

Alpha Bank AD Skopje

Financial Statements
for the year ended
31 December 2007

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Balance sheet

As at 31 December

In thousands of denars

	<i>Note</i>	2007	2006
Assets			
Cash and cash equivalents	<i>12</i>	1,026,790	581,951
Loans and advances to banks	<i>13</i>	13,373	559,546
Assets held for sale	<i>14</i>	31,663	33,542
Loans and advances to customers	<i>15</i>	4,831,880	2,842,497
Investment securities	<i>16</i>	870,482	1,129,928
Property and equipment	<i>17</i>	175,934	127,452
Intangible assets	<i>18</i>	69,994	29,119
Current tax assets		9,437	-
Deferred tax assets	<i>19</i>	1,885	-
Other assets	<i>20</i>	<u>23,095</u>	<u>2,676</u>
Total assets		<u><u>7,054,533</u></u>	<u><u>5,306,711</u></u>
Liabilities			
Deposits from banks	<i>21</i>	1,148,928	680
Deposits from customers	<i>22</i>	4,208,023	3,691,592
Impairment provisions related to off balance sheet items	<i>23</i>	9,347	1,801
Current tax liabilities		-	7,476
Other liabilities	<i>24</i>	<u>24,509</u>	<u>19,847</u>
Total liabilities		<u><u>5,390,807</u></u>	<u><u>3,721,396</u></u>
Equity			
	<i>25</i>		
Share capital		560,160	185,760
Share premium		337,169	337,169
Retained earnings		82,532	173,151
Other reserves		<u>683,865</u>	<u>889,235</u>
Total equity		<u><u>1,663,726</u></u>	<u><u>1,585,315</u></u>
Total liabilities and equity		<u><u>7,054,533</u></u>	<u><u>5,306,711</u></u>

The notes on pages 6 - 41 are an integral part of these financial statements.

Mr. Ioanis Papadopoulos
Second Director General

Mrs. Pavlina Cerepnalkovska
First Director General

Income statement

For the year ended 31 December

<i>In thousands of denars</i>	<i>Note</i>	2007	2006
Interest income	6	393,305	294,807
Interest expense	6	<u>(106,543)</u>	<u>(53,562)</u>
Net interest income		286,762	241,245
Fee and commission income	7	97,303	90,405
Fee and commission expense	7	<u>(9,658)</u>	<u>(8,354)</u>
Net fee and commission income		87,645	82,051
Net foreign exchange gain		30,224	28,534
Other operating income	8	<u>2,467</u>	<u>29,343</u>
		32,691	57,877
Operating income		407,098	381,173
Net impairment loss on financial assets	13,15	(95,343)	(63,003)
Personnel expenses	9	(98,623)	(62,980)
Operating lease expenses		(10,682)	(5,757)
Depreciation and amortisation	17,18	(21,831)	(14,808)
Other expenses	10	<u>(89,879)</u>	<u>(38,059)</u>
Profit before income taxes		90,740	196,566
Income tax expense	11	<u>(12,329)</u>	<u>(25,748)</u>
Profit for the period		<u>78,411</u>	<u>170,818</u>

The notes on pages 6 - 41 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

<i>In thousands of denars</i>	Share capital	Share premium	Revaluation reserve	Statutory reserves	Retained earnings	Total
Balance at 1 January 2006	185,760	337,169	43,674	739,857	108,037	1,414,497
Profit for the period	-	-	-	-	170,818	170,818
Total recognised income and expense	-	-	-	-	170,818	170,818
Appropriation to statutory reserve	-	-	-	105,704	(105,704)	-
Balance at 31 December 2006	185,760	337,169	43,674	845,561	173,151	1,585,315
Balance at 1 January 2007	185,760	337,169	43,674	845,561	173,151	1,585,315
Profit for the period	-	-	-	-	78,411	78,411
Total recognised income and expense	-	-	-	-	78,411	78,411
Increase of share capital	374,400	-	-	(203,582)	(170,818)	-
Appropriation to retained earnings	-	-	(43,674)	-	43,674	-
Appropriation to statutory reserve	-	-	-	41,886	(41,886)	-
Balance at 31 December 2007	560,160	337,169	-	683,865	82,532	1,663,726

