KOMERCIJALNA BANKA AD SKOPJE

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2007

Content

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Independent auditor's report

To the Shareholders of Komercijalna Banka A.D - Skopje

We have audited the accompanying financial statements of Komercijalna Banka AD - Skopje, which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Komercijalna Banka AD –Skopje as of 31 December 2007, 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 2008

Income statement

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest and similar income	5	3,123,544	2,288,603
Interest expense and similar charges	5	(1,001,630)	(689,773)
Net interest income		**2,121,914**	**1,598,830**
Fee and commission income	6	940,776	743,130
Fee and commission expense	6	(113,894)	(91,443)
Net fee and commission income		**826,882**	**651,687**
Dividend income	7	8,106	1,227
Foreign exchange gains (net)		124,667	89,899
Net trading income		76,279	54,387
Other operating income	8	217,257	241,211
Administrative expenses	9	(705,223)	(713,522)
Other operating expenses	10	(840,656)	(778,461)
Impairment charge for credit losses	11	(763,346)	(335,470)
Operating profit		**1,065,880**	**809,788**
Share of loss from associate		3,621	(1,359)
Profit before income tax		**1,069,501**	**808,429**
Income tax expense	12	(57,613)	(81,549)
Profit for the year		**1,011,888**	**726,880**
Basic earnings per share		508	375
Diluted earnings per share		504	371

The notes on pages 8 to 59 are an integral part of these financial statements.

Balance sheet

	Notes	At 31 December	
		2007	**2006**
ASSETS			
Cash and balances with the National Bank of Republic of Macedonia	14	7,364,628	5,073,904
Treasury bills	15	3,191,943	797,962
Financial assets at fair value through profit or loss	16	1,003,542	83,174
Loans and advances to banks	17	13,833,618	17,337,237
Loans and advances to customers	18	24,588,063	17,439,503
Investment securities	19	296,981	352,854
Investments in associates	20	35,520	31,899
Property and equipment	21	1,448,151	1,452,113
Investment property	22	57,855	58,950
Intangible assets	23	41,233	31,004
Other assets	24	1,002,561	1,018,954
Deferred income tax assets	29	608	906
Total assets		**52,864,703**	**43,678,460**
LIABILITIES			
Deposits from banks	25	792,918	646,400
Other deposits	26	45,272,556	36,775,773
Borrowings	27	1,065,592	1,430,854
Current income tax liabilities		9,665	28,239
Provisions	30	175,595	124,880
Other liabilities	28	288,063	292,176
Total liabilities		**47,604,389**	**39,298,322**
SHAREHOLDERS' EQUITY			
Share capital	33	2,014,067	2,014,067
Share premium		109,026	32,146
Treasury shares		-	(121,651)
Retained earnings		1,140,837	876,911
Statutory reserves	34	1,886,667	1,468,948
Other reserves	34	109,717	109,717
Total shareholders' equity		**5,260,314**	**4,380,138**
Total equity and liabilities		**52,864,703**	**43,678,460**

Statement of changes in equity

	Share capital	Share premium	Treasury Shares	Statutory Reserves	Other reserves	Retained Earnings	Total equity
Balance at 1 January 2006	**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 recognized 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**
Net profit for the year	-	-	-	-	-	1,011,888	1,011,888
Total recognized income for 2007	-	-	-	-	-	1,011,888	1,011,888
Dividends	-	-	-	-	-	(330,243)	(330,243)
Transfer to statutory reserve	-	-	-	417,719	-	(417,719)	-
Treasury shares acquired	-	-	-	-	-	-	-
Treasury shares sold	-	76,880	121,651	-	-	-	198,531
Balance at 31 December 2007	**2,014,067**	**109,026**	**-**	**1,886,667**	**109,717**	**1,140,837**	**5,260,314**

Detailed information is provided in Notes 33 and 34.

Cash flow statement

	Notes	Year ended 31 December 2007	2006
Cash flows from operating activities			
Profit before tax		1,069,501	808,429
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets	9	176,927	170,016
Gain on sale of property and equipment	8	(3,003)	(9,546)
Loss on sale of collected collateral		22,529	7,176
Decrease in value of assets acquired through foreclosure procedure	9	-	21,873
Depreciation of investment property	9	1,844	1,828
Impairment losses	11	763,346	335,470
Dividend income		(8,106)	(1,227)
Interest and commission income	5	(3,123,544)	(2,288,603)
Interest expense	5	1,001,630	689,773
Net trading income		(76,279)	(54,387)
Share of loss from associate		(3,621)	1,359
Interest and commission receipts		2,975,223	2,216,519
Interest paid		(779,359)	(446,232)
Cash flows from operating profits before changes in operating assets and liabilities		**2,017,088**	**1,452,448**
(Increase)/Decrease in operating assets			
Restricted accounts		(25,320)	4,872
Current accounts with foreign banks		12,776	167
Balances with NBRM		(1,960,184)	(627,767)
Financial assets at fair value through profit or loss		(920,368)	(75,917)
Placement with and loans to banks		3,503,619	(1,361,334)
Loans and advances to customers		(7,872,149)	(4,913,005)
Other assets		16,393	337,802
Increase/(Decrease) in operating liabilities			
Deposits from banks and other financial institutions		146,518	126,100
Amounts owed to other depositors		8,496,783	6,112,356
Other liabilities		(10,329)	158,263
Net cash from operating activities		**3,404,827**	**1,213,985**

Cash flow statement (continued)

Cash flows from investing activities			
Acquisition of property and equipment		(236,130)	(209,195)
Proceeds from the sale of property and equipment		9,158	18,092
Proceeds from sale of investments		55,873	38,445
Dividends received		4,549	987
Net cash used in investing activities		**(166,550)**	**(151,671)**
Cash flows from financing activities			
Proceeds from borrowed funds		1,359,277	585,159
Repayments of borrowed funds		(1,726,536)	(590,628)
Treasury shares sold		198,531	63,434
Treasury shares acquired		-	(147,339)
Dividends paid		(368,813)	(300,076)
Net cash from financing activities		**(537,541)**	**(389,450)**
Net increase in cash and cash equivalents		**2,700,736**	**672,864**
Cash and cash equivalents at beginning of year		**2,317,615**	**1,644,751**
Cash and cash equivalents at end of year	**35**	**5,018,351**	**2,317,615**

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 2008.

