KOMERCIJALNA BANKA AD SKOPJE

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2006

Content

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Report of independent auditors

To the Shareholders of Komercijalna Banka AD - Skopje

Report on the financial statements

We have audited the accompanying financial statements of Komercijalna Banka AD - Skopje, which comprise the balance sheet as of 31 December 2006 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 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 2006, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers dooel

Skopje,

28 February 2007

Income statement

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest and similar income	5	2,288,603	2,142,415
Interest expense and similar charges	5	(689,773)	(564,852)
Net interest income		**1,598,830**	**1,577,563**
Fee and commission income	6	743,130	689,882
Fee and commission expense	6	(91,443)	(85,622)
Net fee and commission income		**651,687**	**604,260**
Dividend income	7	1,227	1,021
Foreign exchange gains (net)		89,899	126,575
Net trading income		54,387	2,880
Other operating income	8	241,211	312,298
Operating expenses	9	(1,491,983)	(1,431,598)
Impairment losses	11	(335,470)	(774,332)
Operating profit		**809,788**	**418,667**
Share of loss from associate		(1,359)	(11,880)
Profit before income tax		**808,429**	**406,787**
Income tax expense	12	(81,549)	(49,648)
Profit for the year		**726,880**	**357,139**
Basic earnings per share		375	190
Diluted earnings per share		371	181

The notes on pages 8 to 46 are an integral part of these financial statements.

Balance sheet

	Notes	At 31 December	
		2006	**2005**
ASSETS			
Cash and balances with the National Bank of Republic of Macedonia	14	5,073,904	4,347,010
Treasury bills	15	797,962	229,097
Financial assets at fair value through profit or loss	16	83,174	7,257
Loans and advances to banks	17	17,337,237	15,975,903
Loans and advances to customers	18	17,439,503	13,010,359
Current income tax asset		-	60,859
Investment securities	19	352,854	391,319
Investments in associates	20	31,899	33,258
Property and equipment	21	1,452,113	1,424,408
Investments property	22	58,950	55,307
Intangible assets	23	31,004	44,159
Other assets	24	1,018,954	1,356,758
Deferred income tax assets	29	906	1,104
Total assets		**43,678,460**	**36,936,798**
LIABILITIES			
Deposits from banks	25	646,400	520,300
Other deposits	26	36,775,773	30,663,209
Borrowings	27	1,430,854	1,384,307
Current tax liability		28,239	-
Provisions	30	124,880	206,727
Other liabilities	28	292,176	127,973
Total liabilities		**39,298,322**	**32,902,516**
SHAREHOLDERS' EQUITY			
Share capital	33	2,014,067	2,014,067
Share premium		32,146	16,523
Treasury shares		(121,651)	(22,123)
Retained earnings		876,911	447,150
Statutory reserves	34	1,468,948	1,468,948
Other reserves	34	109,717	109,717
Total shareholders' equity		**4,380,138**	**4,034,282**
Total equity and liabilities		**43,678,460**	**36,936,798**

Statement of changes in equity

	Share capital	Share premium	Treasury Shares	Statutory Reserves	Other reserves	Retained Earnings	Total equity
Balance at 1 January 2005	**2,014,067**	**16,253**	**-**	**968,948**	**109,717**	**783,362**	**3,892,347**
Net profit for the year	-	-	-	-	-	357,138	357,138
Total recognised income for 2005	-	-	-	-	-	357,138	357,138
Dividends	-	-		-		(193,350)	(193,350)
Transfer to statutory reserve	-	-	-	500,000	-	(500,000)	-
Treasury shares acquired	-	-	(41,366)	-	-	-	(41,366)
Treasury shares sold	-	270	19,243	-	-	-	19,513
Balance at 31 December 2005	**2,014,067**	**16,523**	**(22,123)**	**1,468,948**	**109,717**	**447,150**	**4,034,282**
Net profit for the year	-	-	-	-	-	726,880	726,880
Total recognised income for 2006	-	-	-	-	-	726,880	726,880
Dividends	-	-	-	-	-	(297,119)	(297,119)
Transfer to statutory reserve	-	-	-	-	-	-	-
Treasury shares acquired	-	-	(147,339)	-	-	-	(147,339)
Treasury shares sold	-	15,623	47,811	-	-	-	63,434
Balance at 31 December 2006	**2,014,067**	**32,146**	**(121,651)**	**1,468,948**	**109,717**	**876,911**	**4,380,138**

Detailed information is provided in Notes 33 and 34.

Cash flow statement

	Note	Year ended 31 December 2006	Year ended 31 December 2005
Cash flows from operating activities			
Profit before tax		808,429	406,786
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets	9	170,016	165,484
Gain on sale of property and equipment	8	(9,546)	(11,530)
Loss on sale of property and equipment		-	936
Loss on sale of collected collateral		7,176	22,259
Decrease in value of assets acquired through foreclosure procedure	9	21,873	-
Depreciation of investment property	9	1,828	1,542
Impairment losses	11	335,470	774,332
Dividend income		(1,227)	(1,021)
Interest and commission income	5	(2,288,603)	(2,142,415)
Interest expense	5	689,773	564,852
Net trading income		(54,387)	(2,880)
Share of loss from associate		1,359	11,880
Interest and commission receipts		2,216,519	1,905,357
Interest paid		(446,232)	(477,796)
Cash flows from operating profits before changes in operating assets and liabilities		**1,452,448**	**1,217,786**
(Increase)/Decrease in operating assets			
Restricted accounts		4,872	23,689
Current accounts with foreign banks		167	(41,681)
Balances with NBRM		(627,767)	(975,795)
Financial assets at fair value through profit or loss		(75,917)	5,620
Placement with and loans to banks		(1,361,334)	(1,408,950)
Loans and advances to customers		(4,913,005)	(1,988,771)
Other assets		337,802	238,792
Increase/(Decrease) in operating liabilities			
Deposits from banks and other financial institutions		126,100	265,002
Amounts owed to other depositors		6,112,356	3,049,076
Other liabilities		158,263	4,235
Net cash from operating activities before income tax		**1,213,985**	**389,003**

