Grant Thornton

Financial statements and Independent auditor's report

TTK Bank A.D., Skopje

31 December 2008

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Independent Auditors' Report

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To the Management and Shareholders of

TTK Bank A.D., Skopje

We have audited the accompanying financial statements of TTK Bank A.D., Skopje (the "Bank") which comprise of the Balance sheet as at 31 December 2008, and the Statement of Income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 40.

The financial statements of the Bank as of and for the year ended 31 December 2007 were audited by another auditor whose report dated 26 May 2008 expressed unqualified opinion on those statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the prevailing accounting standards in the Republic of Macedonia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 the Audit Law and the 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 misstatements. 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 of the Bank in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements of the Bank present fairly, in all material respects, the financial position as at 31 December 2008, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with the prevailing accounting standards in the Republic of Macedonia and the accounting policies disclosed in Notes 2 and 3 of the financial statements.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the following:

As disclosed in Note 3.6, and in accordance with the regulations determined by the Law on Banks (article 71), the exposure to a shareholder with qualified holding at the Bank and its entities connected therero, shall not exceed 10% of the Bank's regulatory capital. As of 31 December 2008, the Bank's exposure to Teteks AD, Tetovo and its related parties amounts 15.32% from the regulatory capital of the Bank.

As it is further disclosed in Notes 21 and 23, as of 31 December 2008 the Bank has foreclosed assets taken based on bad receivables as well as buildings with total book value of Denar 58,302 thousand and Denar 183,745 thousand respectively. For these tangible assets at the date of this report the Bank still is not in possession of title deeds. According to the data received from the management it is due to the fact that this property is located in regions with incomplete cadastral books. We were presented appropriate ownership documents (ownership certificated, sale and purchase agreements, construction agreements) in accordance with the provisions on Law on Ownership.

Grant Thornton

Grant Thornton

Skopje,

27 February 2009

Statement of Income

	Notes	2008	2007
		(In 000 MKD) For the year ending 31 December	
Interest income		410,398	322,099
Interest (expense)		(164,383)	(103,719)
Net interest income	5	**246,015**	**218,380**
Fee and commission income		91,973	99,901
Fee and commission (expense)		(22,201)	(21,431)
Net fee and commission income	6	**69,772**	**78,470**
Foreign exchange gains, net	7	15,643	9,144
Other operating income	8	35,968	50,541
Loss from securities-held-for-trade, net	9	(5,968)	(1,100)
Impairment (losses), net	10	(207,156)	(48,786)
Personnel expenses	11	(110,879)	(110,631)
Depreciation	12	(26,075)	(20,543)
Other operating (expenses)	13	(147,124)	(172,524)
(Loss)/Profit before tax		**(129,804)**	**2,951**
Income tax expense	14	-	(1,130)
(Loss)/Profit for the year		**(129,804)**	**1,821**

Balance Sheet

	Notes	2008	2007
		(In 000 MKD) As of 31 December	
Assets			
Cash and cash equivalents	15	1,127,272	1,216,137
Securities held for trade	16	2,540	8,519
Loans and advances to banks	17	104,690	19,800
Loans and advances to customers	18	3,806,599	2,941,509
Securities available for sale	19	381,650	69,415
Securities held-to-maturity	20	2	2
Foreclosed assets	21	233,723	241,409
Intangible assets	22	10,255	8,371
Property, plant and equipment	23	318,109	306,430
Other receivables	24	168,884	43,824
Total assets		**6,153,724**	**4,855,416**
Liabilities			
Due to banks	25	140,388	43,267
Due to customers	26	4,335,561	3,216,291
Loans payables	27	633,339	391,424
Special reserves and provisions	28	5,110	2,329
Other liabilities	29	57,579	90,554
Total liabilities		**5,171,977**	**3,743,865**
Equity and reserves			
Share capital	30	907,888	907,888
Reserves		8,872	7,051
Retained earnings		64,987	196,612
Total equity and reserves		**981,747**	**1,111,551**
Total liabilities, equity and reserves		**6,153,724**	**4,855,416**
Commitments and contingencies	32	398,018	265,109

These financial statements have been approved by the Bank's Board of Directors on 26 February 2009 and signed on its behalf by:

President of Board of Directors
Atanas Spiroski

Member of Board of Directors
Nikolce Petkoski

Statement of changes in equity

	Share capital	Revaluat. reserve	Statut. reserve	Retained earnings	Total
At 01 January 2007	680,916	196,342	-	47,004	924,262
Shares issuance	226,972	-	-	-	226,972
Profit for the year	-	-	-	1,821	1,821
Allocation of retained earnings	-	-	7,051	(7,051)	-
Allocation of reserves	-	(194,791)	-	194,791	-
Dividends	-	-	-	(39,953)	(39,953)
Other	-	(1,551)	-	-	(1,551)
At 31 December 2007	**907,888**	**-**	**7,051**	**196,612**	**1,111,551**
At 01 January 2008	907,888	-	7,051	196,612	1,111,551
(Loss) for the year	-	-	-	(129,804)	(129,804)
Allocation of retained earnings	-	-	1,821	(1,821)	-
At 31 December 2008	**907,888**	**-**	**8,872**	**64,987**	**981,747**

Statement of cash flows

	Notes	2008	2007
		(000 mkd) Year ended 31 December	
Operating activities			
Profit before taxation		(129,804)	2,951
Adjustment for:			
Depreciation		26,075	20,543
Impairment expenses, net		212,131	50,246
Dividend income		(20,231)	(2,503)
Capitalized dividend income		(1,520)	(6,321)
Write-off of securities available-for-sale		-	28,919
Adjustment of fair value of securities held for trading		6,038	1,100
(Gains) from foreclosed assets sold		(5,729)	(22,336)
Net carrying amount of tangible assets sold		(43)	309
Gain before changes in operating assets		*86,917*	*72,908*
Changes in operating assets			
Loans and receivables from banks		(120,190)	(52,338)
Loans and receivables from customers		(940,048)	(728,900)
Foreclosed assets		8,440	53,010
Other assets		(253,761)	1,282
Bank's deposits		97,121	(2,106)
Client's deposits		1,119,270	891,114
Other liabilities		(31,853)	11,923
Gain /(Loss) after changes in operating assets		*(34,104)*	***246,893***
Income tax paid		(3,125)	(12,349)
		(37,229)	**234,544**
Investment activities			
Purchase of property, plant and equipment		(39,595)	(29,844)
Sale/Purchase of securities held-for-trading		-	(9,705)
Sale/(Purchase) of securities available-for-sale		(309,207)	214
Matured securities held-to-maturity		-	12,613
Dividends received		20,231	2,503
		(328,571)	**(24,219)**
Financial activities			
Share issue		-	226,972
Dividends paid		-	(39,953)
Proceeds from loans, net		241,915	13,434
		241,915	**200,453**
Changes in impairment provision included in cash and cash equivalents		**(480)**	(708)
Net change in cash and cash equivalents		**(124,365)**	**410,070**
Cash and cash equivalents, beginning of the year	15	1,100,773	690,703
Cash and cash equivalents, end of the year	**15**	976,408	**1,100,773**

Notes to the Financial Statements

1 General

TTK Bank A.D., Skopje (hereinafter referred to as “the Bank”) is a Shareholding Company incorporated in the Republic of Macedonia. The address of its registered head office is No. 19/a, Naroden Front Street, 1000 Skopje, Republic of Macedonia.