The notes on pages 6 - 41 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

In thousands of denars

	<i>Note</i>	2007	2006
Cash flows from operating activities			
Profit for the period		78,411	170,818
Adjustments for:			
Depreciation and amortisation	<i>17,18</i>	21,831	14,808
Collected previously written-off receivables		-	(27,250)
Capital gain on sale of property and equipment		-	(92)
Impairment loss on assets held sale		105	3,343
Net impairment loss on financial assets	<i>13,15</i>	95,343	63,003
Impairment provision for off-balance sheet items	<i>23</i>	7,546	630
Net interest income		(286,762)	(241,245)
Dividend income		(110)	(70)
Income tax expense		12,329	25,748
		<u>(71,307)</u>	<u>9,693</u>
Change in loans and advances to banks		545,965	592,985
Change in loans and advances to customers		(2,069,701)	(1,328,022)
Change in assets for resale		1,774	(4,493)
Change in other assets		(20,419)	(1,869)
Change in deposits from banks		1,142,808	(5,524)
Change in deposits from customers		507,837	1,078,501
Change in other liabilities		4,662	11,367
		<u>41,619</u>	<u>352,638</u>
Interest received		378,052	283,537
Interest paid		(92,509)	(51,845)
Income tax paid		(31,127)	(16,501)
Net cash used in operating activities		<u>296,035</u>	<u>567,829</u>
Cash flows from investing activities			
Purchase of property and equipment	<i>17</i>	(63,625)	(28,690)
Proceeds from the sale of property and equipment		-	92
Purchase of intangible assets	<i>18</i>	(47,563)	(27,343)
Purchase of investment securities		-	(438,571)
Proceeds from investment securities		259,992	-
Net cash used in investing activities		<u>148,804</u>	<u>(494,512)</u>
Cash flows from financing activities			
Proceeds from issued share capital		-	-
Net cash from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		444,839	73,317
Cash and cash equivalents at 1 January	<i>12</i>	581,951	508,634
Cash and cash equivalents at 31 December		<u>1,026,790</u>	<u>581,951</u>

The notes on pages 6 - 41 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

Alpha Bank AD Skopje (“the Bank”) is a joint stock company incorporated and domiciled in the Republic of Macedonia.

The address of the Bank’s registered office is as follows:

St. Dame Gruev 1
1000 Skopje
Republic of Macedonia

The Bank is licensed to perform all banking activities in accordance with the law. 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.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with the Trading Companies Law and the Accounting Regulations (Official Gazette No.94/2004, No.11/2005 and No.116/2005).

During the period the Group adopted International Financial Reporting Standard (“IFRS”) 7 *Financial Instruments: Disclosures*, which increased the level of disclosure in respect of financial instruments, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the standard, the Bank has provided full comparative information.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- financial instruments held for trading are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- non-current assets held for sale which are measured at the lower of its carrying amount or fair value less costs to sell.

(c) Functional and presentation currency

The financial statements are presented in Macedonian denars (“MKD”), which is the Bank’s functional currency. Except as indicated, financial information presented in MKD has been rounded to the nearest thousand.

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD) based. The exchange rates used for translation at 31 December 2007 and 2006 were as follows:

	2007 MKD	2006 MKD
1 EUR	61.20	61.17
1 USD	41.66	46.45

(b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- interest on available-for-sale investment securities on an effective interest basis;

Notes to the financial statements

3. Significant accounting policies (continued)

(b) Interest (continued)

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, guarantees, letters of credit, domestic and foreign payment operations and other services, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Dividends

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of net trading income, or dividend income based on the underlying classification of the equity instrument.

(f) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the financial statements

3. Significant accounting policies (continued)

(g) Income tax expense (continued)

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(h) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits and borrowings on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets, if any that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(iii) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

(vi) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment (continued)

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(i) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks, cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

Notes to the financial statements

3. Significant accounting policies (continued)

(j) Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(l) Loans and advances originated by the Bank

Loans and advances originated by the Bank are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Loans and advances originated by the Bank are consisted of loans and advances to banks and other customers

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification.

(i) Held-to-maturity

Held-to-maturity investments are assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Notes to the financial statements

3. Significant accounting policies (continued)

(m) Investment securities (continued)

(ii) Available-for-sale

Available-for-sale investments are financial assets that are not held for trading, or originated by the Bank, nor are held-to-maturity. Available-for-sale investments include treasury bills, government bills and equity securities.

Unquoted equity securities whose fair value cannot be reliably measured are carried at cost, less impairment losses. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired and the balance in equity is recognised in profit or loss.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

Notes to the financial statements

3. Significant accounting policies (continued)

(n) Property and equipment (continued)

(iii) Depreciation (continued)

Depreciation rates, based on the estimated useful lives for the current and comparative periods are as follows:

	%
Buildings	2.5
Leasehold improvement	20
Furniture and equipment	10-25

(o) Intangible assets

(i) Recognition and measurement

Software and licenses acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

The amortisation rates based on the estimated useful lives for the current and comparative periods are as follows:

	%
Software	25
Licences	20

Notes to the financial statements

3. Significant accounting policies (continued)

(p) Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Bank's balance sheet.

(q) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Notes to the financial statements

3. Significant accounting policies (continued)

(r) Deposits, debt securities issued and subordinated liabilities (continued)

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank chooses to carry the liabilities at fair value through profit or loss.

(s) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(t) Employee benefits

(i) Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organisations responsible for the payment of pensions.

There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the financial statements

3. Significant accounting policies (continued)

(u) Share capital and reserves

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

(ii) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently the amount received is recognised as an increase on equity, and the resulting surplus or deficit of the transaction is transferred to/from share premium.

(iii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(iv) Comparative information

For more appropriate presentation of transactions, classification of certain items in a current year financial statements differ from a prior year. Consequently presentation of prior year financial statement has been changed where necessary.

4. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Notes to the financial statements

4. Financial risk management (continued)

Risk management framework

The Supervisory Board (“the Board”) has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board has established the Asset and Liability Committee (“ALCO”), Credit Committee and Risk Management Committee, which are responsible for developing and monitoring Bank’s risk management policies in their specified areas.

The Bank’s risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and procedures and policies for management, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

The Bank’s Audit Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank’s Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank’s loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Supervisory Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures less 10% of the Bank’s own funds. All credit exposures greater than 10% of the Bank’s own funds must be approved by the Risk Management Committee. Separate Bank’s Credit departments (Department for Corporate Lending and Department for Retail Lending) are responsible for oversight of the Bank’s credit risk, including:

- *Formulating credit policies*, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

- *Reviewing and assessing credit risk.* Credit departments assess all credit exposures in excess of designated limits, prior to facilities being committed to customers.
- *Limiting concentrations of exposure* to geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Banks's credit risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the risks. The risk grading system is used in determining where impairment losses may be required. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral.
- *Reviewing compliance* with agreed exposure limits, including those for industries, country risk and product types. Regular reports for the credit exposure, risk grading and allowance for impairment are provided to the Risk Management Committee, and appropriate corrective action is taken.

Credit departments are required to implement credit policies and procedures and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Regular audits of Credit departments' processes are undertaken by Internal Audit.

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk

<i>In thousands of denars</i>	<i>Note</i>	Loans and advances to banks		Loans and advances to customers		Investment securities	
		2007	2006	2007	2006	2007	2006
Carrying amount	13, 15, 16	13,373	559,546	4,831,880	2,842,497	870,482	1,129,928
Individually impaired							
Grade A		1,700	-	4,097,988	318,648	-	-
Grade B		-	-	597,893	456,774	-	-
Grade C		-	-	97,358	74,647	-	-
Grade D		-	-	132,695	58,372	-	-
Grade E		-	-	60,974	66,334	-	-
Gross amount		1,700	-	4,986,908	974,775	-	-
Allowance for impairment		(17)	-	(261,488)	(166,233)	-	-
Carrying amount		1,683	-	4,725,420	808,542	-	-
Neither past due nor impaired							
Grade A		11,690	559,546	106,460	2,033,955	870,482	1,129,928
Carrying amount		11,690	559,546	106,460	2,033,955	870,482	1,129,928
Total carrying amount		13,373	559,546	4,831,880	2,842,497	870,482	1,129,928

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to E in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

Allowances for impairment

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 a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment) when the Supervisory Board determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Bank can also write off a loan / security balance (and any related allowances for impairment) on the base of a court decision when all other means for collection had expired.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

<i>In thousands of denars</i>	Loans and advances to banks		Loans and advances to customers	
	Gross	Net	Gross	Net
31 December 2007				
Grade A	1,700	1,683	4,097,988	4,047,951
Grade B	-	-	597,893	538,103
Grade C	-	-	97,358	73,018
Grade D	-	-	132,695	66,348
Grade E	-	-	60,974	-
Total	1,700	1,683	4,986,908	4,725,420
31 December 2006				
Grade A	-	-	318,648	312,275
Grade B	-	-	456,774	411,096
Grade C	-	-	74,647	55,985
Grade D	-	-	58,372	29,186
Grade E	-	-	66,334	-
Total	-	-	974,775	808,542

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2007 or 2006.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

<i>In thousands of denars</i>	<i>Note</i>	Loans and advances to banks		Loans and advances to customers		Investment securities	
		2007	2006	2007	2006	2007	2006
Carrying amount	13,15,16	13,373	559,546	4,831,880	2,842,497	870,482	1,129,928
Concentration by sector							
Corporate		-	-	2,148,741	1,516,518	-	-
Government		-	-	-	-	269,261	404,192
Bank and other financial institutions		13,373	559,546	-	-	601,221	725,736
Retail		-	-	2,683,139	1,325,979	-	-
		13,373	559,546	4,831,880	2,842,497	870,482	1,129,928
Concentration by location							
EU countries		13,373	559,546	-	24,618	-	-
Republic of Macedonia		-	-	4,831,880	2,817,879	870,482	1,129,928
Other		-	-	-	-	-	-
		13,373	559,546	4,831,880	2,842,497	870,482	1,129,928

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

Concentration by location for loans and advances is measured based on the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury Division and International Division receive information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Division and International Division then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. Liquidity reports are submitted monthly to the NBRM.