Income tax paid		-	(141,279)
Net cash from operating activities		**1,213,985**	**247,724**
Cash flows from investing activities			
Acquisition of property and equipment		(209,195)	(98,991)
Acquisition of intangible assets		-	(25,300)
Proceeds from the sale of property and equipment		18,092	11,384
Proceeds from sale of investments		38,445	453,484
Dividends received		987	811
Investments in associates		-	(45,138)
Net cash used in investing activities		**(151,671)**	**296,250**
Cash flows from financing activities			
Proceeds from borrowed funds		585,159	471,743
Repayments of borrowed funds		(590,628)	(443,565)
Treasury shares sold		63,434	19,513
Treasury shares acquired		(147,339)	(41,366)
Dividends paid		(300,076)	(189,409)
Net cash from financing activities		**(389,450)**	**(183,084)**
Net increase in cash and cash equivalents		**672,864**	**360,890**
Cash and cash equivalents at beginning of year		**1,644,751**	**1,283,861**
Cash and cash equivalents at end of year	35	**2,317,615**	**1,644,751**

1 General Information

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 Board of Directors on 27 February 2007.

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

First General Manager	Hari Kostov
General Manager	Ilija Iloski
Liquidity and Financial Market Division Manager	Suzana Moskovska
Risk management and Planning Division Manager	Maja Stevkova Sterieva
Corporate Lending Division Manager	Vera Bibanovska
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	Snezana Przeska
Information Technology Division Manager	Zorica Cerepnalkoska
Finance Department Manager	Violeta Markovska Valjak
Domestic Payment Operations Department Manager	Biljana Mitevska
Credit Review Department Manager	Vesna Kiprijanova
Valut Operation Department Manager	Aneta Velevska
Marketing Department Manager	Jasmina Bucevska
Head of Internal Audit Department	Vesna Maslinko

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) Amendments to published standards and interpretations effective 1 January 2006

The application of the amendments and interpretations listed below did not result in substantial changes to the Bank's accounting policies:

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment – Net Investment in a Foreign Operation;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment – The Fair Value Option;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.
- IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the Bank's operating activities and therefore have no material effect on the Bank's policies.
- IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the Bank applied the unrestricted version of the fair value option in IAS 39. The Bank meets the new criteria in the amendment and therefore continues to designate certain financial assets and financial liabilities at fair value through profit and loss.

- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Bank's policies.

(b) Interpretations issued but not yet effective

The Bank has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007);
- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

The Bank assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.
The application of the remaining new interpretations will not have a material impact on the entity's financial statements in the period of initial application.

Further information is disclosed in accounting policies and related notes to the financial statements.

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 recognised in the income statement.

Exchange rate:	31 December 2006 MKD	31 December 2005 MKD
USD	46.45	51.86
EUR	61.17	61.18

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 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 recognised 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 recognised in equity. All regular way purchases of available-for-sale investments are recognised 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. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

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 recognised 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 recognised 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 recognised 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 15%.

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 recognised 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 recognised 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 recognised 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 Comparatives

Comparative figures have been adjusted in order to conform with changes in presentation in the current year and the following adjustments have been made:

Income statement	**2005 before adjustment**	**2005 after adjustment**
Interest and similar income	2,051,710	2,142,415
Fee and commission income	780,587	689,882

Balance sheet	**2005 before adjustment**	**2005 after adjustment**
ASSETS		
Cash and balances with the National Bank of Republic of Macedonia	4,575,575	4,347,010
Treasury bills	-	229,097
Loans and advances to banks	15,965,414	15,975,903
Loans and advances to customers	12,929,685	13,010,359
Investment securities	389,721	391,319
Property and equipment	1,411,358	1,424,408
Other assets	722,050	1,356,758
Collected collateral	707,811	-
Leasehold improvements	13,051	-
Advances for Property and equipment	20,189	-
LIABILITIES		
Deposits from banks	519,768	520,300
Other deposits	30,567,187	30,663,209
Borrowings	1,377,533	1,384,307
Accruals	103,328	-

U 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 recognised at cost.

V 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 recognised 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 amortisation 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

A Strategy in using financial instruments

The Bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these in high quality assets.

The Bank seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit.

B 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. 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. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.
The maximum exposure to credit risk is presented by the carrying amount of each financial asset in the balance sheet.