The Bank is licensed by the National Bank of the Republic of Macedonia for conducting payment transfers, credit and deposit services on the territory of the Republic of Macedonia and abroad.
At 31 December 2008 and 2007, the total number of employees was 235 and, 231 employees, respectively.

2 Accounting policies

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

2.1 Basis of preparation

The bank maintains its accounting records and prepares its financial statements in accordance with the Law on Banks and other regulations as prescribed by the National Bank of the Republic of Macedonia (“NBRM”), Company Law and Rulebook on accounting. Based on this Rulebook, the applicable standards in the Republic of Macedonia are International Accounting Standards (IAS) published in 2003 and approved by the International Accounting Standards Board (IASB). The amendments of the Rulebook from 10 February 2005 refer to the adoption of International Financial reporting Standard (IFRS) 1, as well as the subsequent amendment from 28 December 2005 referring to adoption of IFRS 2, 3, 4, 5, 6 and 7.

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

2.2 Foreign currency translation

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

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

	31 December 2008	31 December 2007
1 EUR	61.4123 Denar	61.2016 Denar
1 USD	43.5610 Denar	41.6564 Denar
1 CHF	41.0427 Denar	36.8596 Denar

2.3 Offsetting

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

2.4 Interest income and expense

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

2.5 Fee and commission income

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

2.6 Dividend income

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

2.7 Financial assets

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

Financial assets at fair value through profit or loss

This category of financial assets consists of securities held for trading. A financial asset is classified as available for sale if it is acquired or incurred principally for the purpose of generating profit through short-term fluctuations in the price or if it is included in the portfolio for which a short term actual form of profit gain exists.

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

Financial assets (continued)

Loans and receivables

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

Held – to – maturity financial assets

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

Initial recognition of the financial assets

Financial assets are recognized on trade-date – the date on which the Bank commits to purchase or sell the asset. All financial assets different from the financial assets carried at fair value through profit and loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit and loss are initially recognized at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when they are extinguished – that is, when the obligation is discharged, cancelled or expired.

Subsequent recognition of the financial assets

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

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

2.8 Impairment of financial assets

Assets carried at amortized cost

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

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

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

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

Impairment of financial assets (continued)

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

Assets carried at fair value

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

2.9 Intangible assets

Computer software

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

Other intangible assets

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

2.10 Property, plant and equipment

Buildings comprise mainly office premises used for performing business operations of the Bank which are carried at their revalued cost based on the valuation performed by independent authorized valuer, less subsequent accumulated depreciation and impairment losses. The revaluation effect was taken to the Bank's revaluation reserves. As of 31 December 2007, in compliance with letter from NBRM no. 91 dated 08 January 2008, this revalued reserve was transferred to retained earnings.

Property, plant and equipment (continued)

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

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

Buildings	40 years
Furniture and equipment	4 to 10 years

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

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

2.11 Impairment of non - financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use.

2.12 Cash and cash equivalents

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

2.13 Provisions

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

2.14 Employee benefits

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

The Bank has not made provisions for the employees' minimum amount on retirement at the balance sheet date, as this amount would not have a material effect on the financial statements.

2.15 Income tax

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

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

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

2.16 Borrowings

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

2.17 Equity, reserves and dividends

(a) Share capital

Share capital represents the nominal value of the issued shares.

(b) Share issue costs

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

(c) Treasury shares

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

(d) Reserves

Reserves are made during the periods and based on the gains/losses revalorizations of the category assets, in cases such as revalued reserves by allocation of accumulated gains based on the prevailing regulations and decisions passed by the Management of the Bank.

(e) Accumulated gains/(losses)
Accumulated gains/(losses) comprise the retained earnings and losses from current and previous periods.

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

2.17 Fiduciary activities

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

2.18 Off balance commitments and contingencies

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

2.19 Subsequent events

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

3. Financial risk management

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

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

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

3.1. Credit risk

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

Credit risk measurement

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

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counter parties and groups, and to 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, when considered necessary. Credit risk policy is revised at least once a year by the Supervisory Board.

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

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

- Mortgages over residential and business properties;
- Charges over business assets such as equipment, inventory and accounts receivable, and
- Charges over financial instruments such as shares.

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

Impairment and provisioning policies

The impairment provision at year-end is derived from each of the Bank's internal rating grades as explained in Credit risk measurement paragraph above. The table below shows the percentage of the Bank's balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

		2008		**2007**
	Financial assets (%)	Impairment provision (%)	Financial assets (%)	Impairment provision (%)
A	84.74	1.01	89.86	0.70
B	3.18	0.32	1.78	0.18
V	2.18	0.54	2.17	0.54
G	5.62	2.81	0.40	0.20
D	4.28	4.28	5.79	5.79
	100.00	**8.96**	**100.00**	**7.41**

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

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

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

Credit risk (continued)

Maximum exposure to credit risk

Maximum exposure to credit risk is presented by the carrying amount of the financial assets in the Balance Sheet, as presented in the table below (in Denar thousand):

	Cash and cash equivalents		**Securities held-for-trading**		**Loans and advances from banks**		**Loans and advances from customers**		**Securities available-for-sale**		**Securities held-to-maturity**		**Other receivables**			**Total**
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Risk category A	604,358	634,451	2,567	8,605	-	20,000	3,553,981	2,825,021	371,953	61,226	2	2	15,885	17,532	4,548,746	3,566,837
Risk category B	-	-	-	-	-	-	183,500	82,416	11,580	-	-	-	292	140	195,372	82,556
Risk category V	-	26	-	-	-	-	129,887	85,387	156	11,736	-	-	3,708	3,695	133,751	100,844
Risk category G	1	41	-	-	-	-	99,561	18,202	-	-	-	-	245,325	102	344,887	18,345
Risk category D	196	194	-	-	-	-	171,121	184,800	75,787	75,787	-	-	16,014	8,181	263,118	268,962
Net carrying value before provision for impairment	604,555	634,712	2,567	8,605	-	20,000	4,138,050	3,195,826	459,476	148,749	-	-	281,224	29,650	5,485,874	4,037,544
(Impairment provision)	(1,188)	(708)	(27)	(86)	-	(200)	(331,451)	(254,317)	(77,826)	(79,334)	-	-	(140,002)	(9,298)	(550,494)	(343,943)
Net carrying value after provision for impairment on 31 December	603,367	634,004	2,540	8,519	-	19,800	3,806,599	2,941,509	381,650	69,415	2	2	141,222	20,532	4,935,380	3,693,601
Not past due nor impaired	523,905	582,133	-	-	104,690	-	-	-	-		-	-	27,662	23,472	656,257	605,605
Net carrying value after provision for impairment at 31 December	**1,127,272**	**1,216,137**	**2,540**	**8,519**	**104,690**	**19,800**	**3,806,599**	**2,941,509**	**381,650**	**69,415**	**2**	**2**	**168,884**	**43,824**	**5,591,637**	**4,299,206**

