortgages on residential properties and business premises;
- Charges over business assets such equipment, inventory and receivables; and
- Charges over financial instruments such as shares.

Credit risk (continued)

Long-term financing, lending to corporate entities and revolving individual credit facilities are generally secured. In addition, to minimize the credit loss the Bank seeks additional collateral from the counter party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Impairment and provisioning policies
The provision for impairment at year-end is derived from each of the internal rating grades as explained in the Credit risk measurement paragraph above. The table below shows the percentage of the applied provision for impairment related to the financial asset's paragraphs ranked in accordance with the internal rating system applied by the Bank:

		2008		**2007**
	Financial assets (%)	Provision for impairment (%)	Financial assets (%)	Provision for impairment (%)
A	67.88	0.35	62.44	0.31
B	3.63	0.36	5.03	0.50
V	1.52	0.38	5.56	1.39
G	1.88	0.94	1.68	0.84
D	25.09	25.09	25.29	25.29
	100.00	**27.12**	**100.00**	**28.33**

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

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

Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure to credit risk is presented with the carrying amounts of financial assets in the balance sheet, provided in the table below (in Denar thousand):

Analysis of maximum exposure to credit risk

	Cash and cash equivalents		Loans and advances to customers		Securities available for sale		Other receivables		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Risk category A	28,714	64,268	87,180	47,020	14,247	5,496	305	1,886	130,446	118,670
Risk category B	-	-	17,841	24,122	-	-	74	595	17,915	24,717
Risk category V	-	-	7,295	27,026	-	-	182	291	7,477	27,317
Risk category G	-	-	9,255	7,005	-	-	18	1,250	9,273	8,255
Risk category D	-	-	49,316	52,565	58,454	58,148	15,919	13,589	123,689	124,302
Carrying value before provision for impairment	28,714	64,268	170,887	157,738	72,701	63,644	16,498	17,611	288,800	303,261
Less provision for impairment	(287)	(643)	(58,832)	(66,107)	(58,593)	(58,148)	(15,997)	(14,365)	(133,709)	(139,263)
	28,427	**63,625**	**112,055**	**91,631**	**14,108**	**5,496**	**501**	**3,246**	**155,091**	**163,998**
Not past due and/ or nor impaired receivables										
Risk category A	190,526	165,924	3,019	-	7,864	18,810	2,725	3,419	204,134	188,153
Carrying value	**190,526**	**165,924**	**3,019**	**-**	**7,864**	**18,810**	**2,725**	**3,419**	**204,134**	**188,153**
Total net carrying value	**218,953**	**229,549**	**115,074**	**91,631**	**21,972**	**24,306**	**3,226**	**6,665**	**359,225**	**352,151**

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Credit risk (continued)

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

	Cash and cash equivalents		Loans and advances to banks		Securities available for sale		Other receivables		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
First class collaterals for cash deposits (in a depot and/or limited to bank accounts)	-	-	3,939	520	-	-	-	-	3,939	520
Mortgage										
- Property for personal use (apartments, houses)	-	-	66,136	90,257	-	-	-	-	66,136	90,257
- Property for business activities	-	-	170,890	17,400	-	-	-	-	170,890	17,400
Pledges	-	-	6,500	6,500	-	-	-	-	6,500	6,500
Other types of collateral	-	-	108,884	190,898	-	-	-	-	108,884	190,898
Unsecured	218,953	229,549	14,659	14,009	21,972	24,306	3,226	6,665	258,810	274,529
	218,953	**229,549**	**371,008**	**319,584**	**21,972**	**24,306**	**3,226**	**6,665**	**615,159**	**580,104**

Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as of 31 December 2008 and 2007 (in Denar thousand):

	Cash and cash equivalents		Loans and advances to customers		Securities available for sale		Other receivables		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Republic of Macedonia	206,307	228,732	114,490	91,048	16,248	18,810	3,226	6,665	340,271	345,255
EU members	12,646	817	584	583	-	-	-	-	13,230	1,400
Other European countries	-	-	-	-	5,724	5,496	-	-	5,724	5,496
At 31 December	**218,953**	**229,549**	**115,074**	**91,631**	**21,972**	**24,306**	**3,226**	**6,665**	**359,225**	**352,151**

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Credit risk (continued)

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as of 31 December 2008 and 2007 (in Denar thousand):