Geographical concentrations of assets, liabilities and off-balance sheet items

As at 31 December 2006	**Total assets**	**Total liabilities**	**Credit Commitments**
Republic of Macedonia	25,559,711	38,333,484	7,490,620
EU Countries	15,631,698	650,577	20,493
Non-EU Countries in Europe	1,616,901	155,032	7,341
Other countries	870,150	159,229	-
	43,678,460	**39,298,322**	**7,518,454**
As at 31 December 2005			
Republic of Macedonia	20,311,955	32,280,792	4,950,160
EU Countries	13,810,664	238,153	3,059
Non-EU Countries in Europe	1,927,098	179,623	-
Other countries	887,081	203,948	-
	36,936,798	**32,902,516**	**4,953,219**

C Market risk

The Bank takes on exposure to market risks. Market risks arise 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 Management Board sets limits on the value of risk that may be accepted, which is monitored on a regular basis.

D 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 2006	EUR	USD	MKD	Other	Total
Assets					
Cash and balances with the NBRM	2,617,977	308,567	1,893,246	254,114	5,073,904
Treasury bills	-	-	797,962	-	797,962
Financial assets at fair value through profit or loss	10,607	-	72,567	-	83,174
Loans and advances to banks	13,186,611	2,947,227	-	1,203,399	17,337,237
Loans and advances to customers	3,425,884	128,309	13,885,310	-	17,439,503
Investment securities	275,096	-	77,758	-	352,854
Investments in associates	-	-	31,899	-	31,899
Property and equipment	-	-	1,452,113	-	1,452,113
Investment property	-	-	58,950	-	58,950
Intangible assets	-	-	31,004	-	31,004
Deferred tax asset	-	-	906	-	906
Other assets	98,450	7,118	913,360	26	1,018,954
Total assets	**19,614,625**	**3,391,221**	**19,215,075**	**1,457,539**	**43,678,460**
Liabilities					
Deposits from banks	106,627	116,133	415,787	7,853	646,400
Other deposits	16,972,877	3,236,881	15,794,071	771,944	36,775,773
Borrowings	1,249,616	1,831	179,407	-	1,430,854
Provisions	39,962	11,239	69,933	3,746	124,880
Other liabilities incl. current tax liability	1,495	9,311	307,901	1,708	320,415
Total liabilities	**18,370,577**	**3,375,395**	**16,767,099**	**785,251**	**39,298,322**
Contingencies and commitments	2,344,393	652,983	4,191,213	204,985	**7,393,574**
Net balance sheet position	**1,244,048**	**15,826**	**2,447,976**	**672,288**	**4,380,138**
As at 31 December 2005					
Total assets	**18,406,341**	**3,127,915**	**14,340,311**	**1,062,231**	**36,936,798**
Total liabilities	**16,217,002**	**2,850,048**	**13,157,206**	**678,260**	**32,902,516**
Net balance sheet position	**2,189,339**	**277,867**	**1,183,105**	**383,971**	**4,034,282**
Contingencies and commitments	1,738,318	380,875	2,627,298	-	**4,746,491**

E Interest rate risk

Interest sensitivity of assets and liabilities

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored daily.

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the NBRM	2,258,172	-	-	-	-	2,815,732	5,073,904
Treasury bills	797,962	-	-	-	-	-	797,962
Financial assets at fair value through profit or loss	10,607	14,960	-	44,746	-	12,861	83,174
Loans and advances to banks	15,543,336	1,475,874	305,871	-	-	12,156	17,337,237
Loans and advances to Customers	6,459,181	2,488,550	8,075,287	387,468	24,318	4,699	17,439,503
Investment securities	-	-	55,706	230,697	1,439	65,012	352,854
Investments in associates	-	-	-	-	-	31,899	31,899
Property and equipment	-	-	-	-	-	1,452,113	1,452,113
Investment property	-	-	-	-	-	58,950	58,950
Intangible assets	-	-	-	-	-	31,004	31,004
Deferred tax asset	-	-	-	-	-	906	906
Other assets	30,240	-	-	-	-	988,714	1,018,954
Total assets	**25,099,498**	**3,979,384**	**8,436,864**	**662,911**	**25,757**	**5,474,046**	**43,678,460**
Liabilities							
Deposits from banks	357,766	176,820	42,450	-	-	69,364	646,400
Other deposits	24,252,631	5,094,870	5,054,943	19,382	-	2,353,947	36,775,773
Borrowings	275,670	184,472	254,349	530,987	-	185,376	1,430,854
Provisions	-	-	-	-	-	124,880	124,880
Other liabilities incl. current tax liability	-	-	-	-	-	320,415	320,415
Total liabilities	**24,886,067**	**5,456,162**	**5,351,742**	**550,369**	**-**	**3,053,982**	**39,298,322**
Total interest repricing gap	**213,431**	**(1,476,778)**	**3,085,122**	**112,542**	**25,757**	**2,420,064**	**4,380,138**
As at 31 December 2005							
Total assets	**21,225,453**	**3,365,176**	**7,134,655**	**560,592**	**21,781**	**4,629,141**	**36,936,798**
Total liabilities	**20,936,448**	**4,545,326**	**4,471,616**	**316,866**	**13,548**	**2,618,712**	**32,902,516**
Total interest repricing gap	**289,005**	**(1,180,150)**	**2,663,039**	**243,726**	**8,233**	**2,010,429**	**4,034,282**

The table below summarises the effective interest rate over the year for monetary financial instruments:

At 31 December

	2006			2005		
	EUR	**USD**	**MKD**	**EUR**	**USD**	**MKD**
Assets	**%**	**%**	**%**	**%**	**%**	**%**
Cash and balances with National Bank of Republic of Macedonia	N/A	N/A	2.00	N/A	N/A	2.00
Treasury bills	N/A	N/A	5.75	N/A	N/A	8.50
Loans and advances to banks	3.70	5.20	N/A	2.36	4.20	N/A
Investment securities	N/A	N/A	9.32	N/A	N/A	N/A
Loans and advances to customers	7.52	8.08	8.49	6.57	6.34	9.80
Liabilities						
Deposits from banks	2.62	5.12	3.07	1.50	N/A	2.02
Other deposits	1.44	2.44	3.36	1.13	1.02	3.29
Borrowings	4.69	5.08	4.72	4.33	3.34	5.31

F Liquidity risk

The Bank is exposed to daily calls on its available cash recourses from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Board of Directors has set Policy and Procedures for Liquidity management. 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.

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.

Although the Bank has shortage of short-term assets over short-term liabilities maturing within one month and one to three months, the Bank's management considers its deposit base as being stabile and liquidity not jeopardized.

Maturities of assets and liabilities

As at 31 December 2006	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Assets						
Cash and balances with the NBRM	5,073,904	-	-	-	-	5,073,904
Treasury bills	797,962	-	-	-	-	797,962
Financial assets at fair value through profit or loss	23,468	14,960	-	44,746	-	83,174
Loans and advances to banks	15,549,557	1,479,770	307,910	-	-	17,337,237
Loans and advances to customers	1,536,405	1,395,425	7,167,078	3,626,901	3,713,694	17,439,503
Investment securities	-	-	55,769	224,244	72,841	352,854
Investments in associates	-	-	-	-	31,899	31,899
Property and equipment	-	-	-	-	1,452,113	1,452,113
Investment property	-	-	-	-	58,950	58,950
Intangible assets	-	-	-	-	31,004	31,004
Deferred tax asset	906	-	-	-	-	906
Other assets	239,874	18,084	38,058	722,918	20	1,018,954
Total assets	**23,222,076**	**2,908,239**	**7,568,815**	**4,618,809**	**5,360,521**	**43,678,460**
Liabilities						
Deposits from banks	426,150	177,517	42,733	-	-	646,400
Other deposits	26,252,026	5,108,358	5,167,627	247,762	-	36,775,773
Borrowings	43,683	38,491	237,013	965,686	145,981	1,430,854
Provisions	48,703	19,981	34,966	21,230	-	124,880
Other liabilities incl. current tax liability	318,097	-	-	-	2,318	320,415
Total liabilities	**27,088,659**	**5,344,347**	**5,482,339**	**1,234,678**	**148,299**	**39,298,322**
Net liquidity gap	**(3,866,583)**	**(2,436,108)**	**2,086,476**	**3,384,131**	**5,212,222**	**4,380,138**
Contingencies and commitments	2,890,811	1,161,454	2,086,339	1,254,970	-	**7,393,574**
As at 31 December 2005						
Total assets	**24,190,099**	**2,114,527**	**4,696,577**	**3,058,917**	**2,876,678**	**36,936,798**
Total liabilities	**23,469,328**	**3,970,392**	**4,292,856**	**852,325**	**317,615**	**32,902,516**
Net liquidity gap	**720,771**	**(1,855,865)**	**403,721**	**2,206,592**	**2,559,063**	**4,034,282**
Contingencies and commitments	1,396,932	863,895	2,033,568	452,097	-	**4,746,491**

G 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	
	2006	**2005**	**2006**	**2005**
Financial assets				
Loans and advances to banks	17,337,237	15,975,903	17,337,237	15,975,903
Loans and advances to customers	17,439,503	13,010,359	17,439,503	13,010,359
Investment securities	352,854	391,319	329,863	362,333
Financial liabilities				
Deposits from banks	646,400	520,300	646,400	520,300
Other deposits	36,775,773	30,663,209	36,775,773	30,663,209
Borrowings	1,430,854	1,384,307	1,430,854	1,384,307

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 carried at amortized cost and are net of provisions for impairment. The loans and advances have predominantly floating rate. The fair value approximates their carrying value.

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.

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

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 installments commencing from April 2002 to October 2011, the principal of bonds for denationalization IV issue is repayable in 10 equal annual installments commencing from June 2006 to June 2015, and, the principal of bonds for denationalization V issue is repayable in 10 equal annual installments commencing from June 2007 to June 2016. As at 31 December 2006 the outstanding balance of these receivables amounts MKD 276,673,000 (2005: MKD 317,150,000). In addition, the Bank holds 15 year government bonds issued by the Republic of Macedonia, bearing interest at a rate equal to the prime rate of the NBRM. The principal is repayable in 15 equal annual installments commencing from April 1996 up to April 2010. As at 31 December 2006 the outstanding balance of these receivables amounts MKD 12,747,000 (2005: MKD 15,933,000). The Bank has the intent and ability to hold to maturity these securities. Therefore, they have been classified as held-to-maturity assets.