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

	Loans and advances from customers		Loans and advances from customers		Loans and advances from customers	
	2008	2007	2008	2007	2008	2007
First-class security instruments						
- cash deposits (in a depot and/or limited to bank account)	424,402	145,958	44,926	57,649	469,328	203,607
Property and equipment under pledge	6,904,051	6,218,352	399,145	625,975	7,303,196	6,844,327
Debt and own securities	234,528	-	-	-	234,528	-
Other types of security	3,207,202	2,383,056	312,265	430,932	3,519,467	2,813,988
Total credit risk exposure	**10,770,183**	**8,747,366**	**756,336**	**1,114,556**	**11,526,519**	**9,861,922**

Geographic sectors

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

	Cash and cash equivalents		Securities held-for-trading		Loans and advances from banks		Loans and advances from customers		Securities available-for-sale		Securities held-to -maturity		Other receivables			Total
	2008	2007	2008	2007	2008	2007	2008			2007	2008	2007	2008	2007	2008	2007
Republic of Macedonia	616,697	651,761	2,540	8,519	104,690	19,800	3,806,599	2,941,509	381,650	69,415	2	2	168,884	43,824	5,081,062	3,734,830
EU members	285,966	542,968	-	-	-	-	-	-	-	-	-	-	-	-	285,966	542,968
Other European countries	5,347	-	-	-	-	-	-	-	-	-	-	-	-	-	5,347	-
Countries - members of OECD (without European countries- members of OECD)	219,262	21,408	-	-	-	-	-	-	-	-	-	-	-	-	219,262	21,408
Total at 31 December	**1,127,272**	**1,216,137**	**2,540**	**8,519**	**104,690**	**19,800**	**3,806,599**	**2,941,509**	**381,650**	**69,415**	**2**	**2**	**168,884**	**43,824**	**5,591,637**	**4,299,206**

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sectors (in thousand Denars):

	Cash and cash equivalents		Securities held-for-trading		Loans and advances from banks		Loans and advances from customer		Securities available-for-sale		Securities held-to -maturity		Other receivables			Total
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Agriculture, hunting and forestry	-	-	-	-	-	-	132,770	172,105	-	-	-	-	235	-	133,005	172,105
Manufacturing industry	-	-	250	5,621	-	-	949,005	742,110	21,391	22,937	-	-	119,729	-	1,090,375	770,668
Building industry	-	-	-	-	-	-	137,436	81,890	-	-	-	-	6,061	-	143,497	81,890
Trade	-	-	-	-	-	-	766,915	535,813	-	117	-	-	4,138	-	771,053	535,930
Hotel and restaurants	-	-	1,247	2,898	-	-	48,674	-	1,247	-	-	-	-	-	51,168	2,898
Transport, storage and communications	-	-	-	-	-	-	312,812	199,174	-	-	-	-	277	-	313,089	199,174
Financial mediation	1,127,272	1,216,137	-	-	104,690	19,800	5,733	6,864	357,851	46,361	2	2	3,415	-	1,598,963	1,289,164
Population	-	-	-	-	-	-	1,269,014	872,036	-	-	-	-	7,284	-	1,276,298	872,036
Other	-	-	1,043	-	-	-	184,240	331,517	1,161	-	-	-	27,745	43,824	214,189	375,341
Total at 31 December	**1,127,272**	**1,216,137**	**2,540**	**8,519**	**104,690**	**19,800**	**3,806,599**	**2,941,509**	**381,650**	**69,415**	**2**	**2**	**168,884**	**43,824**	**5,591,637**	**4,299,206**

3.2. Liquidity risk

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

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

As at 31 December 2008	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	977,430	149,842	-	-	-	1,127,272
Securities held-for-trading	2,540	-	-	-	-	2,540
Loans and advances from banks	104,690	-	-	-	-	104,690
Loans and advances from customer	380,753	282,336	1,888,253	1,255,257	-	3,806,599
Securities available-for-sale	309,207	-	-	72,443	-	381,650
Securities held-to -maturity	-	-	-	2	-	2
Other receivables	36,980	28,867	17,576	85,461	-	168,884
Total assets	**1,811,600**	**461,045**	**1,905,829**	**1,413,163**	**-**	**5,591,637**
Liabilities						
Due to banks	97,400	42,988	-	-	-	140,388
Due to customers	2,601,002	582,802	1,025,561	126,196	-	4,335,561
Loans	51,702	12,282	82,570	486,785	-	633,339
Other liabilities	62,689	-	-	-	-	62,689
Total liabilities	**2,812,793**	**638,072**	**1,108,131**	**612,981**	**-**	**5,171,977**
Net liquidity gap	**(1,001,193)**	**(177,027)**	**797,698**	**800,182**	**-**	**419,660**
31 December 2007						
Total assets	1,469,128	247,631	1,071,944	1,510,503	-	4,299,206
Total liabilities	2,255,194	617,541	476,656	394,474	-	3,743,865
Net liquidity gap	**(786,066)**	**(369,910)**	**595,288**	**1,116,029**	**-**	**555,341**

3.3. Market risks

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

Interest rate risk

The Bank takes on exposure to effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below analyses interest bearing assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date and non-interest-bearing assets and liabilities as of 31 December 2008 and 31 December 2007 (in Denar thousands).