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	Biljana Maksimovska Popovik
International Division Manager	Vesela Curilova
Retail Banking Division Manager	Gabriela Stojanovska
Human resources and General Affairs Division Manager	Slavko Razmilik
Legal Affairs, Problem Loans Workout and Management Division Manager	Teodora Guskova Prodanova
Information Technology Division Manager	Zorica Cerepnalkoska
Finance Department Manager	Violeta Markovska Valjak
Domestic Payment Operations Department Manager	Biljana Mitevska
Credit Review Department Manager	Vesna Kiprijanova
Valut Operation Department Manager	Aneta Velevska
Marketing Department Manager	Jasmina Bucevska
Branch Managing Department	Margarita Ognenovska
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) Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's financial statements.

(b) New Accounting Pronouncements

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

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Bank's financial statements.

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

The new standards and interpretations are not expected to significantly affect the Bank's 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 2007 MKD**	**31 December 2006 MKD**
USD	41.66	46.45
EUR	61.20	61.17

D Offsetting financial instruments

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

E Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.
Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest

that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

F Fee and commission income

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

G Rental income

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

H Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

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

Held-to-maturity

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

Available-for-sale

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

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

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

I Impairment of financial assets

Assets carried at amortized cost

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

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

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

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

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

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

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

Assets classified as available for sale

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

J Property and equipment

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

Assets in course of construction are reported at their cost of construction including costs charged by third parties. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to the relevant tangible property and equipment category and subsequently subject to the applicable depreciation rates.

Gains and losses on disposal of property and equipment are 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 12%.

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

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

R Borrowings

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

Treasury shares

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

T Investment in associates

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

U Financial guarantees contracts

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

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

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

3 Financial risk management

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

Risk management framework

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

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

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

3.1. Credit risk

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

A Credit risk management

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

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

- Management Body, Corporate Lending Division Manager and Department Managers of the Bank are authorized for approving credit exposures up to 3% of the Bank's regulatory capital.

B Credit risk assessment

(a) Loans and advances

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

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

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

Bank's internal rating scale

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

Bank's rating grade A (Pass/acceptable for financing) includes:
- Claims from National Bank of the Republic of Macedonia and the Republic of Macedonia
- Credit exposure towards customer who settles its obligation towards the Bank at maturity or up to 15 days overdue
- Credit exposure being fully secured by first class security instruments, as defined in NBRM Decision on classification of claims of banks, up to realization of the instrument, provided that the realization is not in term longer than 30 days after the claim's maturity.

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

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

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

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

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

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

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

(b) Debt securities and other bills

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

C Risk limit control and mitigation policies

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

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

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

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

(a) Collateral

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

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

Loans to corporate entities are generally secured.

(ii) For individuals

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

Loans to individuals are generally secured.

(b) Credit-related contingencies

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

D Impairment and provisioning policies

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

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

	2007		2006	
	Loans %	**Impairment %**	**Loans %**	**Impairment %**
Pass/acceptable for financing (A)	73.5	2.8	72.9	2.7
Watch (careful) (B)	10.2	10.3	9.3	11.7
Sub-standard (C)	6.2	24.6	3.1	26.6
Suspicious (doubtful)+Loss (D) + (E)	10.1	75.0	14.6	73.7
Total	**100.0**	**12.2**	**100.0**	**14.7**

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

	2007	2006
Loans and advances to banks	13,833,618	17,337,237
Loans to customers		
Loans to individuals		
- overdrafts (exemption off-balance sheet exposure)	712,249	376,284
- credit cards (exemption off-balance sheet exposure)	576,820	253,198
- loans	4,024,274	3,369,892
- other	18,934	20,189
Loans to corporate entities		
- Large corporate clients	5,882,869	5,055,649
- Small and medium size companies (SMEs)	13,372,917	8,364,291
Financial derivative instruments		
Financial assets held for trading	4,195,485	83,174
Financial assets at fair value trhough Profit and loss		
Financial assets available for sale		
Financial assest held to maturity	228,544	1,087,382
Other assets	1,002,561	1,018,954
Off balance sheet items		
Financial guaranties	8,324,988	4,833,624
Latter of credit	903,511	1,023,420
Other liabilities related to lending		
Unused overdrafts for current accounts	1,485,035	945,787
Unused overdrafts for Master card	716,460	551,086
Overdrafts for legal entities for salary payments	552,173	39,657

The above table presents a worse case scenario of credit risk exposure to the Bank as at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet items, the exposure set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 69% of the total maximum exposure is derived from loans and advances to banks and customers (2006: 78%); 22% represents off-balance-sheet items (2006: 17%).

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

- 83.7% of the loans and advances are categorized in top two grades on the internal rating system (2006: 82.2%)
- Loans and advances to customers are collateralized and loans to banks are mostly in first class banks;
- 59% of loans and advances are considered as to be neither past due nor impaired;
- The increase of off-balance-sheet items generally resulting of increase of issued guarantees as a result of the need in the whole economy for this kind of bank service. According statistical data, the expected need to perform on these guarantees by the Bank is very low.

F Loan and advances

Loans and advances are summarized as follows:

	31 December 2007		31 December 2006	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	10,986,630	13,653,705	6,368,346	17,337,237
Past due but not impaired	2,804,981	-	1,619,293	-
Impaired	14,206,243	181,731	12,452,803	-
Gross	27,997,854	13,835,436	20,440,442	17,337,237
Less: allowance for impairment	(3,409,791)	(1,818)	(3,000,939)	-
Net	24,588,063	13,833,618	17,439,503	17,337,237

The total impairment provision for loans and advances is MKD 3,411,609 (2006: MKD 3,000,939) of which MKD 1,714,906 (2006: MKD 1,513,516) represents the individually impaired loans and the remaining amount of MKD 1,696,703 represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Notes 17 and 18.