Exposure to liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Notes to the financial statements

4. Financial risk management (continued)

(c) Liquidity risk (continued)

Residual contractual maturities of financial liabilities

<i>In thousands of denars</i>	<i>Note</i>	Carrying amount	Gross nominal inflow / (outflow)	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2007								
<i>Non-derivative liabilities</i>								
Deposits from banks	21	1,148,928	(1,148,928)	(536,912)	-	(612,016)	-	-
Deposits from customers	22	4,208,023	(4,208,023)	(3,103,198)	(363,650)	(673,173)	(68,002)	-
Other liabilities	24	24,509	(24,509)	(24,509)	-	-	-	-
		<u>5,381,460</u>	<u>(5,381,460)</u>	<u>(3,664,619)</u>	<u>(363,650)</u>	<u>(1,285,189)</u>	<u>(68,002)</u>	<u>-</u>
Credit cards commitments		277,287	(277,287)	(277,287)	-	-	-	-
		<u>5,658,747</u>	<u>(5,658,747)</u>	<u>(3,941,906)</u>	<u>(363,650)</u>	<u>(1,285,189)</u>	<u>(68,002)</u>	<u>-</u>
31 December 2006								
<i>Non-derivative liabilities</i>								
Deposits from banks	21	680	(680)	(680)	-	-	-	-
Deposits from customers	22	3,691,592	(3,691,592)	(3,461,064)	(140,170)	(90,358)	-	-
Other liabilities	24	19,847	(19,847)	(19,847)	-	-	-	-
		<u>3,712,119</u>	<u>(3,712,119)</u>	<u>(3,481,591)</u>	<u>(140,170)</u>	<u>(90,358)</u>	<u>-</u>	<u>-</u>
Credit cards commitments		-	-	-	-	-	-	-
		<u>3,712,119</u>	<u>(3,712,119)</u>	<u>(3,481,591)</u>	<u>(140,170)</u>	<u>(90,358)</u>	<u>-</u>	<u>-</u>

The previous table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

The Gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

Management of market risks

Exposure to interest rate risk – non-trading portfolios

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets 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, LIBOR and different types of interest.

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-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 rates. However the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

<i>In thousands of denars</i>	<i>Note</i>	Carrying amount	Less than 1 month	1- 3 months	3-12 months	1-5 years	More than 5 years
31 December 2007							
Cash and cash equivalents	12	1,026,790	1,026,790	-	-	-	-
Loans and advances to banks	13	13,373	13,373	-	-	-	-
Loans and advances to customers	15	4,831,880	278,335	287,967	1,442,971	2,170,712	651,895
Investment securities	16	870,482	629,691	168,689	54,295	14,907	2,900
Other assets	20	23,095	23,095	-	-	-	-
		<u>6,765,620</u>	<u>1,971,284</u>	<u>456,656</u>	<u>1,497,266</u>	<u>2,185,619</u>	<u>654,795</u>
Deposits from banks	21	(1,148,928)	(536,912)	-	(612,016)	-	-
Deposits from customers	22	(4,208,023)	(3,103,198)	(363,650)	(673,173)	(68,002)	-
Other liabilities	24	(24,509)	(24,509)	-	-	-	-
		<u>(5,381,460)</u>	<u>(3,664,619)</u>	<u>(363,650)</u>	<u>(1,285,189)</u>	<u>(68,002)</u>	<u>-</u>
		<u>1,384,160</u>	<u>(1,693,335)</u>	<u>93,006</u>	<u>212,077</u>	<u>2,117,617</u>	<u>654,795</u>
31 December 2006							
Cash and cash equivalents	12	581,951	581,951	-	-	-	-
Loans and advances to banks	13	559,546	552,337	-	2,142	5,067	-
Loans and advances to customers	15	2,842,497	117,649	246,993	889,662	1,201,364	386,829
Investment securities	16	1,129,928	797,780	257,030	47,482	24,846	2,790
Other assets	20	2,676	2,676	-	-	-	-
		<u>5,116,598</u>	<u>2,052,393</u>	<u>504,023</u>	<u>939,286</u>	<u>1,231,277</u>	<u>389,619</u>
Deposits from banks	21	(680)	(680)	-	-	-	-
Deposits from customers	22	(3,691,592)	(3,461,064)	(140,170)	(90,358)	-	-
Other liabilities	24	(19,847)	(19,847)	-	-	-	-
		<u>(3,712,119)</u>	<u>(3,481,591)</u>	<u>(140,170)</u>	<u>(90,358)</u>	<u>-</u>	<u>-</u>
		<u>1,404,479</u>	<u>(1,429,198)</u>	<u>363,853</u>	<u>848,928</u>	<u>1,231,277</u>	<u>389,619</u>

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios include a 1% parallel fall or rise in all yield curves.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

<i>Effect in thousands of denars</i>	(Loss) / profit for the period	Equity
2007		
Interest income (1% increase)	47,469	47,469
Interest income (1% decrease)	(47,469)	(47,469)
Interest expense (1% increase)	(25,947)	(25,947)
Interest expense (1% decrease)	25,947	25,947
2006		
Interest income (1% increase)	44,095	44,095
Interest income (1% decrease)	(44,095)	(44,095)
Interest expense (1% increase)	(27,880)	(27,880)
Interest expense (1% decrease)	27,880	27,880

Exposure to currency risk – non-trading portfolios

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. The Denar is pegged to the Euro and the monetary projections envisage stability of the exchange rate of the Denar against Euro.