31 December 2008		Instruments with fixed interest, including those with a variable interest rate, dependant on decision						
	Effective interest rate (in %)	Less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest-bearing	Total
Assets								
Cash and cash equivalents	2.05%	569,630	-	-	-	-	557,642	1,127,272
Securities held-for-trading	-	-	-	-	-	-	2,540	2,540
Loans and advances from banks	1.00%	104,690	-	-	-	-	-	104,690
Loans and advances from customer	10.39%	322,238	280,170	1,137,795	1,894,793	-	171,603	3,806,599
Securities available-for-sale	7.00%	309,207	-	-	-	-	72,443	381,650
Securities held-to -maturity	0.00%	-	-	-	2	-	-	2
Other receivables	0.00%	-	-	-	-	-	168,884	168,884
		1,305,765	**280,170**	**1,137,795**	**1,894,795**	**-**	**973,112**	**5,591,637**
Liabilities								
Due to banks	2.25%	97,122	42,988	-	-	-	278	140,388
Due to customers	2.98%	2,590,558	582,802	1,025,561	126,196	-	10,444	4,335,561
Loans	5.90%	47,688	12,282	82,570	486,785	-	4,014	633,339
Other liabilities	0.00%	-	-	-	-	-	62,689	62,689
		2,735,368	**638,072**	**1,108,131**	**612,981**	**-**	**77,425**	**5,171,977**
Net interest risk		**(1,429,603)**	**(357,902)**	**29,664**	**1,281,814**	**-**	**895,687**	**419,660**
31 December 2007								
Total assets	1.8 – 14.9	1,336,984	247,631	1,071,944	1,282,544	-	360,103	**4,299,206**
Total liabilities	0.1 – 10.0	2,001,238	617,541	476,656	394,474	-	253,956	**3,743,865**
Net interest risk		(664,254)	(369,910)	595,288	888,070	-	106,147	**555,341**

Market risks (continued)

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

	MKD	EUR	USD	Other currencies	Total
31 December 2008					
Assets					
Cash and cash equivalents	300,031	567,081	193,506	66,654	1,127,272
Securities held-for-trading	2,540	-	-	-	2,540
Loans and advances from banks	104,690	-	-	-	104,690
Loans and advances from customer	2,310,871	1,495,643	85	-	3,806,599
Securities available-for-sale	381,650	-	-	-	381,650
Securities held-to –maturity	2	-	-	-	2
Other receivables	166,759	1,199	916	10	168,884
Total Assets	**3,266,543**	**2,063,923**	**194,507**	**66,664**	**5,591,637**
Liabilities					
Due to banks	10,018	43,248	87,122	-	140,388
Due to customers	2,660,422	1,504,728	109,264	61,147	4,335,561
Loans	39,711	593,628	-	-	633,339
Other liabilities	61,439	388	816	46	62,689
Total Liabilities	**2,771,590**	**2,141,992**	**197,202**	**61,193**	**5,171,977**
Net foreign currency position	**494,953**	**(78,069)**	**(2,695)**	**5,471**	**419,660**
31 December 2007					
Total Assets	2,636,734	1,528,661	84,704	49,107	**4,299,206**
Total Liabilities	2,190,262	1,424,525	87,386	41,692	**3,743,865**
Net foreign currency position	**446,472**	**104,136**	**(2,682)**	**7,415**	**555,341**

3.4. Fair value estimation

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 of those financial assets and liabilities not presented on balance sheet at their fair value.

	31 December 2008		31 December 2007	
	Net Carrying Amount	Fair Value	Net Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	1,127,272	1,127,272	1,216,137	1,216,137
Loans and advances from banks	104,690	104,690	19,800	19,800
Loans and advances from customer	3,806,599	3,806,599	2,941,509	2,941,509
Securities held-to-maturity	2	2	2	2
Other receivables	168,884	168,884	43,824	43,824
Liabilities				
Due to banks	140,388	140,388	43,267	43,267
Due to customers	4,335,561	4,335,561	3,216,291	3,216,291
Loans	633,339	633,339	391,424	391,424
Other liabilities	62,689	62,689	92,883	92,883

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

Financial assets held-to-maturity
Held-to-maturity securities are measured at fair value. Fair value 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 loans
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The fair value of the term deposits at variable interest rates approximates their carrying values as of the balance sheet date.

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

3.5. Capital management

The Bank's objectives regarding capital management are:

- To comply with the capital requirements by the regulations of the National Bank of the Republic of Macedonia;
- To safeguard the Bank's ability to provide dividends 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) and it is submitted on a quarterly basis.

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

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

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

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

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

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

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2008 and 2007 regarding the regulatory requirements of the National Bank of the Republic of Macedonia. During these two years, the Bank complied with all of the regulatory imposed capital requirements.

Tier 1 capital	2008
Ordinary and non-cumulative preferred shares and share premium	907,888
Reserves and retained earnings or loss	203,663
Items result of consolidation	-
Deductions	129,804
Total Tier 1 capital	**981,747**
Tier 2 capital	
Cumulative preferred shares and shares premium	-
Hybrid capital instruments	-
Subordinated instruments	-
Total Tier 2 capital	**-**
Deductions	14,781
Total regulatory capital	**966,966**
Credit risk-weighted assets	
On-balance sheet	4,751,440
Off-balance sheet	353,555
Total credit risk-weighted assets	**5,104,995**
Forex risk-weighted assets	**70,568**
Capital adequacy ratio	**19%**

Tier 1 capital	2007
Ordinary and non-cumulative preferred shares and share premium	907,888
Reserves and retained earnings or loss	201,842
Items result of consolidation	-
Deduction intangible assets	1,813
Total Tier 1 capital	**1,107,917**
Tier 2 capital	
Cumulative preferred shares and shares premium	-
Hybrid capital instruments	-
Subordinated instruments	-
Total Tier 2 capital	**-**
Deductions	13,276
Total regulatory capital	**1,094,641**
Credit risk-weighted assets	
On-balance sheet	3,683,888
Off-balance sheet	184,104
Total credit risk-weighted assets	**3,867,992**
Forex risk-weighted assets	**93,891**
Capital adequacy ratio	**28%**

3.6. Compliance with legal regulations and covenants in long-term loan contracts

According to the regulations determined by the Law on Banks (article 71), the exposure to a shareholder with qualified holding in the Bank and entities connected thereto, shall not exceed 10% of the Bank's regulatory capital.
As of 31 December 2008, the Bank's exposure to Teteks AD, Tetovo and its related parties amounts to 15.32% from the regulatory capital of the Bank (2007: 26.42%).

In addition to this, as of 31 December 2008 and 2007, the Bank is not in compliance with certain covenants from the long-term loan contract with the European Bank for Reconstruction and Development (EBRD), which were waived by EBRD. This non-compliance will not influence the maturity and the subsequent withdrawal of funds of this loan.

After the balance sheet date, the buyer Teteks AD Tetovo with letter no. 02-693 dated February 26, 2009 notified the Bank that the Board of Directors of Teteks AD Tetovo passed a Decision at the same date to breach the Sale and Purchase Agreement referring to property no. 01-713 concluded on 17 November 2006 no later than 15 May 2009.

After the breach of the subject Agreement receivables will be terminated and the Bank will position its exposure towards the shareholder with qualified holding within the frames of the legal prescribed limits.