	Cash and cash equivalents		Loans and advances to customers		Securities available for sale		Other receivables		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Non-residents	-	-	584	583	-	-	-	-	584	583
Agriculture, hunting and forestry	-	-	-	897	-	-	-	3	-	900
Processing industry	-	-	34,714	6,009	3,008	-	16	30	37,738	6,039
Construction	-	-	-	13	4,119	-	7	16	4,126	29
Trade	-	-	5,414	4,542	1,256	-	26	95	6,697	4,637
Hotels and restaurants	-	-	-	-	-	-	6	7	6	7
Traffic, storage and communications	-	-	6,397	6,767	-	-	59	86	6,456	6,853
Financial intermediation	218,953	229,549	-	-	5,724	5,496	1,783	4,456	226,460	239,501
Activities related to real estates, leasing and business activities	-	-	-	-	-	-	17	86	17	86
Education	-	-	3,000	667	-	-	-	2	3,000	669
Other cultural, general and personal service activities, including public utilities	-	-	1,549	1,632	-	-	3	16	1,552	1,648
Citizens	-	-	63,416	70,521	-	-	471	1,155	63,887	71,676
State	-	-	-	-	7,864	18,810	838	713	8,702	19,523
At 31 December	**218,953**	**229,549**	**115,074**	**91,631**	**21,972**	**24,306**	**3,226**	**6,665**	**359,225**	**352,151**

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

3.2 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits, loan draw downs and other cash calls.

The tables below analyses assets and liabilities of the Bank into relevant maturity based on the remaining period at balance sheet date to the contractual maturity date (in Denar thousand).

2008	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	215,893	-	-	3,060	-	218,953
Loans and advances to customers	1,614	48,021	17,087	27,736	20,616	115,074
Securities available for sale	101	-	21,871	-	-	21,972
Other receivables	3,226	-	-	-	-	3,226
Total assets	**220,834**	**48,021**	**38,958**	**30,796**	**20,616**	**359,225**
Liabilities						
Due to customers	28,817	12,033	35,278	614	-	76,742
Other liabilities	11,770	-	-	-	-	11,770
Total liabilities	**40,587**	**12,033**	**35,278**	**614**	**-**	**88,512**
Net liquidity gap	**180,247**	**35,988**	**3,680**	**30,182**	**20,616**	**270,713**
2007						
Total assets	224,623	104,394	23,134	-	-	**352,151**
Total liabilities	31,798	160	3,057	465	-	**35,480**
Net liquidity gap	**192,825**	**104,234**	**20,077**	**(465)**	-	**316,671**

3.3 Market risks

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

Interest rate risk

The Bank takes on exposure to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.
The table below analyses assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date as of 31 December 2008 and 31 December 2007 (in Denar thousand).

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

Market risks (continued)
Interest rate risks (continued)

2008	Effective interest rate	Instruments with fixed interest rates, including those with a variable interest rate dependant on decisions from relevant Bank bodies					Non-inter. bearing	**Total**
		Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	6.52%	157,576	-	-	-	-	61,377	218,953
Loans and advances to customers	11.61%	1,613	46,596	17,086	27,736	20,617	1,426	115,074
Securities available for sale	0.53%	-	-	5,804	-	-	16,168	21,972
Other receivables	-	565	-	-	-	-	2,661	3,226
		159,754	**46,596**	**22,890**	**27,736**	**20,617**	**81,632**	**359,225**
Liabilities								
Due to customers	4.30%	13,187	8,186	38,135	614	-	16,620	76,742
Other liabilities	-	-	-	-	-	-	11,770	11,770
		13,187	8,186	38,135	614	-	28,390	**88,512**
Net interest gap		**146,567**	**38,410**	**(15,245)**	**27,122**	**20,617**	**53,242**	**270,713**
2007								
Total assets	2.00%-4.45%	190,016	105,019	23,134	-	-	33,982	352,151
Total liabilities	0.50%-3.00%	9,275	160	3,057	465	-	22,523	35,480
Net interest gap		**180,741**	**104,859**	**20,077**	**(465)**	**-**	**11,459**	**316,671**

Foreign currency risk

The Bank takes on exposure to effects on fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The following tables summarize the net foreign currency risk position of the assets and liabilities of the Bank at 31 December 2008 and 2007 (in Denar thousand).