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

	2007					2006				
	MKD	EUR	USD	Other	Total	MKD	EUR	USD	Other	Total
Monetary assets										
Cash and cash equivalents	530,914	359,018	95,781	41,077	1,026,790	181,720	338,709	19,849	41,673	581,951
Loans and advances to banks	-	2,142	11,231	-	13,373	-	147,951	232,319	179,276	559,546
Loans and advances to customers	2,255,292	2,576,588	-	-	4,831,880	812,055	2,030,442	-	-	2,842,497
Investment securities	870,482	-	-	-	870,482	1,129,928	-	-	-	1,129,928
Other assets	18,719	4,376	-	-	23,095	2,552	119	5	-	2,676
	<u>3,675,407</u>	<u>2,942,124</u>	<u>107,012</u>	<u>41,077</u>	<u>6,765,620</u>	<u>2,126,255</u>	<u>2,517,221</u>	<u>252,173</u>	<u>220,949</u>	<u>5,116,598</u>
Monetary liabilities										
Deposits from banks and other financial institutions	2	1,148,886	33	7	1,148,928	-	47	633	-	680
Deposits from customers	2,529,273	1,554,535	107,449	16,766	4,208,023	1,314,665	2,129,103	226,407	21,417	3,691,592
Other liabilities	9,209	15,300	-	-	24,509	4,087	15,760	-	-	19,847
	<u>2,538,484</u>	<u>2,718,721</u>	<u>107,482</u>	<u>16,773</u>	<u>5,381,460</u>	<u>1,318,752</u>	<u>2,144,910</u>	<u>227,040</u>	<u>21,417</u>	<u>3,712,119</u>
Net position	<u>1,136,923</u>	<u>223,403</u>	<u>(470)</u>	<u>24,304</u>	<u>1,384,160</u>	<u>807,503</u>	<u>372,311</u>	<u>25,133</u>	<u>199,532</u>	<u>1,404,479</u>
Commitments and contingencies	(753,084)	(151,360)	(1,491)	-	(905,935)	(242,234)	(402,731)	(3,196)	-	(648,161)
Net FX position	<u>383,839</u>	<u>72,043</u>	<u>(1,961)</u>	<u>24,304</u>	<u>478,225</u>	<u>565,269</u>	<u>(30,420)</u>	<u>21,937</u>	<u>199,532</u>	<u>756,318</u>

Notes to the financial statements

5 Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

<i>In thousands of denars</i>	<i>Note</i>	Loans and receivables	Available-for- sale	Other amortised cost	Total carrying amount	Fair value
31 December 2007						
Cash and cash equivalents	12	1,026,790	-	-	1,026,790	1,026,790
Loans and advances to banks	13	13,373	-	-	13,373	13,373
Loans and advances to customers	15	4,831,880	-	-	4,831,880	4,831,880
Investment securities	16	-	870,482	-	870,482	870,482
Other assets	20	23,095	-	-	23,095	23,095
		<u>5,895,138</u>	<u>870,482</u>	<u>-</u>	<u>6,765,620</u>	<u>6,765,620</u>
Deposits from banks	21	-	-	1,148,928	1,148,928	1,148,928
Deposits from customers	22	-	-	4,208,023	4,208,023	4,208,023
Other liabilities	24	-	-	24,509	24,509	24,509
		<u>-</u>	<u>-</u>	<u>5,381,460</u>	<u>5,381,460</u>	<u>5,381,460</u>
31 December 2006						
Cash and cash equivalents	12	581,951	-	-	581,951	581,951
Loans and advances to banks	13	559,546	-	-	559,546	559,546
Loans and advances to customers	15	2,842,497	-	-	2,842,497	2,842,497
Investment securities	16	-	1,129,928	-	1,129,928	1,129,928
Other assets	20	2,676	-	-	2,676	2,676
		<u>3,986,670</u>	<u>1,129,928</u>	<u>-</u>	<u>5,116,598</u>	<u>5,116,598</u>
Deposits from banks	21	-	-	680	680	680
Deposits from customers	22	-	-	3,691,592	3,691,592	3,691,592
Other liabilities	24	-	-	19,847	19,847	19,847
		<u>-</u>	<u>-</u>	<u>3,712,119</u>	<u>3,712,119</u>	<u>3,712,119</u>

Notes to the financial statements

6. Net interest income

<i>In thousands of denars</i>	<i>Note</i>	2007	2006
Interest income			
Cash and cash equivalents	<i>12</i>	2,639	1,768
Loans and advances to banks	<i>13</i>	20,346	27,355
Loans and advances to customers	<i>15</i>	319,191	224,748
Investment securities	<i>16</i>	51,129	40,936
Total interest income		<u>393,305</u>	<u>294,807</u>
Interest expense			
Deposits from banks	<i>21</i>	17,959	1,877
Deposits from customers	<i>22</i>	88,584	51,685
Total interest expense		<u>106,543</u>	<u>53,562</u>
Net interest income		<u>286,762</u>	<u>241,245</u>