4 Critical accounting estimates and judgments

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 based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Impairment of loans to customers

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in the portfolio for loans and advances. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.2. Impairment on available-for-sale securities

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

5 Interest income and expense

	2008	2007
Interest income		
Non-financial institutions	232,781	178,311
State	126	1,031
Banks and financial institutions	32,514	21,411
Citizens	144,967	121,346
Other	10	-
	410,398	**322,099**
Interest expense		
Non-financial institutions	32,572	12,618
State	1,508	26
Banks and financial institutions	43,241	20,131
Citizens	84,039	68,556
Non-residents	68	415
Other	2,955	1,973
	164,383	**103,719**
Net interest income	**246,015**	**218,380**

6 Profit and loss from charges and allowances

	2008	2007
Profit from charges and allowances		
Payment operations in the country	35,164	30,455
Foreign currency operations	25,381	30,726
Letters of credit and guarantees	16,725	5,705
Brokerage	3,783	26,084
Other	10,920	6,931
	91,973	**99,901**
Loss from charges and allowances		
Provision for NBRM	4,024	2,683
Payment operations in the country	963	3,683
Brokerage	668	1,941
Commission from operations for Clearing House	7,664	6,166
Other	8,882	6,958
	22,201	**21,431**
Net profit from charges and allowances	**69,772**	**78,470**

7 Foreign exchange gains, net

	2008	2007
Foreign exchange gains	696,615	303,399
Foreign exchange (losses)	(680,972)	(294,255)
	15,643	**9,144**

8 Other operating income

	2008	2007
Dividends received (Note 19)	20,160	2,503
Income from sales of commitments based on not collected receivables, net (Note 21)	5,729	22,336
Collection of previously written-off receivables	2,878	10,859
Capitalized dividends (Note 19)	1,520	6,321
Rent	118	168
Profit/ (loss) from sales of property, plant and equipment, net (Note 23)	43	(309)
Other	5,520	8,663
	35,968	**50,541**

9 Loss of securities held for trading, net

	2008	2007
Expense/(income) for the year		
Unrealized loss from changes of fair value of own securities	6,039	1,100
Dividends received form securities held for trading	(71)	-
	5,968	**1,100**

10 Impairment losses, net

	2008	2007
Expense/(income) for the year		
Cash and cash equivalents (Note 15)	480	708
Securities held for trading (Note 16)	(59)	86
Loans and advances from banks (Note 17)	(200)	200
Loans and advances from customers (Note 18)	74,958	75,931
Securities held for trading (Note 19)	(1,508)	(33,989)
Other receivables (Note 24)	130,704	4,105
Commitments and contingencies (Note 32)	2,781	1,745
	207,156	**48,786**

11 Staff costs

	2008	2007
Net salaries and salary contributions	61,301	58,010
Mandatory contributions for social and health insurance	37,472	37,400
Other contributions	12,106	15,221
	110,879	**110,631**

12 Depreciation

	2008	2007
Depreciation of intangible assets		
Internally developed software	2,925	2,957
Other intangible assets	774	305
Depreciation of property, plant and equipment		
Buildings	7,908	7,761
Transport	677	652
Furniture and office equipment	5,918	4,974
Other equipment	7,873	3,894
	26,075	**20,543**

13 Other operating expenses

	2008	2007
Supplies and services	66,838	54,246
Rent	30,295	25,708
Marketing expenses	16,484	5,168
Administrative expenses	1,457	1,875
Insurance premiums	14,749	13,015
Impairment from assets taken on the basis of uncollected receivables (Note 21)	4,975	1,460
Travel expenses	3,789	3,005
Litigations expenses	2,586	749
Other taxes and contributions	1,030	3,557
Property tax paid	499	21,918
Write-off of investments in available-for-sale securities	-	28,919
Expenses arising from off-court resolutions	-	7,715
Other expenses	4,422	5,189
	147,124	**172,524**

14 Income tax

The adjustment of the law on income tax with the Bank's income tax applicable to the effective income, as carried in the associated income statement is as follows:

	2008	2007
Profit / (Loss) before tax	(129,804)	2,951
Income tax in compliance with the applicable tax rate 10% (2007: 12%)	(12,980)	354
Adjusted for:		
Expenses not recognized for tax purposes	2,430	2,179
Tax free income	(2,355)	(1,403)
	-	**1,130**
Average effective tax rate	-	*16.02%*

15 Cash and cash equivalents

	2008	2007
Cash in hand	148,085	85,106
Account and balances with NBRM, except for statutory foreign currency deposits	224,931	325,318
Current accounts and deposits with foreign banks	250,937	172,998
Current accounts and deposits with domestic banks	6,832	37,712
Treasury bills traded on the secondary market	-	59,877
Term deposits with a maturity period less than or equal to three months	345,568	419,924
Other short-term highly liquid assets	1,243	546
Less: impairment for provision	(1,188)	(708)
Included in cash and cash equivalents for the purpose of the Statement of cash flows	**976,408**	**1,100,773**
Statutory foreign currency deposits	149,842	111,520
Restricted deposits	1,022	3,844
Total	**1,127,272**	**1,216,137**

The movement of the provision for impairment of cash and cash equivalents is as follows:

	2008	2007
Balance at 01 January	708	-
Additional provision / (release) of provision for the year, net (Note10)	480	708
Balance at 31 December	**1,188**	**708**

As of 31 December 2008, cash and cash equivalents include Denar 268,166 thousand (2007: Denar 192,476 thousand) which represent the obligatory reserve in Denar.

The Bank is required to keep an obligatory reserve in Denar at its account with the National Bank of the Republic of Macedonia, calculated at the rate of 10% (2007: 10%) of the amount of the Bank's Denar payables to residents and non-residents, legal entities and individuals from the average of daily balances from these accounts for each calendar day during the previous month.

The Bank is also required to keep an obligatory reserve in foreign currency in separate accounts with the National Bank of the Republic of Macedonia calculated at the rate of 10% (2007: 10%) from the average of the daily balances of the accounts for forex payables to residents and non-residents, legal entities and individuals for each calendar day during the previous month. During 2008 and 2007, the Bank completed its obligation for maintaining the level of obligatory foreign currency reserve. These assets are not available for daily business transactions of the Bank.

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

The treasury shares that can be traded on the secondary market are issued by the NBRM and are 28 days from 4.83% to 4.98% per annum.