(a) Loans and advances neither past due or impaired

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

31 December

	Degree of investment (A) 2007	**Degree of investment (A) 2006**
Loans and advances to banks	13,653,705	17,337,237
Loans to customers		
Loans to individuals		
- loans	334,347	218,865
Loans to corporate entities		
- Large corporate clients	4,279,257	2,470,382
- Small and medium size companies (SMEs)	6,373,026	3,679,099
Other assets		
Total	**24,640,335**	**23,705,583**

(b) Loans and advances past due but not impaired

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

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

31 December 2006	**Up to 30 days**	**Up to 90 days**	**Over 90 days**	**Total**
Loans to corporate entities				
- Small and medium size companies (SMEs)	1,546,230	73,063	-	**1,619,293**
Value of collateral				**2,558,182**

(c) Loans and advances individually impaired

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

	31 December 2007		**31 December 2006**	
	Loans with individual provision	**Value of collateral**	**Loans with individual provision**	**Value of collateral**
Loans to corporate entities				
- Large corporate clients	2,323,540	2,265,300	3,779,402	4,750,352
- Small and medium size companies (SMEs)	3,163,837	2,231,294	4,600,258	5,790,255
Total	**5,487,377**	**4,496,594**	**8,379,660**	**10,540,607**

(ii) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2007 is MKD 181,731,000 (2006: MKD nil). Generally no collateral is held by the Bank.

(d) Loans and advances renegotiated

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and when the Bank has made concession that it would not otherwise consider. Once the loan is restructured it remains in the same rating grade at least two quarters independent of satisfactory performance after restructuring, except when the quality of the loan was improved and the loan was transferred in a less risky category. The renegotiated loans as at 31 December 2007 and 31 December 2006 are as follows:

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

31 December 2006	**Carrying amount**
Re-structured loans	542,414

G Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills regarding issuer as at 31 December 2007. Issuer of the investment securities is the Central Bank of the Republic of Macedonia and Republic of Macedonia. Standard & Poor's Ratings Services assigned its 'BBB-' foreign currency and 'BBB-' local currency sovereign credit ratings to the Republic of Macedonia:

Issuer	**Treasury bills and other bills**	**Trading securities**	**Investment securities**	**Total**
Central bank of Republic of Macedonia	3,191,943	-	-	3,191,943
Republic of Macedonia	-	923,979	228,544	1,152,523
Total	**3,191,943**	**923,979**	**228,544**	**4,344,466**

H Repossessed collateral

During 2007, the Bank obtained assets by taking possession of collateral held as security as follows:

	Carrying amount	
Nature of assets	**2007**	**2006**
Residential property	798,489	854,625

I Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

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

	Total	Republic of Macedonia	EU Countries	Non-EU Countries in Europe	Other countries
ASSETS					
Cash and balances with the National Bank of Republic of Macedonia	7,364,628	6,473,586	659,308	69,420	162,314
Treasury bills	3,191,943	3,191,943	-	-	-
Financial assets at fair value through P&L	1,003,542	1,003,542	-	-	-
Loans and advances to banks	13,833,618	3,341	10,706,201	3,124,076	-
Loans and advances to customers	24,588,063	24,557,369	1,683	29,011	-
Loans to individuals	5,332,278	5,332,278	-	-	-
Term Loans	4,024,274	4,024,274	-	-	-
Overdrafts	712,249	712,249	-	-	-
Credit cards	576,820	576,820	-	-	-
Other	18,935	18,935	-	-	-
Loans to corporate entities	19,255,785	19,225,091	1,683	29,011	-
Large corporate customers	5,894,429	5,894,429	-	-	-
SMEs	13,361,356	13,330,662	1,683	29,011	-
Investment securities	296,981	290,870	1,243	-	4,868
Other assets	1,002,561	1,002,561	-	-	-
Total assets at 31 December 2007	**51,281,336**	**36,523,212**	**11,368,435**	**3,222,507**	**167,182**
Total assets at 31 December 2006	**42,103,588**	**23,984,839**	**15,631,698**	**1,616,901**	**870,150**

(b) Industry sector

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

	Total	Industry	Commerce and finance	Retail customers	Agriculture	Gove. instit. and local authorities	Construc-tion	Transport	Other
ASSETS									
Cash and balances with the National Bank of Republic of Macedonia	7,364,628	-	891,042	-	-	-	-	-	6,473,586
Treasury bills	3,191,943	-	3,191,943	-	-	-	-	-	-
Financial assets at fair value through P&L	1,003,542	-	1,003,542	-	-	-	-	-	-
Loans and advances to banks	13,833,618	-	13,833,618	-	-	-	-	-	-
Loans and advances to customers	24,588,063	6,923,720	5,278,983	5,332,278	675,459	811,270	2,586,586	1,340,429	1,639,338
Loans to individuals	5,332,278	-	-	5,332,278	-	-	-	-	-
Term Loans	4,024,274	-	-	4,024,274	-	-	-	-	-
Overdrafts	712,249	-	-	712,249	-	-	-	-	-
Credit cards	576,820	-	-	576,820	-	-	-	-	-
Other	18,935	-	-	18,935	-	-	-	-	-
Loans to corporate entities	19,255,785	6,923,720	5,278,983	-	675,459	811,270	2,586,586	1,340,429	1,639,338
Large corporate customers	5,894,429	2,120,951	1,617,117	-	206,914	248,517	792,352	410,615	497,963
SMEs	13,361,356	4,802,769	3,661,866	-	468,545	562,753	1,794,234	929,814	1,141,375
Investment securities	296,981	-	296,981	-	-	-	-	-	-
Other assets	1,002,561	-	-	-	-	-	-	-	1,002,561
Total assets at 31 December 2007	**51,281,336**	**6,923,720**	**24,496,109**	**5,332,278**	**675,459**	**811,270**	**2,586,586**	**1,340,429**	**9,115,485**
Total assets at 31 December 2006	**42,103,588**	**6,807,226**	**21,971,459**	**4,292,007**	**957,336**	**187,820**	**1,574,022**	**1,540,288**	**4,773,430**