	MKD	EUR	USD	Other currencies	Total
2008					
Assets					
Cash and cash equivalents	171,947	32,692	13,712	602	218,953
Loans and advances to customers	86,620	28,438	16	-	115,074
Securities available for sale	8,485	7,763	5,724	-	21,972
Other receivables	3,075	58	93	-	3,226
Total assets	**270,127**	**68,951**	**19,545**	**602**	**359,225**
Liabilities					
Due to customers	60,322	13,199	3,218	3	76,742
Other liabilities	11,379	-	391	-	11,770
Total liabilities	**71,701**	**13,199**	**3,609**	**3**	**88,512**
Net foreign currency position	**198,426**	**55,752**	**15,936**	**599**	**270,713**
2007					
Total assets	275,954	49,167	26,906	124	352,151
Total liabilities	26,821	5,112	3,540	7	35,480
Net foreign currency position	**249,133**	**44,055**	**23,366**	**117**	**316,671**

3.4 Fair value estimation

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

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.

	31 December 2008		31 December 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	218,953	218,953	229,549	229,549
Loans and advances to customers	115,074	115,074	91,631	93,631
Other receivables	3,226	3,226	6,665	6,665
Liabilities				
Due to customers	76,742	76,742	22,870	22,870
Other liabilities	11,770	11,770	12,610	12,610

Loans and advances to customers

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

Other financial assets

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

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.

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

3.5 Capital management

The Bank's objectives regarding capital management are:

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

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

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

The Bank's own funds are divided in two groups:

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

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

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

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

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2008 and 2007 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.

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

Tier 1 capital	2008	2007
Ordinary and non-cumulative priority shares and share premium	451,777	451,777
Reserves and retained earnings or accumulated losses	23,713	-
Annual or current loss	32,401	23,713
Deduction from Tier 1 capital	2,265	1,353
Total Tier 1 capital	**393,398**	**426,711**
Tier 2 capital		
Cumulative priority shares and shares premium	-	-
Hybrid capital instruments	-	-
Subordinated instruments	-	-
Total Tier 2 capital	**-**	**-**
Deduction from regulatory capital	-	-
Total own funds	**393,398**	**426,711**
Credit risk-weighted assets		
On-balance sheet	273,093	366,173
Off-balance sheet	57,731	48,599
Total credit risk-weighted assets	**330,824**	**414,772**
Forex risk-weighted assets	**178,982**	**74,329**
Capital adequacy ratio	**77.16%**	**89.51%**

4 Critical accounting estimates and judgments

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

4.1 Impairment of loans and advances to customers

The Bank reviews its loan portfolios to assess impairment at least on a quarterly 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 group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.2 Impairment of securities available for sale

The Bank determines that securities available for sale are impaired when there has been a significant decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investor, industry and sector performance, changes in technology, and operational and financing cash flows.

5 Interest income and expense

Structure of interest income and expenses according to type of financial instruments

	2008	2007
Interest income		
Cash and cash equivalents	10,638	3,269
Loans and advances to banks	984	1,171
Loans and advances to customers	14,174	28,683
Securities available for sale and held-to-maturity	2,031	2,902
Other receivables		
(Provision of impairment, net)	(1,601)	(2,335)
Collected interest previously written off	5,885	11,814
	32,111	**45,504**
Interest expense		
Due to banks	1	1
Due to customers	1,907	241
	1,908	**242**
Net interest income	**30,203**	**45,262**

Sector analysis of interest income and expenses

	2008	2007
Interest income		
Non-financial institutions	1,157	799
State	2,031	
Banks	11,556	6,891
Other financial institutions	-	156
Households	13,017	27,717
Non-residents	66	462
(Provision of impairment of interest income, net)	(1,601)	(2,335)
Collected interest previously written off	5,885	11,814
	32,111	**45,504**
Interest expense		
Non-financial institutions	559	88
Banks	1	1
Other financial institutions	991	3
Households	357	143
Non-residents	-	7
	1,908	**242**
Net interest income	**30,203**	**45,262**

6 Fee and commission income and expense

Structure of fees and commission income and expenses according to type of financial activities

	2008	2007
Fees and commission income		
Loans and advances	885	718
Payment operations		
- Domestic	595	915
- International	65	56
Letters of credit and guarantees	36	-
Credit card operations	9,689	16,293
	11,270	**17,982**
Fees and commission expenses		
Loans and advances	244	585
Payment operations		
- Domestic	742	824
Brokerage	149	541
Interbank operations	342	290
Credit card operations	2,566	3,931
Other fee and commission expenses	117	64
	4,161	**6,235**
Net fees and commission income	**7,109**	**11,747**

