



ALPHA BANK AD SKOPJE

ANNUAL REPORT 2008

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Administrative Structure

General Meeting of Shareholders

Chairman

Aristotelis Nikolakopoulos
Alpha Bank AD Skopje
Credit Department Manager

Supervisory Board

President

Spyros Filaretos
Alpha Bank A.E., Athens
General Manager

Members

George Kontos
Alpha Bank A.E., Athens
Group Financial Reporting Officer

Lazaros Papagaryfallou
Alpha Bank A.E., Athens
International Network Division Manager

Constantinos Derdemezis
AD Titan, Skopje
Chief Executive Director

Dusan Tudzarov
AD Replek, Skopje
General Manager

Board of Directors

Ioannis Papadopoulos
First General Manager
Alpha Bank AD Skopje

Milena Percinkova
Second General Manager
Alpha Bank AD Skopje

Risk Management Committee

Ioannis Papadopoulos, Member
Aristotelis Nikolakopoulos, Member
Lidija Markovska, Member

Auditing Committee

Spyros Filaretos
George N. Kontos
Lazaros A. Papagaryfallou
Irena Papazova, Independent Member
Branka Stefanovska, Independent Member

Managers and Heads of Organisational Units

Retail Banking Business Unit
Elias Kapralos

Wholesale Banking Business Unit
Lila Ivanovska, Deputy Manager

Operations and IT Business Unit
Constantinos Papachristoforou

Legal Services Division
Dusko Krstevski

Public Relations Department
Lidija Daceva

Treasury Department
Danica Dzuteska

Risk Management Department
Lidija Markovska

Internal Audit Department
Sonja Todorcevska

Compliance and Information Security Department
Goran Krstevski

Financial Control and Accounting Department
Zeljko Rakik

Credit Department
Aristotelis Nikolakopoulos

Human Resources Section
Sonja Janevska

Non-Performing Loans Section
Vesna Stojcevska

Financial Statements

Auditors' Report

TRANSLATION

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Republic of Macedonia

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Auditors' Report to the Shareholders of Alpha Bank AD Skopje

We have conducted audit of the accompanying financial statements of Alpha Bank AD Skopje ("the Bank") which comprise the Balance Sheet as at 31 December 2008 and the Income Statement, the Statements of Changes in Equity and Cash Flow for the year ended on the date mentioned above, as well as a summary of the significant accounting policies and other notes.

Management's Responsibility for the Financial Statements

The Bank's Management is responsible for preparing and fair presentation of these financial statements in accordance with the Accounting Standards adopted in the Republic of Macedonia. This responsibility includes: designing, implementing and maintaining the internal control system appropriate for the preparation and fair presentation of the financial statements which are free from material misstatements (whether due to fraud or unintentional errors), selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

The audit involves performing procedures to obtain audit evidence about the amounts and explanations in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatements in the financial statements as a result of fraud or unintentional errors. In making those risk assessment, we considered the internal controls established in the Bank for the purpose of preparation and fair presentation of the financial statements in order to design audit procedures in accordance with the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the internal controls established in the Bank. The audit also includes a review of the accounting principles used, significant estimates made by the management and an evaluation of the adequacy of the data presentation in the financial statements.

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

KPMG

*Auditor's report
Alpha Bank AD Skopje*

Opinion

In our opinion the financial statements present a true and objective view of the financial position of the Bank as at 31 December 2008 and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards adopted in the Republic of Macedonia.

Skopje, 30 March 2009

AUTHORISED AUDITOR OF THE RM
Gordana Nikusevska

KPMG Macedonia Ltd.
MANAGER
Gjorgji Cucuk

Balance Sheet

As at 31 December
In thousands of denars

	Note	2008	2007
Assets			
Cash and cash equivalents	12	1,767,799	1,026,790
Placements in other banks	13	478,065	13,373
Loans and advances to other clients	14	8,479,342	4,831,880
Investments	15	268,322	870,482
Assets classified as held for sale	16	31,663	31,663
Claims upon income taxes		13,805	9,437
Property and equipment	17	316,634	175,934
Intangible assets	18	102,233	69,994
Claims upon deferred tax	19	1,508	1,885
Other assets	20	58,244	23,095
Total assets		11,517,615	7,054,533
Liabilities			
Deposits from banks	21	4,613,241	1,148,928
Deposits from customers	22	4,931,801	4,208,023
Credit commitments	23	480,807	-
Special reserve for off balance sheet items	24	11,264	9,347
Other liabilities	25	26,850	24,509
Total liabilities		10,063,963	5,390,807
Equity			
	26		
Share capital		560,160	560,160
Share premium		337,169	337,169
Retained earnings		(127,542)	82,532
Other reserves		683,865	683,865
Total equity		1,453,652	1,663,726
Total liabilities and equity		11,517,615	7,054,533

The notes on pages 12 - 42 are an integral part of these financial statements.