3.2 Market risk

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

A Market risk measurement

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

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

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

B Foreign currency risk

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

Concentrations of assets and liabilities

The Bank had the following significant currency positions:

As at 31 December 2007	EUR	USD	MKD	Other	Total
Assets					
Cash and balances with the NBRM	3,093,397	311,640	3,583,120	376,471	7,364,628
Treasury bills	-	-	3,191,943	-	3,191,943
Financial assets at fair value through profit or loss	9,718	-	993,824	-	1,003,542
Loans and advances to banks	10,416,112	2,331,384	1,523	1,084,599	13,833,618
Loans and advances to customers	8,584,824	85,803	15,767,857	149,579	24,588,063
Investment securities	229,800	4,917	62,264	-	296,981
Investments in associates	-	-	35,520	-	35,520
Property and equipment	-	-	1,448,151	-	1,448,151
Investment property	-	-	57,855	-	57,855
Intangible assets	-	-	41,233	-	41,233
Deferred tax asset	-	-	608	-	608
Other assets	58,805	27,387	916,346	23	1,002,561
Total assets	**22,392,656**	**2,761,131**	**26,100,244**	**1,610,672**	**52,864,703**
Liabilities					
Deposits from banks	85,890	115,298	549,259	42,471	792,918
Other deposits	19,961,256	2,634,924	21,877,153	799,223	45,272,556
Borrowings	901,118	1,254	163,220	-	1,065,592
Provisions	59,185	8,826	102,732	4,852	175,595
Current tax liability	-	-	9,665	-	9,665
Other liabilities	1,464	21,252	264,415	932	288,063
Total liabilities	**21,008,913**	**2,781,554**	**22,966,444**	**847,478**	**47,604,389**
Contingencies and commitments	4,038,626	602,294	7,010,161	331,087	**11,982,168**
Net balance sheet position	**1,383,743**	**(20,423)**	**3,133,800**	**763,194**	**5,260,314**
As at 31 December 2006					
Total assets	**19,614,625**	**3,391,221**	**19,215,075**	**1,457,539**	**43,678,460**
Total liabilities	**18,370,577**	**3,375,395**	**16,767,099**	**785,251**	**39,298,322**
Net balance sheet position	**1,244,048**	**15,826**	**2,447,976**	**672,288**	**4,380,138**
Contingencies and commitments	**2,344,393**	**652,983**	**4,191,213**	**204,985**	**7,393,574**

At 31 December 2007, had the exchange rate between the MKD and EUR increased or decreased by 0.5%; between MKD and USD increased or decreased by 3%; between MKD and other foreign currencies increased or decreased by 1%; with all other variables held constant, the pre-tax profit for the twelve month period ended 31 December 2007 would have been approximately MKD 13,938,000 (2006: MKD 13,418,000) lower or higher.

C Interest rate risk

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

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

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
As at 31 December 2007							
Assets							
Cash and balances with the NBRM	2,948,548	-	-	-	-	4,416,080	7,364,628
Treasury bills	3,191,943	-	-	-	-	-	3,191,943
Financial assets at fair value through profit or loss	212,569	533,072	28,338	150,000	-	79,563	1,003,542
Loans and advances to banks	9,520,364	3,766,243	487,553	2,000	-	57,458	13,833,618
Loans and advances to Customers	10,827,381	3,918,633	6,855,561	2,116,223	719,397	150,867	24,588,063
Investment securities	-	-	54,058	163,824	9,342	69,757	296,981
Investments in associates	-	-	-	-	-	35,520	35,520
Property and equipment	-	-	-	-	-	1,448,151	1,448,151
Investment property	-	-	-	-	-	57,855	57,855
Intangible assets	-	-	-	-	-	41,233	41,233
Deferred income tax asset	-	-	-	-	-	608	608
Other assets	179	-	-	109	9,693	992,580	1,002,561
Total assets	**26,700,984**	**8,217,948**	**7,425,510**	**2,432,156**	**738,432**	**7,349,672**	**52,864,703**
Liabilities							
Deposits from banks	425,245	147,225	115,833	44,000	-	60,615	792,918
Other deposits	28,739,721	6,544,096	8,259,191	184,128	-	1,545,420	45,272,556
Borrowings	231,079	87,080	155,437	429,962	29,200	132,834	1,065,592
Current tax liability	-	-	-	-	-	9,665	9,665
Provisions	-	-	-	-	-	175,595	175,595
Other liabilities	-	-	-	-	-	288,063	288,063
Total liabilities	**29,396,045**	**6,778,401**	**8,530,461**	**658,090**	**29,200**	**2,212,192**	**47,604,389**
Total interest re - pricing gap	**(2,695,061)**	**1,439,547**	**(1,104,951)**	**1,774,066**	**709,232**	**5,137,480**	**5,260,314**
As at 31 December 2006							
Total assets	**25,099,498**	**3,979,384**	**8,436,864**	**662,911**	**25,757**	**5,474,046**	**43,678,460**
Total liabilities	**24,886,067**	**5,456,162**	**5,351,742**	**550,369**	**-**	**3,053,982**	**39,298,322**
Total interest re- pricing gap	**213,431**	**(1,476,778)**	**3,085,122**	**112,542**	**25,757**	**2,420,064**	**4,380,138**

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2007, if interest rates had been 100 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2007 would respectively increase/decrease by approximately MKD 1,228,000 (2006: MKD 19,601,000). There is no impact of interest rate change to equity because as of 31 December 2007, available for sale securities are non interest bearing (2006: nil).