5 Net interest income

	2006	2005
Interest income		
Citizens	323,142	305,721
Companies	977,140	888,505
Banks and financial institutions	629,166	401,651
Government and local authorities	42,543	47,937
Recoveries of interest previously provided for	316,612	498,601
	2,288,603	**2,142,415**
Interest expense		
Citizens	458,034	364,999
Companies	139,135	113,853
Banks and financial institutions	67,457	60,401
Government and local authorities	25,147	25,599
	689,773	**564,852**

6 Net fee and commission income

	2006	2005
Fee and commission income		
Payment operations		
-in the country	315,747	304,970
-abroad	201,994	193,821
Letters of credit and guarantees	90,212	74,632
Brokerage fees	49,500	32,815
Other	85,677	83,644
	743,130	**689,882**
Fee and commission expense		
Payment operations		
-in the country	26,057	25,303
-abroad	48,117	43,901
Brokerage fees	1,321	422
Other	15,948	15,996
	91,443	**85,622**

7 Dividend income

	2006	2005
Investment securities	1,227	1,021
	1,227	**1,021**

8 Other operating income

	2006	2005
Gain on sale of Property Plant and Equipment	9,546	11,530
Rental income	11,887	4,223
Income upon successful court cases	-	7,420
Recoveries on loans and advances previously written – off	138,185	238,301
Other	81,593	50,824
	241,211	**312,298**

9 Operating expenses

	2006	2005
Staff costs (Note 10)	636,657	640,661
Materials and services	221,510	200,157
Insurance premiums	159,970	138,506
Depreciation of property and equipment	153,966	152,965
Administration and marketing costs	81,239	71,462
Taxes and contribution	76,865	75,859
Bonuses to the Managing Board, management and the employees	55,000	74,495
Impairment of assets	37,887	17,232
Decrease in value of Collected collateral	21,873	-
Amortisation of intangible assets	16,050	12,519
Loss on sale of collateral	7,279	23,195
Tax and contributions	4,982	5,709
Penalties	2,133	1,796
Depreciation of investment property	1,828	1,542
Other	14,744	15,500
	1,491,983	**1,431,598**

10 Staff costs

	2006	2005
Salaries and wages	422,639	423,527
Pension costs	130,785	132,492
Other staff costs	83,233	84,642
	636,657	**640,661**

11 Impairment losses

	2006	2005
Amounts due from other banks (Note 14)	(167)	41,681
Loans and advances to customers (Note 18)	417,484	638,158
Contingencies and commitments (Note 30)	(81,847)	94,493
	335,470	**774,332**

12 Income tax expense

	2006	2005
Current tax	81,351	49,280
Deferred tax (Note 29)	198	368
	81,549	**49,648**

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	**808,429**	**406,786**
Tax calculated at a tax of 15% (2005: 15%)	121,264	61,018
Increase for:		
- expenses non tax deductible according to local regulations	36,998	19,254
Decrease for:		
- dividends	(184)	(134)
- non-taxable income according to local regulations	(72,202)	(29,784)
- tax exempt revenue	(4,327)	(706)
Income tax expense	**81,549**	**49,648**

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 2006 was based on the net profit attributable to ordinary shareholders of MKD 724,261,000 (2005: MKD 348,517,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 1,931,974 (2005: 1,839,089) calculated as follows:

Net profit attributable to ordinary shareholders	**2006**	**2005**
Net profit for the year	726,880	357,138
Dividends on non-redeemable preference shares	(2,619)	(8,621)
Net profit attributable to ordinary shareholders	724,261	348,517

Weighted average number of ordinary shares

In number of shares	**2006**	**2005**
Issued ordinary shares at 1 January	1,872,372	1,826,415
Effect of conversion of preference shares in January	16,127	1,719
Effect of conversion of preference shares in February	20,631	138
Effect of treasury shares sold in February	8,410	-
Effect of treasury shares sold in March	808	-
Effect of treasury shares acquired in April	-	(6,713)
Effect of conversion of preference shares in April	5,227	3,015
Effect of treasury shares acquired in May	(20,548)	-
Effect of conversion of preference shares in May	14,382	5,569
Effect of treasury shares sold in June	-	2,500
Effect of conversion of preference shares in June	10,692	2,651
Effect of treasury shares acquired in July	-	(4,167)
Effect of conversion of preference shares in July	537	1,128
Effect of treasury shares sold in August	-	1,690
Effect of conversion of preference shares in August	2,001	819
Effect of conversion of preference shares in September	942	1,484
Effect of conversion of preference shares in October	305	1,773
Effect of conversion of preference shares in November	64	872
Effect of conversion of preference shares in December	24	196
At 31 December	**1,931,974**	**1,839,089**

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 was based on the net profit attributable to ordinary shareholders of MKD 726,880,000 (2005: MKD 357,138,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 1,961,000 (2005: 1,970,782), calculated as follows:

Net profit attributable to ordinary shareholders (diluted)	**2006**	**2005**
Net profit attributable to ordinary shareholders	726,880	357,138
Net profit attributable to ordinary shareholders	726,880	357,138

Weighted average number of ordinary shares (diluted)		
In number of shares	**2006**	**2005**
Issued ordinary shares at 1 January	1,931,974	1,839,089
Effect of decrease the nominal value of ordinary shares	-	-
	1,931,974	1,839,089
Effect of issued potential ordinary shares	29,026	131,695
At 31December	**1,961,000**	**1,970,784**