16 Securities held for trading

	2008	2007
Equity instruments		
Issued by banks	-	-
Other	2,567	8,605
	2,567	**8,605**
Quoted	2,567	8,605
Not-quoted	-	-
	2,567	**8,605**
Less: impairment for provision	(27)	(86)
	2,540	**8,519**

The movement of the impairment provision of securities held-for-trading is as follows:

	2008	2007
Movement of impairment provision		
Balance at 01 January	86	-
Additional provision / (release) of provision for the year, net (Note10)	(59)	86
Balance at 31 December	**27**	**86**

The movement of securities held-for-trading is as follows:

	2008	2007
Balance at 01 January	8,605	-
Additions	-	9,705
Fair value adjustment, net (Note 9)	(6,038)	(1,100)
Balance at 31 December	**2,567**	**8,605**

During 2008, the Bank's realized dividend income is in the amount of Denar 71 thousand (2007: -) (Note 9).

17 Loans and advances to banks

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Obligatory deposit to NBRM	104,690	-	-	-
Loans to banks	-	-	20,000	-
	104,690	**-**	***20,000***	**-**
Less: impairment provision	-	-	(200)	-
	104,690	-	**19,800**	-

In accordance with the Decision for mandatory deposit made by the NBRM on 12 June 2008, the Bank is obligated to place an mandatory deposit at a NBRM account, if by the end of the month, in relation to 31 May 2008 it reaches higher level of population loans from the determined increase rate stated in the Decision: July 2008-5.6%, August 2008-8.0%, September 2008-10.3%, October 2008-12.5%, November 2008-15.1% and December 2008-18.1%. The interest rate of this deposit is 1% per annum. As of 31 December 2008, the obligatory deposit amounts to Denar 104,690 thousand and it is included in NBRM accounts and deposits.

The movement of the impairment provision for loans and advances from banks is as follows:

	2008	2007
Movement of impairment provision		
Balance at 01 January	200	-
Additional provision / (release) of provision for the year, net (Note10)	(200)	200
Balance at 31 December	**-**	**200**

18 Loans and advances to customers

Structure of loans and advances from customers by type of debtor

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Principal	1,088,447	1,623,796	1,116,930	1,017,584
Interest	42,465	-	36,369	-
	1,130,912	1,623,796	1,153,299	1,017,584
State				
Interest	789	-	-	-
	789	-	**-**	**-**
Not-for-profit institutions serving the citizens				
Principal	250	-	-	-
Interest	3	-	-	-
	253	-	**-**	**-**
Citizens				
Principal				
- housing loans	-	90,782	-	-
- consumer loans	5,420	740,666	2,375	624,257
- car loans	-	200,141	-	115,132
- mortgage loans	-	118,168	-	83,540
- credit cards	2,846	98,982	16,400	-
- other loans	73,561	6,518	55,057	94,483
Interest	45,216	-	33,699	-
	127,043	1,255,257	107,531	917,412
Current maturity	615,919	(615,919)	398,137	(398,137)
	1,874,916	**2,263,134**	**1,658,967**	**1,536,859**
Less: impairment provision	(73,908)	(257,543)	(212,800)	(41,517)
Loans and advances to customers, net	**1,801,008**	**2,005,591**	**1,446,167**	**1,495,342**

The movement of the impairment provision for loans and advances to customers is as follows:

	2008	2007
Movement of impairment provision		
Balance at 01 January	254,317	233,992
Additional provision / (release) of provision for the year, net (Note10)	74,958	75,931
Additionally calculated interest for bad and doubtful debts	6,396	12,869
(Write-off of provision)	(4,220)	(68,475)
Balance at 31 December	**331,451**	**254,317**

Structure of loans and advances to customers by type of collateral

	2008	2007
First class collateral:		
- Cash deposits (in a depot and/or limited to bank accounts)	159,753	95,434
- Government securities	-	
- Government unconditional guarantees	-	
- Bank guarantees	-	
Guarantees from insurance companies and insurance policies	-	
Corporate guarantees (except from banks and insurance companies)	-	
Guarantees from individuals	-	767,608
Mortgage	-	
- Property for personal use	1,250,202	260,846
- Property for business activities	399,741	1.591,752
Pledges	583,809	104,871
Other types of collateral	1,413,094	120,998
Unsecured	-	-
Total loans and advances to customers less provision for impairment	**3,806,599**	**2,941,509**

19 Available-for-sale securities

	2008	2007
Debt securities		
Treasury bills	309,207	-
	309,207	-
Not-quoted	309,207	
Own securities		
Own securities issued by banks	24,828	24,828
Other own securities	125,441	123,921
	150,269	**148,749**
Quoted	33,624	33,624
Not-quoted	116,645	115,125
Total available-for-sale securities	***459,476***	***148,749***
Less: impairment provision	(77,826)	(79,334)
Total available-for-sale securities less impairment for provision	**381,650**	**69,415**

Treasury bills issued by NBRM are with maturity date from 28 to 29 days and interest rate of 6,96% per annum.

The movement of the impairment for provision of available-for-sale securities is as follows:

	2008	2007
Movements in provision for impairment		
Balance at 01 January	79,334	113,323
Additional provision / (release) of provision for the year, net (Note10)	(1,508)	(33,989)
Balance at 31 December	**77,826**	**79,334**

Available-for-sale securities (continued)

During 2008, the Bank realized dividends income from available-for-sale securities in the amount of Denar 20,160 thousand (2007: Denar 2,503 thousand). (Note 8)

In addition to this, during 2008 the Bank realized additional investments in the amount of Denar 1,520 thousand (2007: Denar 6,321 thousand) by capitalization of dividend receivables with a local financial institution. (Note 8)

20 Securities held-to-maturity

	2008	2007
Long-term debt securities		
- Bonds issued by the state	2	2
	2	**2**

Long-term bonds issued by the state are prepaid during 2007 by the Ministry of Finance in accordance with article 20 from the Law on public debt.

21 Foreclosed assets

	Buildings	Equipment	Residential facilities and apartments	Other valuables	**Total**
Cost					
At 01 January 2007	198,852	8,517	5,206	60,970	273,545
Foreclosed during the year	7,414	13,571	4,753	1,962	27,700
(Sold during the year)	(46,470)	(5,771)	(2,994)	(3,141)	(58,376)
At 31 December 2007/01 January 2008	**159,796**	**16,317**	**6,965**	**59,791**	**242,869**
Foreclosed during the year	10,285	752	4,695	842	16,574
(Sold during the year)	(19,177)	-	(1,214)	(88)	(20,479)
At 31 December 2008	**150,904**	**17,069**	**10,446**	**60,545**	**238,964**
Impairment					
Balance at 01 January 2007	-	-	-	-	-
Impairment loss during the year	1,194	266	-	-	1,460
At 31 December 2007/01 January 2008	**1,194**	**266**	-	-	**1,460**
Impairment loss during the year		1,893	-	3,082	4,975
(Sold during the year)	(1,194)	-	-	-	(1,194)
At 31 December 2008	**-**	**2,159**	**-**	**3,082**	**5,241**
Net carrying amount					
At 01 January 2008	158,602	16,051	6,965	59,791	241,409
At 31 December 2008	**150,904**	**14,910**	**10,446**	**57,463**	**233,723**

During 2008, the Bank realized profit from sales of foreclosed assets in the amount of Denar 6,009 thousand (2007: Denar 25,707 thousand) as well as loss in the amount of Denar 280 thousand (2007: Denar 3,371 thousand) (Note 8).