3.3. Liquidity risk

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

A Liquidity risk management process

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

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

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

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

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

Maturities of assets and liabilities

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

As at 31 December 2006	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks	426,150	177,517	42,733	-	-	646,400
Other deposits	26,252,026	5,108,358	5,167,627	249,961	-	36,777,972
Borrowings	43,683	38,491	237,013	1,070,341	162,125	1,551,653
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 (contractual maturity dates**)**	**27,088,659**	**5,344,347**	**5,482,339**	**1,341,532**	**164,443**	**39,421,320**
Total assets (expected maturity dates)	**23,544,039**	**3,065,857**	**5,840,389**	**7,441,864**	**4,355,929**	**44,248,078**

B Off-balance sheet items (uncollateralized)

(a) Guarantees

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

(b) Letter of credit

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

(c) Other

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

As at 31 December 2007	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees	5,603,928	2,163,908	537,125	8,304,960
Letter of credit	907,724	-	-	907,724
Other	2,769,484	-	-	2,769,484
Total	**9,281,136**	**2,163,908**	**537,125**	**11,982,168**

As at 31 December 2006	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Total**
Guarantees	3,569,174	1,249,627	-	4,818,801
Letter of credit	1,037,799	-	-	1,037,799
Other	1,531,631	5,343	-	1,536,974
Total	**6,138,604**	**1,254,970**	**-**	**7,393,574**

3.4. Financial Instruments

Fair value

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

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

	Carrying value		**Fair value**	
	2007	**2006**	**2007**	**2006**
Financial assets				
Loans and advances to banks	13,833,618	17,337,237	13,833,618	17,337,237
Loans and advances to customers	**24,588,063**	**17,439,503**	**24,461,083**	**17,268,011**
- Retail customers(individuals)	5,332,277	4,019,563	5,332,277	4,019,563
-large corporate customers	5.882,869	5,055,649	5,882,869	5,055,649
-SMEs	13,372,917	8,364,291	13,245,937	8,192,799
Investment securities	296,981	352,854	372,404	329,863
Financial liabilities				
Deposits from banks	792.918	646,400	792,918	646,400
Other deposits	45,272,556	36,775,773	45,272,556	36,775,773
Borrowings	1,065,592	1,430,854	1,065,592	1,430,854

Loans and advances to banks

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

Loans and advances to customers

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

Investment securities

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

Other financial assets

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

Deposits and borrowings

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

The fair value of the term deposits at variable interest rates approximates their carrying values as of the balance sheet date.

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

3.5 Capital management

The bank's objectives regarding capital managements are:

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

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

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

As a result of changes in the local legislative which have occurred in 2007, there is difference approach in regulatory capital calculations in 2007 regarding 2006.

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

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

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

According to national regulations, the risk-weighted assets (on-balance and off-balance) are measured by means of a hierarchy of 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 FX risk-weighted assets.

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

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

Tier 1 capital	**2006**
1.Issued ordinary shares or directly deposited funds	2,155,887
2. Reserves	1,468,948
3. Retained earnings	22,126
4. Half year earnings discounted for 50%	-
5. Less uncovered loss form previous years	-
6. Less current loss	-
7. Less goodwill	-
Total Tier 1 capital	**3,646,961**
Tier 2 capital	
8. Issued preference shares	-
9. Revaluation reserve	12,611
10. Hybrid capital liabilities	-
11. Subordinated liabilities	-
Total Tier 2 capital	*12,611*
12. Less investments in associates	95,312
13. Less no allocated provision for impairment	-
Total regulatory capital	**3,564,260**
Risk-weighted assets	
On-balance sheet	23,266,555
Off-balance sheet	5,841,870
Less items 5, 6, 7, 12 and 13	95,312
Total risk-weighted assets	**29,013,113**
Aggregate open FX position	**1,187,986**
Capital adequacy ratio	**11.8%**

The increase of the regulatory capital in 2007 is mainly result of including a part of the profit realized in 2006 in the Bank's reserves. The increase of risk-weighted assets reflects the expansion of lending and off-balance activities.

4 Critical accounting estimates, and judgments in applying accounting policies

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

(a) Impairment losses on loans and advances

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

(b) Held to maturity investments

The Bank holds debt securities issued by the Republic of Macedonia, received in exchange for the settlement of certain non-performing loans, bearing interest at a rate of 2% per annum. The principal of bonds for frozen deposits is repayable in 20 equal semi annual 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 2007 the outstanding balance of these receivables amounts MKD 228,544,000 (2006: MKD 276,673,000). 15 year government bonds issued by the Republic of Macedonia, bearing interest at a rate equal to the prime rate of the NBRM, that the Bank held in its portfolio as a held-to-maturity asset (2006: MKD 12,747,000) in 2007 were called and fully repaid by the Government before the maturity date.

5 Net interest income

	2007	2006
Interest and similar income		
Loans and advances:		
- To banks	42,769	30,490
- To customers	2,252,972	1,605,268
Cash and short term funds	776,850	559,245
Investment securities	28,598	54,888
Other	22,355	38,712
	3,123,544	**2,288,603**
Interest expense and similar charges		
Deposits from banks	9,296	4,426
Due to customers	918,922	622,316
Other borrowed funds	57,157	52,728
Other	16,255	10,303
	1,001,630	**689,773**

6 Net fee and commission income

	2007	2006
Fee and commission income		
Payment operations		
-in the country	348,518	315,747
-abroad	240,927	201,994
Letters of credit and guarantees	136,093	90,212
Brokerage fees	75,252	49,500
Other	139,986	85,677
	940,776	**743,130**
Fee and commission expense		
Payment operations		
-in the country	29,004	26,057
-abroad	66,163	48,117
Brokerage fees	2,002	1,321
Other	16,725	15,948
	113,894	**91,443**

7 Dividend income

	2007	2006
Investment securities	8,106	1,227
	8,106	**1,227**

8 Other operating income

	2007	2006
Gain on sale of Property Plant and Equipment	3,003	9,546
Rental income	12,323	11,887
Recoveries on loans and advances previously written – off	124,684	138,185
Other	77,247	81,593
	217,257	**241,211**

9 Administrative expenses

	2007	2006
Salaries and wages	424,231	422,639
Pension costs	131,177	130,785
Other staff costs	75,977	83,233
Taxes and contributions	73,838	76,865
	705,223	**713,522**