7. Net fee and commission income

<i>In thousands of denars</i>	2007	2006
Fee and commission income		
Payment operations in the country	24,217	24,329
Payment operations abroad	43,523	37,220
Letters of credit and guarantees	23,289	23,068
Other	6,274	5,788
Total fee and commission income	<u>97,303</u>	<u>90,405</u>
Fee and commission expense		
Payment operations within the country	6,492	6,426
Payment operations abroad	3,166	1,928
Total fee and commission expense	<u>9,658</u>	<u>8,354</u>
Net fee and commission income	<u>87,645</u>	<u>82,051</u>

Notes to the financial statements

8. Other operating income

<i>In thousands of denars</i>	<i>Note</i>	2007	2006
Income from collected previously written-off receivables		-	27,250
Income from renting safes		421	419
Capital gain on sale of property and equipment	<i>17</i>	-	92
Dividends on available-for-sale equity securities	<i>16</i>	110	70
Other		1,936	1,512
		<u>2,467</u>	<u>29,343</u>

9. Personnel expenses

<i>In thousands of denars</i>	2007	2006
Wages and salaries	57,547	37,011
Compulsory contributions	26,630	16,551
Compensation benefits	5,676	2,333
Other staff costs	8,770	7,085
	<u>98,623</u>	<u>62,980</u>

Other staff costs comprise of allowances for food, transportation of employees etc.

10. Other expenses

<i>In thousands of denars</i>	2007	2006
Service expenses	24,738	14,949
Marketing expenses	24,362	2,198
Material expenses	15,617	6,984
Impairment provisions related to off balance sheet items	7,546	630
Insurance premiums for deposits	4,932	3,264
Representation and donations	2,451	890
Computer maintenance	2,020	1,839
Impairment of assets held for sale	105	3,343
Other	8,108	3,962
	<u>89,879</u>	<u>38,059</u>

Notes to the financial statements

11. Income tax expenses

Recognised in the income statement

<i>In thousands of denars</i>	<i>Note</i>	2007	2006
Current tax expense			
Current year		14,214	25,748
		<u>14,214</u>	<u>25,748</u>
Deferred tax income			
Origination and reversal of temporary differences	19	(1,885)	-
Total income tax expense in the income statement		<u>12,329</u>	<u>25,748</u>

Reconciliation of effective tax rate

<i>In thousands of denars</i>	2007	2007	2006	2006
Profit before income tax	%	90,740	%	196,566
Income tax using the domestic corporation tax rate	12.00	10,889	15.00	29,485
Non-deductible expenses	1.63	1,478	1.79	3,512
Tax exempt income	(0.04)	(38)	(3.69)	(7,249)
Total income tax expense in income statement	13.59	12,329	13.10	25,748

12. Cash and cash equivalents

<i>In thousands of denars</i>	2007	2006
Cash on hand	178,681	118,109
Balances with the National Bank of Republic of Macedonia	726,639	383,099
Current accounts with foreign banks	117,476	77,409
Current accounts with local banks	499	212
Other short term highly liquid investments	3,495	3,122
	<u>1,026,790</u>	<u>581,951</u>

At 31 December 2007 cash and cash equivalents included MKD 458,806 thousand (2006: MKD 118,746 thousand) as obligatory reserve requirement in MKD and MKD 267,832 thousand (2006: MKD 228,238 thousand) as obligatory reserve in foreign currency requirement. Funds from obligatory reserve in foreign currency are not available for the Bank's daily business.

Notes to the financial statements

13. Loans and advances to banks

<i>In thousands of denars</i>	2007	2006
Loans and advances to banks	13,390	559,546
Less specific allowances for impairment	(17)	-
	<u>13,373</u>	<u>559,546</u>

Specific allowances for impairment

Balance at 1 January	-	-
Impairment loss for the year:		
Charge for the year	17	-
Balance at 31 December	<u>17</u>	<u>-</u>

14. Assets held for sale

<i>In thousands of denars</i>	2007	2006
Buildings	30,158	31,931
Equipment	1,505	1,611
	<u>31,663</u>	<u>33,542</u>

Assets held for sale represent assets acquired through collection of the pledged collateral on extended loans. For these assets the Bank prepares a plan of selling the asset including the selling price, allowed deviation from the selling price, method of selling and period of implementing the sale and the activities for finding a buyer.

During June 2007 the Bank sold buildings realizing capital loss in the amount of MKD 110 thousand (2006: none) (see note 10).

An impairment loss of MKD 105 thousand (2006: MKD 3,343 thousand) on the remeasurement of the assets to the lower of its carrying amount and its fair value less costs to sell has been recognised in other expenses (see note 10).