Sector analysis of fees and commission income and expenses

	2008	2007
Fees and commission income		
Non-financial institutions	3,911	7,862
Not-for-profit institutions serving the households	20	17
Households	6,212	8,845
Other financial institutions	7	1
Non-residents	1,120	1,257
	11,270	**17,982**
Fees and commission expenses		
Non-financial institutions	244	585
Banks	1,109	1,633
Other financial institutions	2,808	4,017
	4,161	**6,235**
Net fees and commission income	**7,109**	**11,747**

7 Net foreign exchange gains

	2008	2007
Foreign exchange gains	30,701	21,906
Foreign exchange (losses)	(29,010)	(26,750)
	1,691	**(4,844)**

8 Other operating income

	2008	2007
Gain from securities available for sale sold	1,171	1,811
Dividend income	210	24
Rent income	4,501	2,830
Gain from foreclosed assets sold	-	123
Other operating income	271	803
	6,153	**5,591**

9 (Income) from release of provision/ Impairment losses, net

	2008	2007
(Recovery)/ charge for the year		
Cash and cash equivalents (Note 13)	(356)	643
Loans and advances to customers (Note 14)	(7,275)	(5,429)
Securities available for sale (Note 15)	445	(263)
Other receivables (Note 19)	1,632	8,943
Commitments and contingencies (Note 21)	(1,444)	3,242
	(6,998)	**7,136**

10 Personnel expenses

	2008	2007
Net salaries and contributions	19,800	13,524
Mandatory social and health contributions	11,656	8,672
Other expenses	2,782	5,792
	34,238	**27,988**

11 Other operating expenses

	2008	2007
Materials and services	26,924	22,749
Rent expenses	12,977	4,177
Loss form securities available for sale sold	1,974	5,716
Other taxes and contributions	1,678	1,323
Administrative and marketing expenses	1,187	494
Foreclosed assets written off (Note 16)	696	-
Deposit insurance premiums	108	62
Foreclosed assets sold	-	5,888
Net carrying value of property, plant and equipment, and intangible assets written off (Notes 17 and 18)	-	1,739
Fair value adjustment expenses for equity instruments (Note 15)	893	-
Other expenses	466	583
	46,903	**42,731**

12 Income tax

The reconciliation of the income tax charge to the income tax applicable to earned income, as recognized in the Statement of Income, is as follows:

	2008	2007
Loss before income tax	(32,403)	(23,713)
Tax at statutory income tax rate 10% (2007: 12%)	(3,240)	(2,846)
Adjustments for:		
Non – allowable expenses for tax purposes	(703)	(852)
Non – taxable income for tax purposes	210	3
	-	**-**

13 Cash and cash equivalents

	2008	2007
Cash in hand	16,387	10,696
Account and balances with the NBRM, except for obligatory foreign currency reserves	18,255	10,701
Current accounts and deposits with foreign banks	12,646	825
Current accounts and deposits with domestic banks	12,730	14,037
Treasury bills traded on the secondary market	141,618	106,882
Government bills traded on the secondary market	-	33,849
Term deposits with a maturity period less than, or equal to three months	15,967	49,445
Other short-term highly liquid assets	-	2,356
Less: provision for impairment	(287)	(643)
Included in cash and cash equivalents for the purpose of the Statement of cash flows	**217,316**	**228,148**
Obligatory foreign currency reserves	1,637	1,401
	218,953	**229,549**

	2008	2007
Movement of provision for impairment		
At 01 January	643	-
(Release) of provision for impairment/Additional provision for impairment, net (Note 9)	(356)	643
At 31 December	**287**	**643**

At 31 December 2008, cash and cash equivalents include Denar 12,526 thousand (2007: Denar 2,560 thousand) which represents obligatory reserve in Denar.

The Bank is required to keep its Denar obligatory reserves at its current account with the National Bank of the Republic of Macedonia, calculated at 10% (2007: 10%) of the average balances of Bank's Denar amounts due to residents and non-residents, legal entities and individuals for each calendar day during the previous month.