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

	2006	**2005**
Cash in hand	772,933	837,770
Current accounts with local banks	5,210	4,454
Current accounts with foreign banks	716,104	544,126
Other short term highly liquid investments	25,406	29,304
Included in cash and cash equivalents (Note 35)	**1,519,653**	**1,415,654**
Restricted accounts	14,511	19,383
Current accounts with foreign banks	80,605	80,772
Balances with NBRM	3,539,740	2,911,973
Less: Provision for impairment	(80,605)	(80,772)
	5,073,904	**4,347,010**

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

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% (2005: 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 with maturity of 90 days or less, 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

	2006	**2005**
Balance at 1 January	80,772	39,295
Net charge to income statement (Note 11)	(167)	41,681
Write off	-	(204)
Balance at 31 December	**80,605**	**80,772**

15 Treasury bills

	2006	**2005**
Treasury bills	797,962	229,097
Included in cash and cash equivalents (Note 35)	**797,962**	**229,097**
	797,962	**229,097**

Treasury bills are debt securities issued by the National Bank of Republic of Macedonia with maturity due of 28 days. The Bank receives interest at the rate of 5.5 – 5.9 % (2005: 8.20-10%). Treasury bills are categorized as assets held for trading and carried at their fair value. Treasury bills include accrued interest of MKD 1,524,000 (2005: MKD 532,000)

16 Financial assets at fair-value through profit and loss

	2006	2005
Debt and other fixed-income investments		
Government bonds	55,353	3,896
Government treasury bills	14,960	-
	70,313	**3,896**
Listed	70,313	3,896
Equity investments and other non-fixed-income instruments		
Equity investments	12,861	3,361
	12,861	**3,361**
Listed	6,619	2,226
Unlisted	6,242	1,135
	83,174	**7,257**

17 Loans and advances to banks

	2006	2005
Placements with foreign banks	17,245,354	15,918,970
Placements with domestic banks	91,883	56,933
	17,337,237	**15,975,903**

Loans and advances to banks include accrued interest of MKD 12,156,000 (2005: MKD 10,489,000).

18 Loans and advances to customers

	Short term		Long term	
	2006	**2005**	**2006**	**2005**
Loans to corporate entities	10,871,416	9,094,134	5,089,199	2,831,561
Loans to individuals	1,839,846	1,376,896	2,452,161	1,795,946
Loans to public entities	187,820	523,903	-	-
	12,899,082	**10,994,933**	**7,541,360**	**4,627,507**
Less: Provision for impairment	(2,745,956)	(1,834,343)	(254,983)	(777,738)
	10,153,126	**9,160,590**	**7,286,377**	**3,849,769**

Loans and advances to customers include accrued interest and other receivables of MKD 114,591,000 (2005: MKD 80,673,000).

Movement in provisions for impairment are as follows:
Loans

	2006	**2005**
Balance at 1 January	2,612,081	2,234,804
Net charge to income statement (Note 11)	417,484	638,158
Write off	(28,626)	(260,881)
Balance at 31 December	**3,000,939**	**2,612,081**

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2006		**2005**	
		%		%
Industry	6,807,226	33.30	5,207,448	33.33
Commerce and finance	4,634,222	22,67	3,356,567	21.49
Retail customers	4,292,007	21.00	3,172,808	20.31
Agriculture	957,336	4.68	694,779	4.45
Business and other services	18,263	0.09	22,568	0.14
Government institutions and local authorities	187,820	0.92	525,630	3.36
Construction	1,574,022	7.70	1,252,935	8.02
Transport	1,540,288	7.54	920,684	5.89
Catering and tourism	165,348	0.81	160,523	1.03
Other	263,910	1.29	308,498	1.97
Less: Provision for impairment	(3,000,939)		(2,612,081)	
	17,439,503	**100**	**13,010,359**	**100**

Loans and advances to customers are all domestic.

19 Investment securities

	2006	2005
Debt and other fixed-income investments held - to - maturity		
Government bonds	276,673	317,150
	276,673	**317,150**
Listed	276,673	317,150
Debt and other non-fixed-income investments held - to – maturity		
Government bonds	12,747	15,933
	12,747	**15,933**
Unlisted	-	15,933
Listed	12,747	-
Equity investments available-for-sale		
Equity investments	63,434	58,236
	63,434	**58,236**
Unlisted	63,434	58,236
	352,854	**391,319**

Investments securities include accrued interest and other receivables of MKD 1,578,000 (2005: MKD 1,598,000).

Government Bonds comprise MKD 276,673,000 (2005: MKD 317,150,000) received as a collection of certain non-performing loans, bearing interest at a rate of 2% per annum (2005: 2%). The principal is payable in 20 equal semi-annual installments commencing from April 2002 up to October 2011.

Government bonds in the amount of MKD 12,747,000 (2005: MKD 15,933,000) represent 15 year bonds bearing interest at a rate that is equal to the prime rate of the NBRM, which at 31 December 2006 was set at 6.5% (2005:6.5%) per annum. The principal is repayable in 15 equal annual installments commencing from April 1996 to April 2010.

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.