15. Loans and advances to customers

<i>In thousands of denars</i>	2007	2006
Loans and advances to customers at amortised cost	4,831,880	2,842,497
	<u>4,831,880</u>	<u>2,842,497</u>

Notes to the financial statements

15. Loans and advances to customers (continued)

Loans and advances to customers at amortised cost

<i>In thousands of denars</i>	2007	2006
Retail customers:		
Mortgage lending	980,016	616,627
Consumer loans	1,101,807	183,637
Credit cards	128,178	48
Other	555,577	535,859
Corporate customers:		
Mortgage lending	2,327,790	1,672,559
	<u>5,093,368</u>	<u>3,008,730</u>
Less specific allowances for impairment	<u>(261,488)</u>	<u>(166,233)</u>
	<u><u>4,831,880</u></u>	<u><u>2,842,497</u></u>

Allowances for impairment

<i>In thousands of denars</i>	2007	2006
Specific allowances for impairment		
Balance at 1 January	166,233	104,306
Impairment loss for the year:		
Charge for the year	95,326	63,003
Write-offs	(71)	(1,076)
Balance at 31 December	<u>261,488</u>	<u>166,233</u>

16. Investment securities

<i>In thousands of denars</i>	2007	2006
Available-for-sale investment securities	870,482	1,129,928
	<u>870,482</u>	<u>1,129,928</u>

Available-for-sale investment securities

<i>In thousands of denars</i>	2007	2006
Treasury Bills	598,321	722,946
Government Bills	228,040	378,952
Government Bonds	41,221	25,240
Unquoted equity securities at cost	2,900	2,790
	<u>870,482</u>	<u>1,129,928</u>

Notes to the financial statements

17. Property and equipment

<i>In thousands of denars</i>	Buildings	Leasehold improvement	Furniture & equipment	Assets under construction	Total
Cost					
Balance at 1 January 2007	109,851	20,634	92,355	17,604	240,444
Acquisitions	-	-	-	63,625	63,625
Transfers	-	25,972	41,880	(67,852)	-
Disposals	-	-	(562)	-	(562)
Balance at 31 December 2007	<u>109,851</u>	<u>46,606</u>	<u>133,673</u>	<u>13,377</u>	<u>303,507</u>
Depreciation					
Balance at 1 January 2007	15,302	18,277	79,413	-	112,992
Depreciation for the period	2,745	2,947	9,451	-	15,143
Disposals	-	-	(562)	-	(562)
Balance at 31 December 2007	<u>18,047</u>	<u>21,224</u>	<u>88,302</u>	<u>-</u>	<u>127,573</u>
Carrying amounts					
Balance at 31 December 2006	<u>94,549</u>	<u>2,357</u>	<u>12,942</u>	<u>17,604</u>	<u>127,452</u>
Balance at 31 December 2007	<u>91,804</u>	<u>25,382</u>	<u>45,371</u>	<u>13,377</u>	<u>175,934</u>

As at 31 December 2007 the Bank does not have any property pledged as collateral (2006: none).

Operating leases

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of denars</i>	2007	2006
Less than one year	12,917	5,032
Between one and five years	36,853	17,496
More than five years	-	241
	<u>49,770</u>	<u>22,769</u>

The Bank leases a number of branch and office premises under operating leases. The leases are non-cancellable and typically run for a period of up to 5 years.

Notes to the financial statements

18. Intangible assets

<i>In thousands of denars</i>	Software	Licences	Assets under development	Total
Cost				
Balance at 1 January 2007	21,247	26,306	-	47,553
Acquisitions	-	-	47,563	47,563
Transfer	1,300	-	(1,300)	-
Balance at 31 December 2007	<u>22,547</u>	<u>26,306</u>	<u>46,263</u>	<u>95,116</u>
Amortisation				
Balance at 1 January 2007	18,434	-	-	18,434
Amortisation for the period	1,426	5,262	-	6,688
Balance at 31 December 2007	<u>19,860</u>	<u>5,262</u>	<u>-</u>	<u>25,122</u>
Carrying amounts				
Balance at 31 December 2006	<u>2,813</u>	<u>26,306</u>	<u>-</u>	<u>29,119</u>
Balance at 31 December 2007	<u>2,687</u>	<u>21,044</u>	<u>46,263</u>	<u>69,994</u>

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of denars</i>	Assets	Liabilities	Net	Assets	Liabilities	Net
	2007			2006		
Loans and advances to customers	1,885	-	1,885	-	-	-
Net tax assets (liabilities)	<u>1,885</u>	<u>-</u>	<u>1,885</u>	<u>-</u>	<u>-</u>	<u>-</u>

Movements in temporary differences during the year

<i>In thousands of denars</i>	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
2007				
Loans and advances to customers	-	1,885	-	1,885
	<u>-</u>	<u>1,885</u>	<u>-</u>	<u>1,885</u>

Notes to the financial statements

20. Other assets

<i>In thousands of denars</i>	2007	2006
Petty inventory	11,983	764
Receivables from other banks	9,546	-
Prepaid expenses	827	1,283
Other	739	629
	<u>23,095</u>	<u>2,676</u>

Receivables from other banks represent withdrawn funds from the Bank's ATMs, by credit card holders with other banks.