In addition, the Bank is also required to keep its foreign currency obligatory reserves at special accounts with the National Bank of Republic of Macedonia, calculated at 10% (2007: 10%) of the average balances of Bank's Denar amounts due to residents and non-residents, legal entities and individuals for each calendar day during the previous month. During 2008 and 2007, the Bank succeeded to meet the requirements for maintaining adequate level of its obligatory foreign currency reserves. These reserves are restricted for daily business activities of the Bank.

The interest rate on the obligatory reserve in Denar during 2008 and 2007 amounted to 2% per annum. The interest rate on the obligatory reserve in foreign currency during 2008 and 2007 amounted 0% per annum.

Treasury bills issued by the National Bank of Republic of Macedonia mature within 28 to 29 days (2007: 28 days) and bear 6.96% interest annually (2007: 4.29% - 4.34% p.a.).

14 Loans and advances to customers

Structure of loans and advances to customers by type of debtor

	2008 Short-term	2008 Long-term	2007 Short-term	2007 Long-term
Non-financial institutions				
Principal	23,254	27,688	21,135	3,504
Interest	133	-	42	-
	23,387	**27,688**	**21,177**	**3,504**
Households				
Principal	-	-	-	-
- Housing loans	4,817	1,075	1,077	5,505
- Consumer loans	12,282	25,249	4,237	17,267
- Mortgage loans	-	11	-	154
- Credit cards	77,519	-	100,133	-
- Other loans	-	-	1,865	-
Interest	1,294	-	2,819	-
	95,912	**26,335**	**110,131**	**22,926**
Non-residents				
- Principal	584	-	-	-
- Interest	-	-	-	-
	584	**-**	**-**	**-**
Current maturity	*4,635*	*(4,635)*	*8,922*	*(8,922)*
	124,518	***49,388***	***140,230***	***17,508***
Less: provision for impairment	(57,797)	(1,035)	(64,244)	(1,863)
Loans and advances to customers, net	**66,721**	**48,353**	**75,986**	**15,645**

At 31 December 2008 nonperforming loans included in the loans and advances to customers, amounted to Denar 147,562 thousand (2007: Denar 109,030 thousand). Unrecognized interest relating to such loans amounted to Denar 52,529 thousand (2007: Denar 48,638 thousand).

	2008	2007
Movements of provision for impairment		
At 01 January	66,107	71,536
(Release) of provision for impairment, net (Note 9)	(7,275)	(5,429)
At 31 December	**58,832**	**66,107**

Structure of loans and advances to customers by type of collateral

	2008	2007
Net carrying value of loans and advances to customers		
First class collaterals for cash deposits (in a depot and/or limited to bank accounts)	3,611	304
Mortgage		
- property for personal use	15,558	12,582
- property for business activities	26,591	3,164
Pledges	213	660
Other types of collateral	54,442	60,912
Unsecured	14,659	14,009
Total loans and advances to customers less provision for impairment	**115,074**	**91,631**

15 Securities available for sale

	2008	2007
Debt securities-bonds		
Quoted	7,865	18,810
Not quoted	58,454	58,148
	66,319	**76,958**
Equity instruments		
Equity instruments issued by quoted non financial institutions	8,443	-
Equity instruments issued by not quoted financial institutions	5,803	5,496
	14,246	**5,496**
	80,565	**82,454**
Less: provision for impairment	(58,593)	(58,148)
	21,972	**24,306**

At 31 December 2008, the government bonds issued by the Ministry of Finance of RM, are as follows:

- Fifth issue of government bonds, issued in 2006, with a maturity period of 10 years and interest rate of 2% (2007: 2%), which as of 31 December 2008, amount to Denar 5,404 thousand (2007: Denar 9,071 thousand);
- Sixth issue of government bonds, issued in 2007, with a maturity period of 10 years and interest rate of 2% (2007: 2%), which as of 31 December 2008, amount to Denar 240 thousand (2007: Denar 1,719 thousand); and
- Seventh issue of government bonds, issued in 2008, with a maturity period of 10 years and interest rate of 2% (2007: -), which as of 31 December 2008, amount to Denar 2,121 thousand (2007: -).

At 31 December 2008, Denar 58,454 thousand refers to bonds issued by the Russian Government.