20 Investments in associate

	2006	2005
KB Prvo Penzisko Drustvo AD Skopje	45,138	45,138
Share of results for the year ended 31 December	(13,239)	(11,880)
	31,899	**33,258**

Summary financial information on associate is presented below:

2006

	Assets	Liabilities	Equity	Revenues	Loss	Interest held
KB Prvo Penzisko Drustvo AD Skopje	103,239	38,148	65,091	63,481	(2,773)	49%
	103,239	**38,148**	**65,091**	**63,481**	**(2,773)**	

2005

	Assets	Liabilities	Equity	Revenues	Loss	
KB Prvo Penzisko Drustvo AD Skopje	106,249	38,385	67,864	-	(24,245)	49%
	106,249	**38,385**	**67,864**	**-**	**(24,245)**	

21 Property and equipment

	Buildings	Furniture & Equipment	Assets in course of construction	Leasehold improvements	Total
At 1 January 2005					
Cost	1,221,485	686,119	234,427	11,210	2,153,241
Accumulated depreciation	(249,824)	(413,882)	-	(5,818)	(669,524)
Net book amount	**971,661**	**272,237**	**234,427**	**5,392**	**1,483,717**
Year ended December 2005					
Opening net book amount	971,661	272,237	234,427	5,392	1,483,717
Additions	-	-	84,980	11,218	96,198
Transfers	179,528	107,782	(287,310)	-	-
Transfer to investment property	(1,511)	-	-	-	(1,511)
Transfer from investment property	9,675	-	-	-	9,675
Disposals and write off	(6,603)	(543)	-	(448)	(7,594)
Depreciation charge	(34,816)	(118,149)	-	(3,112)	(156,077)
Closing net book amount	**1,117,934**	**261,327**	**32,097**	**13,050**	**1,424,408**
At 31 December 2005					
Cost	1,402,574	793,358	32,097	21,980	2,250,009
Accumulated depreciation	(284,640)	(532,031)	-	(8,930)	(825,601)
Net book amount	**1,117,934**	**261,327**	**32,097**	**13,050**	**1,424,408**
Year ended December 2006					
Opening net book amount	1,117,934	261,327	32,097	13,050	1,424,408
Additions	-	151	213,082	-	213,233
Transfers	61,444	127,238	(192,532)	3,850	-
Transfer to intangible assets	-	-	(2,895)	-	(2,895)
Transfer from investment property	-	-		-	-
Transfer to investment property	(10,575)	-	-	-	(10,575)
Disposals and write off	(8,661)	(857)	(7,223)	(1,351)	(18,092)
Depreciation charge	(36,042)	(114,629)	-	(3,295)	(153,966)
Closing net book amount	**1,124,100**	**273,230**	**42,529**	**12,254**	**1,452,113**
At 31 December 2006					
Cost	1,444,782	919,890	42,529	24,479	**2,431,680**
Accumulated depreciation	(320,682)	(646,660)	-	(12,225)	**(979,567)**
Net book amount	**1,124,100**	**273,230**	**42,529**	**12,254**	**1,452,113**

22 Investment property

	2006	2005
At 1 January		
Cost	65,689	73,853
Accumulated depreciation	(10,382)	(8,840)
Net book amount	**55,307**	**65,013**
Year ended December		
Opening net book amount	55,307	65,013
Transfer from property and equipment	10,575	1,511
Transfer to property and equipment	-	(9,675)
Disposals and write off	(5,104)	-
Depreciation charge	(1,828)	1,542
Closing net book amount	**58,950**	**55,307**
At 31 December		
Cost	71,160	65,689
Accumulated depreciation	(12,210)	(10,382)
Net book amount	**58,950**	**55,307**

23 Intangible assets

	2006	2005
Cost		
Balance at 1 January	90,483	65,183
Additions	-	25,300
Transfer	2,895	-
Balance at 31 December	**93,378**	**90,483**
Accumulated amortisation		
Balance at 1 January	46,324	33,805
Charge for the year	16,050	12,519
Balance at 31 December	**62,374**	**46,324**
Net book value at 31 December	**31,004**	**44,159**
Net book value at 1 January	**44,159**	**31,378**

24 Other assets

	2006	2005
Collected collateral	854,625	707,811
Receivable for sold collateral previously collected	7,190	506,250
Advances for property and equipment	16,302	20,189
Receivable from KB Prvo Penzisko Drustvo	25,548	23,715
Inventory of office materials	17,963	15,727
Inventory of numismatic collections	17,184	17,526
Other assets	80,142	65,540
	1,018,954	**1,356,758**

Collected collateral of MKD 854,625,000 (2005: MKD 707,811,000) 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 operating lease receivables as follows:

	2006	2005
Not later than one year	12,566	12,981
Later than one year and not later than five years	4,372	4,372
Later than five years	7,359	8,234
	24,297	**25,587**

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 1,121,000 (2005: MKD 980,000). No contingent rent recognized as income in 2006 (2005: nil).

25 Deposits from banks and other financial institutions

	2006	2005
Demand deposits:		
Banks and other financial institutions	190,650	252,524
Insurance companies	68,171	73,151
Time deposits:		
Banks and other financial institutions	244,181	178,849
Insurance companies	143,398	15,776
	646,400	**520,300**

Deposits from banks and other financial institutions include accrued interest payable of MKD 3,348,000 (2005: MKD 532,000).

26 Other deposits

	2006	2005
Public institutions		
- Term deposits	248,547	305,666
Companies		
- Current/settlement accounts	7,178,602	6,571,535
- Term deposits	3,694,633	2,085,061
Retail customers		
- Current/demand accounts	11,321,062	10,276,943
- Term deposits	13,399,096	10,924,740
Restricted deposits		
Citizens	588,827	307,674
Companies	345,006	191,590
	36,775,773	**30,663,209**

Other deposits include accrued interest payable of MKD 116,651,000 (2005: MKD 96,022,000).