10 Other operating expenses

	2007	2006
Materials and services	242,732	221,510
Insurance premiums	191,041	159,970
Depreciation of property and equipment	162,100	153,966
Administration and marketing costs	76,268	81,239
Bonuses to the Managing Board, management and the employees	100,000	55,000
Impairment of assets	3,250	37,887
Decrease in value of Collected collateral	-	21,873
Amortisation of intangible assets	14,827	16,050
Loss on sale of collateral	22,529	7,279
Tax and contributions	5,236	4,982
Penalties	2,557	2,133
Depreciation of investment property	1,844	1,828
Other	18,272	14,744
	840,656	**778,461**

11 Impairment charge for credit losses

	2007	2006
Cash and bank balances with the NBRM (Note 14)	(12,776)	(167)
Loans and advances to banks (Note 17)	1,818	-
Loans and advances to customers (Note 18)	723,589	417,484
Contingencies and commitments (Note 30)	50,715	(81,847)
	763,346	**335,470**

12 Income tax expense

	2007	2006
Current tax	57,315	81,351
Deferred tax (Note 29)	298	198
	57,613	**81,549**

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

Profit before tax	**1,069,501**	**808,429**
Tax calculated at a tax of 12% (2006: 15%)	128,340	121,264
Increase for:		
- expenses non tax deductible according to local regulations	18,343	36,998
Decrease for:		
- dividends	(969)	(184)
- non-taxable income according to local Regulations	(84,291)	(72,202)
- tax exempt revenue	(3,810)	(4,327)
Income tax expense	**57,613**	**81,549**

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 2007 was based on the net profit attributable to ordinary shareholders of MKD 1,009,865,000 (2006: MKD 724,261,000) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 1,987,804 (2006:1,931,974), calculated as follows:

Net profit attributable to ordinary shareholders	**2007**	**2006**
Net profit for the year	1,011,888	726,880
Dividends on non-redeemable preference shares	(2,023)	(2,619)
Net profit attributable to ordinary shareholders	1,009,865	724,261

Weighted average number of ordinary shares	**2007**	**2006**
In number of shares		
Issued ordinary shares at 1 January	1,953,528	1,872,372
Effect of treasury shares sold in January	30,132	-
Effect of conversion of preference shares in January	77	16,127
Effect of conversion of preference shares in February	424	20,631
Effect of treasury shares sold in February	-	8,410
Effect of conversion of preference shares in March	-	808
Effect of conversion of preference shares in April	935	5,227
Effect of treasury shares acquired in May	-	(20,548)
Effect of conversion of preference shares in May	659	14,382
Effect of conversion of preference shares in June	1,058	10,692
Effect of conversion of preference shares in July	665	537
Effect of conversion of preference shares in August	199	2,001
Effect of conversion of preference shares in September	79	942
Effect of conversion of preference shares in October	27	305
Effect of conversion of preference shares in November	18	64
Effect of conversion of preference shares in December	3	24
At 31 December	**1,987,804**	**1,931,974**

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2007 was based on the net profit attributable to ordinary shareholders of MKD 1,011,888,000 (2006: MKD 726,880,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 2,009,281 (2006: 1,961,000), calculated as follows:

Net profit attributable to ordinary shareholders (diluted)	**2007**	**2006**
Net profit attributable to ordinary shareholders	1,011,888	726,880
Net profit attributable to ordinary shareholders	1,011,888	726,880

Weighted average number of ordinary shares (diluted)

	2007	**2006**
In number of shares		
Issued ordinary shares at 1 January	1,987,804	1,931,974
Effect of issued potential ordinary shares	21,477	29,026
At 31 December	**2,009,281**	**1,961,000**

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

	2007	**2006**
Cash in hand	974,734	772,933
Current accounts with local banks	6,616	5,210
Current accounts with foreign banks	822,421	716,104
Other short term highly liquid investments	22,637	25,406
Included in cash and cash equivalents (Note 35)	**1,826,408**	**1,519,653**
Restricted accounts	39,831	14,511
Current accounts with foreign banks	66,294	80,605
Balances with NBRM	5,499,924	3,539,740
Less: Provision for impairment	(67,829)	(80,605)
	7,364,628	**5,073,904**

Cash and bank balances with the National Bank of Republic of Macedonia include accrued interest of MKD 2,350,000 (2006: nil).

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% (2006: 2%) interest on the mandatory reserve's amount in MKD.

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

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

Movement in provisions for impairment are as follows:

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

	2007	2006
Balance at 1 January	80,605	80,772
Net release to income statement (Note 11)	(12,776)	(167)
Balance at 31 December	**67,829**	**80,605**

15 Treasury bills

	2007	2006
Treasury bills	3,191,943	797,962
Included in cash and cash equivalents (Note 35)	**3,191,943**	**797,962**
	3,191,943	**797,962**

Treasury bills are debt securities issued by the National Bank of Republic of Macedonia with maturity due of 28 days. Treasury bills are categorized as assets held for trading and carried at their fair value.

16 Trading assets

	2007	2006
Debt and other fixed-income investments		
Government bonds	159,718	55,353
Government treasury bills	764,261	14,960
	923,979	**70,313**
Listed	923,979	70,313
Equity investments and other non-fixed-income instruments		
Equity investments	79,563	12,861
	79,563	**12,861**
Listed	72,259	6,619
Unlisted	7,304	6,242
	1,003,542	**83,174**

17 Loans and advances to banks

	2007	2006
Placements with foreign banks	13,639,318	17,245,354
Placements with domestic banks	196,118	91,883
Less: Provision for impairment	(1,818)	-
	13,833,618	**17,337,237**
Current	12,819,221	17,337,237
Non-current	1,014,397	-

Loans and advances to banks include accrued interest of MKD 57,458,000 (2006: MKD 12,156,000).

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

	2007	2006
Balance at 1 January	-	-
Net charge to income statement (Note 11)	1,818	-
Balance at 31 December	**1,818**	**-**

18 Loans and advances to customers

	2007	2006
Individuals (retail customers):		
- Overdrafts	794,634	431,880
- Credit cards	630,500	279,110
- Term loans	4,329,747	3,558,306
- Other	19,796	22,711
	5,774,677	**4,292,007**
Corporate entities:		
- Large corporate customers	7,021,931	6,283,964
- SMEs	15,201,246	9,864,471
	22,223,177	**16,148,435**
Gross loans and advances	27,997,854	20,440,442
Less: allowance for impairment	(3,409,791)	(3,000,939)
Net	**24,588,063**	**17,439,503**
Current	10,950,442	10,098,908
Non- current	13,637,621	7,340,595

Loans and advances to customers include accrued interest and other receivables of MKD 145,669,000(2006: MKD 114,591,000).