As of 31 December 2008 foreclosed assets include property with net carrying value of Denar 58,302 thousand, for which the Bank does not possess an ownership deed. For this property the Bank has other appropriate ownership documents (possession papers, agreement for purchase and sales, construction decision) which are in compliance with the Ownership Law.

22 Intangible assets

Cost	
At 01 January 2007	21,063
Acquisitions during the year	2,052
Transfer from property, plant and equipment in preparation	637
At 31 December 2007/ 01 January 2008	**23,752**
Acquisitions during the year	4,252
(disposals)	(2,787)
Transfer from property, plant and equipment in preparation	1,331
At 31 December 2008	**26,548**
Accumulated depreciation	
At 01 January 2007	12,119
Depreciation for the year	3,262
At 31 December 2007	**15,381**
Depreciation for the year	3,699
(disposals)	(2,787)
At 31 December 2008	**16,293**
Net carrying value	
At 01 January 2008	8,371
At 31 December 2008	**10,255**

23 Property, plant and equipment

	Buildings	Transport	Furniture and office equipment	Other equipment	Property, plant and equip. in preparation	Total
Cost						
At 01 January 2007	306,472	9,089	53,055	44,706	2,395	415,717
Acquisitions during the year	-	2,160	2,870	5,754	17,836	28,620
(disposals)	-	(931)	(988)	(8,033)	-	(9,952)
Transfer from prop., plant and equip. in prep.	-	-	309	14,793	(15,102)	-
Transfer to intangible assets	-	-	-	-	(637)	(637)
At 31 December 2007/ 01 January 2008	**306,472**	**10,318**	**55,246**	**57,220**	**4,492**	**433,748**
Acquisitions during the year	552	-	3,315	19,054	12,464	35,385
(disposals)	-	(374)	(1,748)	(1,128)	-	(3,251)
Transfer from prop., plant and equip. in prep.	6,293	-	449	6,562	(13,304)	-
Transfer to intangible assets	-	-	-	-	(1,331)	(1,331)
At 31 December 2008	**313,317**	**9,944**	**57,262**	**81,707**	**2,321**	**464,551**
Accumulated depreciation and impairment						
Balance at 01 January 2007	35,998	7,867	40,539	34,448	-	118,852
Depreciation for the year	7,761	652	4,974	3,894	-	17,281
(disposals)	-	(488)	(977)	(7,350)	-	(8,815)
At 31 December 2007/ 01 January 2008	**43,759**	**8,031**	**44,536**	**30,992**	**-**	**127,318**
Depreciation for the year	7,908	677	5,918	7,873	-	22,376
(disposals)	-	(374)	(1,748)	(1,130)	-	(3,252)
Balance at 31 December 2008	**51,667**	**8,334**	**48,706**	**37,735**	**-**	**146,442**
Net carrying value						
At 01 January 2008	262,713	2,287	10,710	26,228	4,492	306,430
At 31 December 2008	**261,650**	**1,610**	**8,556**	**43,972**	**2,321**	**318,109**

For the year 2008, the Bank sold completely amortized vehicles and equipment with a cost value of Denars 496 thousand as of 31 December 2008. The sales income is in the amount of Denars 43 thousand (2007: loss in the amount of Denars 309 thousand) (Note 8).

For the year 2008, the Bank disposes of amortized equipment with a cost value of Denars 2,754 thousand as of 31 December 2008.

The buildings of the Bank as of 31 December 2008 include property with a net book value of Denars 183,745 thousand (2007: Denars 250,877 thousand) and the Bank has no ownership deed because this property of the Bank is in cadastre municipalities that do not have record of ownership deeds. The Bank has other ownership documents for that property (possession deeds, sale and purchase contracts, construction decree) that are in compliance with the Law on ownership.

As of 31 December 2008, the Bank has no encumbrance regarding the property, plant and equipment.

24 Other receivables

	2008	2007
Bad and doubtful receivables from related subjects from sales of taken assets based on non-paid receivables	235,969	-
Receivables for taxes and contributions paid	13,917	11,914
Advances from buyers	13,063	8,827
Materials	7,327	3,858
Receivables for personal tax paid	4,199	4,199
Accrued expenses to Teteks AD Tetovo	3,296	3,296
Receivables from insurance companies	2,289	2,760
Expenses paid in advance	1,746	1,582
Bad and doubtful receivables from judicial and notary expenses	1,049	
Unrealized payments	44	1,212
Receivables from employees	-	7,341
Other	25,987	8,133
	308,886	***53,122***
Less: impairment provision	(140,002)	(9,298)
	168,884	**43,824**

The movement of provision for impairment is as follows:

	2008	2007
Movement of provision for impairment		
Balance at 01 January	9,298	5,193
Additional provision / (release) of provision for the year, net (Note 10)	130,704	4,105
Balance at 31 December	**(140,002)**	**9,298**

25 Due to banks

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Demand deposits	252	-	359	-
Term deposits	140,111	-	42,841	
Interest payable	25	-	67	-
Total deposits due to banks	**140,388**	-	**43,267**	-

26 Due to customers

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Non-financial institutions				
Current accounts	644,907	-	609,239	-
Demand deposits	11,115	-	23,260	-
Term deposits	705,553	-	166,674	18,360
Restricted deposits	19,554	416	-	-
Interest payable	1,802	-	1,016	-
	1,382,931	**416**	**800,189**	**18,360**
State				
Current accounts	16,303	-	9,835	-
Demand deposits	819	-	-	-
Term deposits	114,913	-	500	-
Interest payable	666	-	-	-
	132,701	**-**	**10,335**	**-**
Not-for-profit inst. serving citizens				
Current accounts	45,471	-	45,889	-
Demand deposits	-	-	6,548	-
Term deposits	75,170	7,000	69,526	7,000
Interest payable	203	-	138	-
	120,844	**7,000**	**122,101**	**7,000**
Financial entities, other than banks				
Current accounts	7,943	-	21,201	-
Term deposits	128,689	26,000	121,597	-
Interest payable	928	-	514	-
	137,560	**26,000**	**143,312**	**-**
Citizens				
Current accounts	259,701	-	60,338	-
Demand deposits	360,476	-	638,520	-
Term deposits	1,758,572	127,719	1,289,229	85,654
Interest payable	5,038	-	3,200	-
	2,383,787	**127,719**	**1,991,287**	**85,654**
Non-residents				
Current accounts	15,554	-	37,990	-
Term deposits	65	-	63	-
Restricted deposits	984	-	-	-
	16,603	**-**	**38,053**	**-**
Current maturity	*34,939*	*(34,939)*	*33,791*	*(33,791)*
Total due to customers	**4,209,365**	**126,196**	**3,139,068**	**77,223**