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

	2006		2005	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Domestic borrowings				
Macedonian Bank for Development Promotion	124,592	399,463	148,023	200,341
Agency for Managing Accounts	11,070	115,970	11,070	127,039
NBRM	4,578	9,987	5,571	14,556
Ministry of Finance	11,198	37,827	2,602	14,262
Foreign borrowings				
Macedonian Bank for Development Promotion	108,963	280,667	189,071	214,553
IBRD	1	109	2,744	109
ICDF Taiwan	309	1,522	1.039	6.878
International Financial Corporation	-	-	66,460	-
Council of Europe Social Development Fund	7,801	137,782	7,719	145,239
European Investment Bank	56,733	122,282	49,848	177,183
	325,245	**1,105,609**	**484,147**	**900,160**

Borrowings include accrued interest payable of MKD 6,058,000 (2005: MKD 6,774,000). Bank's borrowings are secured with promissory notes.

28 Other liabilities

	2006	2005
Dividend payables	19,233	14,695
Suppliers payable	28,340	18,025
Fee and commission	3,558	5,687
Bonuses to the Managing Board, management and the employees	50,000	35,000
Liabilities to Ministry of Finance	23,568	12,440
Advances for treasury shares	124,628	-
Other liabilities	42,849	42,126
	292,176	**127,973**

29 Deferred tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 15% (2005:15%).

The movement on the deferred tax is as follows:

	2006	2005
At 1 January	1,104	1,472
Income statement charge (Note 12)	(198)	(368)
At 31 December	**906**	**1,104**

Deferred tax assets are attributable to the following items:

	2006	2005
Deferred tax assets		
Property and equipment	897	1,092
Intangible assets	9	12
At 31 December	**906**	**1,104**

30 Contingencies and commitments

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

	2006	2005
Guarantees		
- in domestic currency	3,070,587	1,978,804
- in foreign currency	1,840,976	1,382,189
Less: provision for impairment	(124,880)	(206,727)
	4,786,683	3,154,266
Letters of credit	1,055,328	641,428
Limits on credit cards	564,785	361,587
Undrawn overdraft facilities	946,446	589,210
Credit limits to legal entities for salary	40,332	-
	7,393,574	**4,746,491**

Movement in provisions for impairment are as follows:

	2006	2005
Balance at 1 January	206,727	112,234
Net charge to income statement (Note 11)	(81,847)	94,493
Balance at 31 December	**124,880**	**206,727**

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	**2006**	**2005**	**2006**	**2005**
Interest and commission income	7,886	35,769	3,765	-
Interest and fee expense	265	10,453	1,518	3,803
Balance Sheet				
Loans				
Loans outstanding at 1 January	33,623	23,675	-	-
Loans issued during the year	173,262	79,648	-	-
Loan repayments during the year	71,892	69,700	-	-
Loans outstanding at 31 December	**134,993**	**33,623**	**-**	**-**
Other assets				
Receivables	-	-	25,548	23,715

	Companies with members in the Bank' s Board of Directors		Associated Companies	
Deposits	**2006**	**2005**	**2006**	**2005**
Balance at 1 January	82,864	64,702	45,256	738
Deposits received during the year	3,647,273	3,451,560	237,072	202,935
Deposits repaid during the year	3,674,313	3,442,758	273,480	158,694
Balance at 31 December	**55,824**	**73,504**	**8,848**	**44,979**

Key management compensation	**2006**	**2005**
Salaries and other short - term benefits	93,312	96,415
	93,312	**96,415**

32 Funds managed on behalf of third parties	**2006**	**2005**
Companies	292,059	277,570
Banks and other financial institutions	18,596	12,709
	310,655	**290,279**

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 recognised 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	
	2006	**2005**	**2006**	**2005**
In number of shares				
At 1 January	1,882,372	365,283	131,695	187,652
Conversion of Non-voting shares	102,669	54,325	(102,669)	(55,957)
Share split 5 for 1	-	1,462,764	-	-
At 31 December	**1,985,041**	**1,882,372**	**29,026**	**131,695**

Ordinary shares have a par value of MKD 1,000 (2005: MKD 1,000) and Non-voting shares have a par value of MKD 1,000 (2005: 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. In respect of the Bank's shares that are held by the Bank, all rights are suspended until those shares are reissued. Based on the decision brought by the Bank non voting shares can be converted in ordinary shares.

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

	% of voting share capital	
Shareholder	**2006**	**2005**
European Bank for Reconstruction and Development	6.02	6.35

34 Other reserves

	2006	**2005**
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

	2006	2005
Cash and balances with the NBRM (Note 14)	1,519,653	1,415,654
Treasury bills (Note 15)	797,962	229,097
	2,317,615	**1,644,751**

36 Post balance sheet events

In accordance with the Prospectus and amendments of the Prospectus on sale of treasury shares trough public offer, on 27 December 2006, Komercijalna Banka A.D Skopje began a sale procedure for 31,513 common treasury shares at price of MKD 6,300 per share through public offer. The closing date for subscription and payment of shares was 25 January 2007. On 17 January 2007 the Bank declared that sale of treasury shares trough public offer has ended before initially determined closing date because as of 15 January 2007 31,513 common treasury shares in total amount of MKD 198,532,000 were sold, realising a premium in amount of MKD 76,880,000.