Movement in provisions for impairment for 2006 are as follows:
Retail customers

	Overdrafts	**Credit cards**	**Loans**	**Other**	**Total**
Balance at 1 January 2006	54,292	14,387	163,056	2,494	**234,229**
Provision for loan impairment	1,304	11,525	27,938	28	**40,795**
Write off	-	-	(2,580)	-	**(2,580)**
Balance at 31 December	**55,596**	**25,912**	**188,414**	**2,522**	**272,444**

Movement in provisions for impairment for 2006 are as follows:
Corporate entities

	Large corporate customers	SMEs	Total
Balance at 1 January 2006	990,158	1,387,694	**2,377,852**
Provision for loan impairment	264,203	112,486	**376,689**
Write off	(26,046)	-	**(26,046)**
Balance at 31 December	**1,228,315**	**1,500,180**	**2,728,495**

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

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

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

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

Loans and advances to customers are all domestic.

19 Investment securities

	2007	2006
Debt and other fixed-income investments held - to - maturity		
Government bonds	228,544	276,673
	228,544	**276,673**
Listed	228,544	276,673
Debt and other non-fixed-income investments held - to – maturity		
Government bonds	-	12,747
	-	**12,747**
Unlisted	-	-
Listed	-	12,747
Equity investments available-for-sale		
Equity investments	68,437	63,434
	68,437	**63,434**
Unlisted	68,437	63,434
	296,981	**352,854**
Current	55,378	55,769
Non-current	241,603	297,085

Investments securities include accrued interest and other receivables of MKD 1,320,000 (2006: 1,578,000 MKD).

Government Bonds comprise MKD 228,544,000 (2006: MKD 276,673,000) received as a collection of certain non-performing loans, bearing interest at a rate of 2% per annum (2006: 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 in 2006 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% per annum. The principal was supposed to be repayable in 15 equal annual installments commencing from April 1996 to April 2010 but in April 2007 they were called and fully repaid by the Government before the maturity date.

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

	2007	2006
KB Prvo Penzisko Drustvo AD Skopje	45,138	45,138
Share of results for the year ended 31 December	(9,618)	(13,239)
	35,520	**31,899**

Summary financial information on associate is presented below:

2007

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

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)**	

21 Property and equipment

	Buildings	Furniture & Equipment	Assets in course of construction	Leasehold improvements	Total
At 1 January 2006					
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 investment property	(10,575)	-	-	-	(10,575)
Transfer to intangible assets	-	-	(2,895)	-	(2,895)
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**
Year ended December 2007	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**
Opening net book amount	1,124,100	273,230	42,529	12,254	1,452,113
Additions	-	-	193,098	-	193,098
Transfers	9,619	170,605	(188,271)	8,047	-
Transfers to intangible assets	-	-	(25,055)	-	(25,055)
Transfer from leasehold improvements	1,487	-	-	(1,487)	-
Transfer to investment property	(749)	-	-	-	(749)
Disposals and write off	(6,773)	(2,022)	-	(362)	(9,157)
Depreciation charge	(36,441)	(122,408)	-	(3,250)	(162,099)
Depreciation charge – transfer from leasehold improvement	(1,487)	-	-	1,487	-
Closing net book amount	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**
At 31 December 2007					
Cost	1,448,366	1,088,493	22,301	30,676	**2,589,836**
Accumulated depreciation	(358,610)	(769,088)	-	(13,987)	**(1,141,685)**
Net book amount	**1,089,756**	**319,405**	**22,301**	**16,689**	**1,448,151**

22 Investment property

	2007	2006
At 1 January		
Cost	71,160	65,689
Accumulated depreciation	(12,210)	(10,382)
Net book amount	**58,950**	**55,307**
Year ended December		
Opening net book amount	58,950	55,307
Transfer from property and equipment	-	10,575
Additions during 2007	749	-
Disposals and write off	-	(5,104)
Depreciation charge	(1,844)	(1,828)
Closing net book amount	**57,855**	**58,950**
At 31 December		
Cost	71,909	71,160
Accumulated depreciation	(14,054)	(12,210)
Net book amount	**57,855**	**58,950**

23 Intangible assets

	2007	2006
Cost		
Balance at 1 January	93,378	90,483
Transfer from property and equipment	25,056	2,895
Balance at 31 December	**118,434**	**93,378**
Accumulated amortisation		
Balance at 1 January	62,374	46,324
Charge for the year	14,827	16,050
Balance at 31 December	**77,201**	**62,374**
Net book value at 31 December	**41,233**	**31,004**
Net book value at 1 January	**31,004**	**44,159**

24 Other assets

	2007	2006
Collected collateral	798,489	854,625
Receivable for sold collateral previously collected	39,831	7,190
Advances for property and equipment	59,334	16,302
Receivable from KB Prvo Penzisko Drustvo	24,038	25,548
Inventory of office materials	18,208	17,963
Inventory of numismatic collections	16,559	17,184
Other assets	46,102	80,142
	1,002,561	**1,018,954**
Current	339,998	296,016
Non-current	662,563	722,938

Collected collateral of MKD 798,489,000 (2006: MKD 854,625,000) 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:

	2007	2006
Not later than one year	12,566	12,566
Later than one year and not later than five years	4,372	4,372
Later than five years	6,485	7,359
	23,423	**24,297**

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 (2006: MKD 1,121,000). No contingent rent was recognized as income in 2007 (2006: nil).