Movement of investments in debt securities available for sale is as follows:

	2008	2007
At 01 January	76,958	76,359
Purchase of Government bonds	2,508	21,295
Adjustment with the market value of Government bonds	(868)	1,236
Exchange rate differences from the Russian Federation bonds, net	307	(263)
Sale of Government bonds	(12,586)	(21,669)
At 31 December	**66,319**	**76,958**

Movement of investments in available for sale equity instruments is as follows:

	2008	2007
At 01 January	5,496	15,097
Purchase of equity instruments from banks	3,113	-
Purchase of other equity instruments	9,337	-
Capitalized dividend	22	-
Fair value adjustment of securities available for sale (Note 11)	(893)	-
Foreign exchange differences from shares of MasterCard International, net	284	(1,612)
Sales of equity instruments from banks	(3,113)	(7,989)
At 31 December	**14,246**	**5,496**

The movement of provision for impairment for securities is as follows:

	2008	2007
Movements of provision for impairment		
At 01 January	58,148	58,411
Additional provision for impairment / (Release) of provision for impairment, net (Note 9)	445	(263)
At 31 December	**58,593**	**58,148**

16 Foreclosed assets

	Equipment	Business premises and residential facilities	Other	**Total**
Cost				
At 01 January 2007	5,236	111,562	4,039	120,837
Foreclosed during the year	-	1,207	-	1,207
(Disposed and written off during the year)	-	(13,207)	(4,039)	(17,246)
At 31 December 2007/01 January 2008	**5,236**	**99,562**	**-**	**104,798**
Foreclosed during the year	-	3,556	-	3,556
At 31 December 2008	**5,236**	**103,118**	**-**	**108,354**
Impairment				
At 01 January 2007	-	-	-	-
At 31 December 2007/01 January 2008	**-**	**-**	**-**	**-**
At 01 January 2008	-	-	-	**-**
Impairment loss during the year	-	696	-	696
At 31 December 2008	**-**	**696**	**-**	**696**
Carrying value				
At 01 January 2008	5,236	99,562	-	104,798
At 31 December 2008	**5,236**	**102,422**	**-**	**107,658**

The Bank leases part of the foreclosed assets. At 31 December 2008, these investments consist of business premisses acquired through payment of the Bank's receivables in the total amount of Denar 60,053 thousand (2007: Denar 60,116 thousand).

17 Intangible assets

At 31 December 2008, intangible assets consisit of software aquisition expenses, licences, capitalized expences for trade mark and other non material rights.

Cost	
At 01 January 2007	79,496
Additions during the year	755
Intangibles written off	(1,733)
At 31 December 2007/01 January 2008	**78,518**
Additions during the year	4,996
At 31 December 2008	**83,514**
Accumulated depreciation	
At 01 January 2007	76,770
Amortization for the year	395
At 31 December 2007	**77,165**
Amortization for the year	525
At 31 December 2008	**77,690**
Net carrying value	
At 01 January 2008	1,353
At 31 December 2008	**5,824**

18 Property, plant and equipment

	Transport	Furniture and office equipment	Other equipment	Other property, plant and equip.	C.I.P.	Total
Cost						
At 01 January 2007	1,585	51,080	5,721	990	-	59,376
Additions during the year	-	721	17	-	-	738
(Disposals and write offs)	(473)	(2,651)	(82)	-	-	(3,206)
At 31 December 2007/01 January 2008	**1,112**	**49,150**	**5,656**	**990**	**-**	**56,908**
Additions during the year	-	6,441	381	16	1,409	8,247
Transfer from C.I.P.	-	1,409	-	-	(1,409)	-
(Disposals and write offs)	-	(3,212)	-	-	-	(3,212)
At 31 December 2008	**1,112**	**53,788**	**6,037**	**1,006**	**-**	**61,943**
Accumulated depreciation and impairment						
At 01 January 2007	1,446	43,239	5,175	548	-	50,408
Additions during the year	139	2,894	178	8	-	3,219
(Disposals and write offs)	(473)	(2,642)	(82)	-	-	(3,197)
At 31 December 2007/01 January 2008	**1,112**	**43,491**	**5,271**	**556**	**-**	**50,430**
Additions during the year	-	2,710	172	8	-	2,890
(Disposals and write offs)	-	(3,212)	-	-	-	(3,212)
At 31 December 2008	**1,112**	**42,989**	**5,443**	**564**	**-**	**50,108**
Net carrying value						
At 01 January 2008	-	5,659	385	434	-	6,478
At 31 December 2008	**-**	**10,799**	**594**	**442**	**-**	**11,835**

At 31 December 2008 and 2007, all property, plant and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its equipment and other assets.