27 Borrowings

Structure of borrowings by type of borrowing, and creditor's sector

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Banks				
Borrowing	30,000	597,013	-	386,125
Interest payables	4,014	-	2,881	-
Not-for-profit inst. serving citizens				
Borrowing	-	2,312	-	2,418
Interest payable	-	-	-	-
Current maturity	*112,540*	*(112,540)*	*74,174*	*(74,174)*
Total borrowings	**146,554**	**486,785**	**77,055**	**314,369**

Borrowings (continued)

Borrowings by creditors

	2008		2007	
	Short-term	Long-term	Short-term	Long-term
Domestic sources:				
National Bank of the R. Macedonia	15	2,000	-	2,000
Eurostandard Bank AD Skopje	30,000	-	-	-
Macedonian Bank for Development Promotion	3,660	364,716	2,881	306,657
Ministry of Finance	-	2,312	-	2,418
Foreign sources:				
European Bank for Rec. and Devel.	318	107,472	-	77,468
European Fund for Southeast Europe	21	122,825	-	-
Current maturity	*112,540*	*(112,540)*	*74,174*	*(74,174)*
Total borrowings	**146,554**	**486,785**	**77,055**	**314,369**

28 Provisions

	Total
At 01 January 2007	584
Additional provision / provision(release) for the year, net (Note. 10, 32)	1,745
Balance at 31 December 2007	**2,329**
Balance at 01 January 2008	2,329
Additional provision / provision(release) for the year, net (Note. 10, 32)	2,781
Balance at 31 December 2008	**5,110**

29 Other liabilities

	2008	2007
Trade payables	31,674	23,250
Advances received	7,614	38,571
Other liabilities on foreclosed assets	7,098	3,748
Liabilities for allocation of profit	3,057	3,437
Liabilities for value adjustment	2,903	2,909
Liabilities for taxes and contributions	84	2,919
Other liabilities in foreign currencies	935	4,410
Differentiated income from previous years	163	3,399
Fees and commission payable	18	18
Short-term liabilities to employees	1	4,963
Other	4,032	2,930
Total other liabilities	**57,579**	**90,554**

30 Shareholders' equity

As of 31 December 2008 and 2007, the total shareholders' equity of the Bank amounts to Denars 907,888 thousand and it consists of 907,888 approved and paid ordinary shares. The face value per share is in the amount of 1,000 Denars.

As of 31 December 2008 and 2007, the following shareholders have ownership that is more than 5% from the total shares issued with a voting right:

	Subscribed equity		Voting right	
	2008	2007	2008	2007
Teteks AD Tetovo and related parties	397,811	397,811	43.82%	43.82%
European Bank for Rec. and Devel.	226,972	226,972	25.00%	25.00%

31 Earnings per share

The basic earning per share is calculated by dividing the net gain for the year that belongs to the ordinary shareholders with the weighted average number of ordinary shares during the year.

	2008	2007
Profit that belongs to the shareholders	-	1,821
Less: dividends for preferred shares	-	-
Net profit that belongs to the ordinary shareholders	-	1,821
Weighted average number of ordinary shares	-	859,384
Basic earning per share (shares in Denars)	**-**	**2**

32 Commitments and contingencies

	2008	2007
Payment guarantees		
- in Denar	206,021	170,964
- in foreign currencies	22,558	17,462
Performance guarantees		
- in Denar	56,772	17,586
- in foreign currencies	8,469	-
Letters of credit		
- in foreign currencies	16,159	25,257
Unused overdrafts on current accounts	24,703	24,703
Liabilities due to credit cards	68,446	11,466
	403,128	**267,438**
Less: provision for impairment (Note 28)	(5,110)	(2,329)
Total contingent liabilities less provision for impairment	**398,018**	**265,109**

Litigations

As of 31 December 2008, the court procedures against the Bank amount to Denars 622,423 thousand. In addition, various legal disputes and requests might arise in the future during the normal operating activities of the Bank. The related risks have been analyzed in terms of probability for their occurrence. Although the result from these issues can not be determined with certainty, the Bank's Management estimates that the potential legal disputes and requests shall not result in materially significant liabilities.

Tax risk

The financial statements and the accounting records of the Bank are subject to tax control by the tax authorities within 5 years after the submission of the tax report for the financial year and can result in additional tax liabilities. According to the Bank's Management estimations, there are no additional conditions that might result in potential for materially significant liabilities based on the above mentioned.

Capital liabilities

There are no capital liabilities on the balance sheet date that have already not been included in the financial statements.

33 Fiduciary activities

The Bank manages the assets on behalf and for the gain of third parties interested in buying government bills and bonds or loan approvals to customers. The above mentioned are not property of the Bank and are not recognized in the balance sheet. The Bank is not exposed to credit risk from these placements.

As of 31 December 2008 the total amount of assets in the name and related to third parties is Denars 40,828 thousand (2007: Denars 43,857 thousand).

34 Pension plans

The Bank has not defined any employment retirement benefits or supplementing options based on shares as of 31 December 2008 and 2007. The Management estimates that the current value of the future liabilities towards the employees regarding the employment retirement benefits and jubilee awards is not materially significant for the financial statements as of 31 December 2008 and 2007.

35 Transactions with related parties

In accordance with the Law on Banks the related subjects to the Bank are the following: persons with special rights and responsibilities in the Bank and persons related to them, shareholders with a qualified participation in the Bank (direct or indirect ownership of at least 5% of the total number of shares or from shares with voting right in the Bank or provide significant influence on the Bank’s management) and parties related to them, Bank subsidiaries and other persons that are in close relations with the Bank.

The Bank gives loans, does payment operations and makes bank deposits to organizations and financial institutions that the Bank is related with. The Bank’s Management considers these transactions to be made in normal market circumstances and in the normal flow of business activities.

Transactions with related parties (continued)

The cash balance and the number of transactions with related subjects and with the Key Managerial personnel of the Bank as of and for the years ending 31 December 2008 and 2007 are as follows:

	Related subjects		Key managerial personnel and related parties	
	2008	2007	2008	2007
Receivables	285,444	303,291	5,725	4,694
Liabilities	172,987	171,693	53,869	10,239
Commitments and contingencies	29,359	57,780	2,407	2,563
Profit from loans and charges	5,477	7,627	985	641
Loss form loans and charges	4,665	77	269	144
Short-term gains for the managerial personnel	-	-	1,372	1,468