25 Deposits from banks and other financial institutions

	2007	2006
Demand deposits:		
Banks and other financial institutions	132,238	190,650
Insurance companies	125,362	68,171
Time deposits:		
Banks and other financial institutions	535,283	244,181
Insurance companies	-	143,398
Restricted deposits:		
Banks and other financial institutions	35	-
	792,918	**646,400**
Current	748,918	646,400
Non-current	44,000	-

Deposits from banks and other financial institutions include accrued interest payable of MKD 3,319,000 (2006: MKD 3,348,000).

26 Other deposits

	2007	2006
Public institutions		
- Current/settlement accounts	53,685	-
- Term deposits	113,572	248,547
Companies		
- Current/settlement accounts	9,022,515	7,178,602
- Term deposits	5,654,619	3,694,633
Retail customers		
- Current/demand accounts	12,348,481	11,321,062
- Term deposits	16,938,478	13,399,096
Restricted deposits		
Citizens	660,116	588,827
Companies	481,090	345,006
	45,272,556	**36,775,773**
Current	44,799,302	36,528,011
Non-current	473,254	247,762

Other deposits include accrued interest payable of MKD 160,199,000 (2006: MKD 116,651,000).

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

	2007		2006	
	Short-term	**Long-term**	**Short-term**	**Long-term**
Domestic borrowings				
Macedonian Bank for Development Promotion	-	395,393	124,592	399,463
Agency for Managing Accounts	-	115,970	11,070	115,970
NBRM	-	8,809	4,578	9,987
Ministry of Finance	-	53,412	11,198	37,827
Foreign borrowings				
Macedonian Bank for Development Promotion	59,979	168,325	108,963	280,667
IBRD	-	-	1	109
ICDF Taiwan	218	1,036	309	1,522
Council of Europe Social Development Fund	15,754	122,568	7,801	137,782
European Investment Bank	31,950	92,178	56,733	122,282
	107,901	**957,691**	**325,245**	**1,105,609**
Current	222,897	-	319,187	-
Non-current	-	842,695	-	1,111,667

Borrowings include accrued interest payable of MKD 8,056,000 (2006: MKD 6,058,000). The Bank’s borrowings are secured with promissory notes.

28 Other liabilities

	2007	**2006**
Dividend payables	23,853	19,233
Suppliers payable	18,876	28,340
Fee and commission	5,154	3,558
Bonuses to the Managing Board, management and the employees	100,000	50,000
Liabilities to Ministry of Finance	31,868	23,568
Advances for treasury shares	-	124,628
Other liabilities	108,312	42,849
	288,063	**292,176**
Current	288,063	289,858
Non-current	-	2,318

29 Deferred tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using an effective tax rate of 12% (2006:15%).

The movement on the deferred tax is as follows:

	2007	2006
At 1 January	906	1,104
Income statement charge (Note 12)	(298)	(198)
At 31 December	**608**	**906**

Deferred tax assets are attributable to the following items:

	2007	2006
Deferred tax assets		
Property and equipment	608	897
Intangible assets	-	9
At 31 December	**608**	**906**

30 Contingencies and commitments

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

	2007	2006
Guarantees		
- in domestic currency	5,025,311	3,070,587
- in foreign currency	3,409,281	1,840,976
Less: provision for impairment	(175,595)	(124,880)
	8,258,997	4,786,683
Letters of credit	921,026	1,055,328
Limits on credit cards	740,460	564,785
Un- drawn overdraft facilities	1,504,068	946,446
Credit limits to legal entities for salary	557,616	40,332
	11,982,167	**7,393,574**

Movement in provisions for impairment are as follows:

	2007	2006
Balance at 1 January	124,880	206,727
Net charge to income statement (Note 11)	50,715	(81,847)
Balance at 31 December	**175,595**	**124,880**

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	**2007**	**2006**	**2007**	**2006**
Interest and commission income	26,048	7,886	1,887	3,765
Interest and fee expense	2,292	265	1,056	1,518
Balance Sheet				
Loans				
Loans outstanding at 1 January	135,006	33,623	20	-
Loans issued during the year	404,725	173,262	150	-
Loan repayments during the year	193,643	71,892	148	-
Loans outstanding at 31 December	**346,088**	**134,993**	**22**	**-**
Other assets				
Receivables	-	-	24,038	25,548

	Companies with members in the Bank' s Board of Directors		Associated Companies	
Deposits	**2007**	**2006**	**2007**	**2006**
Balance at 1 January	48,627	82,864	123,059	45,256
Deposits received during the year	4,163,010	3,647,273	3,827,433	237,072
Deposits repaid during the year	4,148,323	3,674,313	3,711,719	273,480
Balance at 31 December	**63,314**	**55,824**	**238,773**	**8,848**

Key management compensation	**2007**	**2006**
Salaries and other short - term benefits	93,593	93,312
	93,593	**93,312**

32 Funds managed on behalf of third parties

	2007	**2006**
Banks and other financial institutions	247,621	117,974
Companies	64,442	174,085
Individuals	54,489	18,596
	366,552	**310,655**

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

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

33 Share capital and share premium

	Ordinary shares		Non-voting shares	
	2007	**2006**	**2007**	**2006**
In number of shares				
At 1 January	1,985,041	1,882,372	29,026	131,695
Conversion of Non-voting shares	7,549	102,669	(7,549)	(102,669)
At 31 December	**1,992,590**	**1,985,041**	**21,477**	**29,026**

Ordinary shares have a par value of MKD 1,000 (2006: MKD 1,000) and Non-voting shares have a par value of MKD 1,000 (2006: MKD 1,000). The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. Non-voting shares give right to priority in the dividend payment, but do not carry the right to vote. All shares rank equally with regard to the Bank's residual assets.

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

	% of voting share capital	
Shareholder	**2007**	**2006**
European Bank for Reconstruction and Development	5.99	6.02

34 Other reserves

	2007	**2006**
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

	2007	2006
Cash and balances with the NBRM (Note 14)	1,826,408	1,519,653
Treasury bills (Note 15)	3,191,943	797,962
	5,018,351	**2,317,615**

36 Post balance sheet events

Based on the Decision from the Board of Director's meeting, dated 27 February 2008, part of the 2007 profit of MKD 766,470,000 will be distributed in the statutory reserves.