19 Other receivables

	2008	2007
Receivables from payments on behalf of customers	15,942	14,839
Materials	589	447
Advances for intangible assets	367	-
Prepaid expenses	285	76
Deferred income	224	1,589
Coins and numismatic collections	163	163
Fees and commission receivables	101	558
Trade receivables	24	1,872
Other receivables	1,528	1,486
	19,223	*21,030*
Less: provision for impairment	(15,997)	(14,365)
	3,226	**6,665**

	2008	2007
Movements of provision for impairment		
At 01 January	14,365	5,422
Additional provision for impairment, net (Note 9)	1,632	8,943
At 31 December	**15,997**	**14,365**

20 Due to customers

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Current accounts	11,493	-	8,232	-
Demand deposits	966	-	1,176	-
Term deposits	2,905	-	-	-
Interest payable	168	-	30	-
	15,532	-	**9,438**	-
Financial institutions, other than banks				
Current accounts	-	-	73	-
Demand deposits	80	-	-	-
Term deposits	25,003	-	-	-
Interest payable	939	-	-	-
	26,022	-	**73**	-
Households				
Current accounts	9,862	-	3,591	-
Demand deposits	5,122	-	7,245	-
Term deposits	17,056	614	-	-
Interest payable	164	-	7	-
	32,204	**614**	**10,843**	**-**
Nonresidents				
Current accounts	41	-	2,516	-
Demand deposits	2,329	-	-	-
	2,370	-	**2,516**	**-**
	76,128	**614**	**22,870**	**-**

21 Provisions

	2008	2007
At 01 January	3,242	-
Additional provision for impairment/(Release) of provision for impairment, net (Note 9, 24)	(1,444)	3,242
At 31 December	**1,798**	**3,242**

22 Other liabilities

	2008	2007
Trade payables	2,163	1,373
Accrued expenses	1,200	1,026
Liabilities for advances received	1,200	1,200
Credit card operation liabilities	3,478	4,503
VAT liabilities	1,030	-
Fees and commission payable	84	234
Other	817	1,032
	9,972	**9,368**

23 Share capital

At 31 December 2008 and 2007, total share capital of the Bank amounts to Denar 782,489 thousand and is comprised of 26,341 authorized and fully paid ordinary shares. The nominal value per share is Euro 500.

At 31 December 2008 and 2007, the following shareholders have ownership exceeding 5% of the total issued shares with a voting right:

		Share capital		Voting right
	2008	2007	2008	2007
Alfa Finance Holding Bulgaria	769,108	769,108	98.29%	98.29%

24 Commitments and contingencies

	2008	2007
Payment guarantees		
- in Denar	3,676	-
Performance guarantees		
- in Denar	80	-
Unused overdrafts on current accounts	45,032	51,841
	48,788	**51,841**
Less: provision for impairment (Note 9)	(1,798)	(3,242)
	46,990	**48,599**

Litigations

At 31 December 2008, legal proceedings raised against the Bank amount in total Denar 39,028 thousand. No provision has been made as of the balance sheet date, as professional advice indicates that it is unlikely that any significant loss will arise. In addition, various legal actions and claims may be asserted in the future against the Bank from litigations and claims incident to the ordinary course of business. Related risks have been analyzed as to likelihood of occurrence. Related risks have been analyzed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, the management of the Bank believes that no material liabilities are likely to result.

Taxation

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

Capital commitments

As of the Balance Sheet date, there are no capital commitments that have been recognized in the financial reports.

25 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as of 31 December 2008 and 2007. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as of 31 December 2008 and 2007.

26 Related party transactions

According to the Banking Law, related parties are persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares or issued voting right shares from the Bank or provide significant influence on the management of the Bank), and persons related to them, as well as the responsible persons of these shareholders - legal entities, Bank's subsidiaries and other persons related to the Bank.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

At 31 December 2008 and 2007, the balances and volume of transactions with related entities and Key management personnel are as follows:

	Related parties		Key management personnel of the Bank and other related parties	
	2008	2007	2008	2007
Receivables	-	-	2,863	1,491
Liabilities	-	-	7,756	3,875
Interest and fee and commission income	-	-	163	188
Interest and fee and commission expenses	-	-	183	68

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