21. Deposits from banks

<i>In thousands of denars</i>	2007	2006
Domestic banks		
Current deposits	1,466	680
Foreign banks		
Current deposits	1,147,462	-
	<u>1,148,928</u>	<u>680</u>

22. Deposits from customers

<i>In thousands of denars</i>	2007	2006
Retail customers:		
Term deposits	468,000	265,436
Current deposits	523,208	313,717
Corporate customers:		
Term deposits	1,700,858	2,028,503
Current deposits	1,515,957	1,083,936
	<u>4,208,023</u>	<u>3,691,592</u>

23. Impairment provisions related to off balance sheet items

<i>In thousands of denars</i>	<i>Note</i>	2007	2006
Balance at 1 January		1,801	1,171
Provisions made during the year	10	7,546	630
Balance at 31 December	26	<u>9,347</u>	<u>1,801</u>

Notes to the financial statements

24. Other liabilities

<i>In thousands of denars</i>	2007	2006
Suppliers payable	17,516	18,920
Fee and commission	-	62
Advances received	1,163	680
Other	5,830	185
	<u>24,509</u>	<u>19,847</u>

25. Capital and reserves

Share capital

<i>In number of shares</i>	Ordinary shares	
	2007	2006
On issue at 1 January	1,548	1,548
Issued by transfer from statutory reserves and retained earnings	3,120	-
On issue at 31 December	<u>4,668</u>	<u>1,548</u>

At 31 December 2007 the authorised share capital comprised 4,668 ordinary shares (2006: 1,548). Ordinary shares have a par value of MKD 120,000 (2006: MKD 120,000). All issued shares are fully paid.

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. All shares rank equally with regard to the Bank's residual assets.

The Bank is fully owned by Alpha Bank A.E. Athens.

Revaluation reserve

The revaluation reserve relates to intangible assets and property, and equipment and comprises the cumulative increased carrying value based on the increase of the producers' price index on the date of the revaluation. In 2007 the revaluation reserve was transferred to retained earnings.

Statutory reserve

Under local statutory legislation, the Bank is required to set aside 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the minimum level is reached the statutory reserve can also be used for distribution of dividends, based on a decision of the shareholders' meeting, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's Statute.

Notes to the financial statements

26. Contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

<i>In thousands of denars</i>	Note	2007	2006
Payment guarantees			
in MKD		475,797	242,234
in foreign currency		109,531	94,173
Letters of credit			
in foreign currency		43,320	311,754
Credit card commitments		277,287	-
Provisions	23	(9,347)	(1,801)
		<u>896,588</u>	<u>646,360</u>

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation fees and accruals for probable losses are recognised in the balance sheet until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

27. Related parties

According to the Bank's Articles of Association, the supreme body is the assembly of the Bank, constituted of all the holders of the Bank's registered shares. The overall control of the Bank is with the non-executive Supervisory Board who is appointed by shareholders.

The Bank is fully owned by Alpha Bank A.E. Athens which is the ultimate parent company of the Alpha Group.

Notes to the financial statements

27. Related parties (continued)

The volumes of related-party transactions, outstanding balances at the year-end, and relating expense and income for the year are as follows:

(i) Loans and advances to related banks

<i>In thousands of denars</i>	Parent	
	2007	2006
Deposits outstanding at 1 January	74,631	116,287
Deposit issued during the year	9,581,505	8,729,282
Deposit repayments during the year	<u>(9,644,887)</u>	<u>(8,770,937)</u>
Deposit outstanding at 31 December	<u>11,247</u>	<u>74,631</u>
Interest income earned	<u>2,766</u>	<u>4,964</u>

(ii) Loans and advances to related parties

<i>In thousands of denars</i>	Key management personnel of the Bank and with them related parties	
	2007	2006
Loans outstanding at 1 January	4,960	2,009
Loans issued during the year	6,178	4,382
Loan repayments during the year	<u>(2,570)</u>	<u>(1,431)</u>
Loans outstanding at 31 December	<u>8,568</u>	<u>4,960</u>
Specific allowance for impairment losses	<u>101</u>	<u>21</u>
Net impairment losses	<u>79</u>	<u>21</u>
Interest income earned	<u>576</u>	<u>202</u>

The Bank's policy is to require suitable collateral to be provided by the customers prior to the disbursement of approved loans and advances. Collateral for loans and advances is usually obtained in the form of cash, immovable property, inventory or other property.

Notes to the financial statements

27. Related parties (continued)

(iii) Deposits from related parties

<i>In thousands of denars</i>	Parent and with it related parties	
	2007	2006
Deposits at 1 January	-	-
Deposits received during the year	68,581,060	2,175,162
Deposits repaid during the year	(69,730,462)	(2,175,162)
Deposits at 31 December	<u>1,149,401</u>	<u>-</u>
Interest expense on deposits	<u>17,733</u>	<u>1,858</u>

(iv) Other transactions with related parties

<i>In thousands of denars</i>	Parent and with it related parties	
	2007	2006
Cash and cash equivalents	1,156	8,978
Other assets	16	124
Off-balance sheet credit exposure	38,557	50,775
Fee end commission income	37	8
Fee end commission expense	23	10

(v) Key management personnel compensation

<i>In thousands of denars</i>	2007	2006
Short-term employee benefits	<u>21,079</u>	<u>15,263</u>
	<u>21,079</u>	<u>15,263</u>

28. Subsequent events

According to the amendments of the Income Tax Law and Personnel Income Tax Law published in the Official Gazette Number 139, the tax rate as of 1 January 2008 is 10% (2006: 12%).