These financial statements set out on pages 7 to 42 were approved by the Supervisory Board on 30 March 2009 and were signed on its behalf by:

Ms. Milena Percinkova
Second General Manager

Mr. Ioannis Papadopoulos
First General Manager

Income Statement

For the year ended 31 December

In thousands of denars

	Note	2008	2007
Interest income	6	692,204	393,305
Interest expense	6	(355,931)	(106,543)
Net interest income		336,273	286,762
Fees and commissions income	7	91,815	97,303
Fees and commissions expense	7	(14,513)	(9,658)
Net fees and commissions income		77,302	87,645
Net foreign exchange gain		42,892	30,224
Other operating income	8	3,816	2,467
		46,708	32,691
Operating income		460,283	407,098
Net impairment losses on financial assets	13, 15	(240,988)	(95,343)
Personnel expenses	9	(181,458)	(98,623)
Operating lease expenses		(32,778)	(10,682)
Depreciation and amortisation	17, 18	(55,845)	(21,831)
Other expenses	10	(158,911)	(89,879)
(Loss) / Profit before income taxes		(209,697)	90,740
Income tax / (expense)	11	(377)	(12,329)
Annual Profit		(210,074)	78,411

The notes on pages 12 - 42 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 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)	-
Distribution of retained profit	-	-	(43,674)	-	43,674	-
Distribution of statutory reserve	-	-	-	41,886	(41,886)	-
Balance at 31 December 2007	560,160	337,169	-	683,865	82,532	1,663,726
Balance at 1 January 2008	560,160	337,169	-	683,865	82,532	1,663,726
Loss for the period	-	-	-	-	(210,074)	(210,074)
Total recognised income and expense	-	-	-	-	(210,074)	(210,074)
Balance at 31 December 2008	560,160	337,169	-	683,865	(127,542)	1,453,652

The notes on pages 12 - 42 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>	<i>2008</i>	<i>2007</i>
Cash flows from operating activities			
(Loss) / Profit for the period		(210,074)	78,411
Adjustments for:			
Depreciation and amortisation	<i>17, 18</i>	55,845	21,831
Reduction of the fair value of assets held for sale		-	105
Net impairment losses on financial assets	<i>13, 15</i>	240,988	95,343
Special reserve for off balance sheet items	<i>24</i>	1,917	7,546
Net interest income		(336,273)	(286,762)
Dividend income		(330)	(110)
Income tax expense		377	12,329
		(247,550)	(71,307)
Change in placements in other banks		(469,421)	545,965
Change in loans and advances to customers		(3,861,033)	(2,069,701)
Change in assets held for sale		-	1,774
Change in other assets		(35,149)	(20,419)
Change in deposits from banks		3,436,373	1,142,808
Change in deposits from customers		707,483	507,837
Change in other liabilities		2,341	4,662
		(466,956)	41,619
Interest received		670,491	378,052
Interest paid		(310,889)	(92,509)
Income tax paid		(4,368)	(31,127)
Net cash operating activities		(111,722)	296,035

The notes on pages 12 - 42 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

In thousands of denars

	Note	2008	2007
Cash flows from investing activities			
Purchase of property and equipment	17	(174,397)	(63,625)
Proceeds from the sale of property and equipment		328	-
Purchase of intangible assets	18	(54,715)	(47,563)
Proceeds from investments		601,515	259,992
Net cash used in investing activities		372,731	148,804
Cash flows from financing activities			
Proceeds from borrowed funds		480,000	-
Net cash from financing activities		480,000	-
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January	12	1,026,790	581,951
Cash and cash equivalents at 31 December		1,767,799	1,026,790

The notes on pages 12 - 42 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:

Dame Gruev 1
1000 Skopje
Republic of Macedonia

The Bank has extensive authorizations and performs all banking activities in accordance with the law. The main activities include approval of loans, receiving deposits, foreign and domestic payment operations and mediation in foreign currency provision to clients.

2. Basis of Financial statements preparation

a) Statement of compliance

The Financial statements have been prepared in accordance with the Company Law and the Accounting Manual (Official Gazette of RM No. 94/2004, 11/2005 and 116/2005).

b) Basis of measurement

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

- Available-for-sale financial assets that are measured at fair value.
- Non-current assets or disposal groups that are classified as held for sale, measured at the lower of carrying amount or fair value less costs to sell.

c) Functional and presentation currency

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

3. Significant accounting policies

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

a) Foreign currency transactions

Transactions in foreign currencies are translated to Macedonian denars at exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Macedonian denars at the average exchange rate at the Balance sheet date. The foreign currency differences gain or loss on monetary items is the difference between amortized cost in Macedonian denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Foreign currency differences arising on retranslation are recognized in profit or loss. The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD). The exchange rates used for translation at 31 December 2008 and 2007 were as follows:

	2008	2007
	MKD	MKD
1 EUR	61.41	61.20
1 USD	43.56	41.66

b) Interest

Interest income and expense are recognized 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 inflows through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the present amount of the financial asset or liability.

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

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost on an effective interest rate basis.
- Interest on available-for-sale investments calculated on an effective interest rate basis.

c) Fees and commissions

Fees and commissions 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 commissions income, including financial services provided by the Bank in respect of exchange operations, foreign and domestic payment operations, guarantees, letters of credit and other services, is recognized 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 recognized as an income at the moment of payment.

Other fees and commissions expense relates mainly to financial services received by the Bank, and is expensed as the services are received.

d) Dividends

Dividend income is recognized when the right to receive income is established.

e) Lease payments made

Payments made under operating leases are recognized in profit or loss by proportional method over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

f) Taxes

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates valid 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, arising from the 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 recognized for the following temporary differences: initial recognition of goodwill, initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities that probably will not be reversed 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 at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each Balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

g) Financial assets and liabilities

(I) Recognition

The Bank initially recognizes loans, receivables and, deposits on the date of their origination. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(II) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when 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 remaining balance in transferred financial assets, if any, that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(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 the transactions on a net basis or to realize the payments 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.

(IV) Amortised cost measurement

The amortized 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 amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(V) Fair value measurement

The fair value of financial assets and financial liabilities is measured by using quoted prices in an active market.

Regarding other financial instruments, fair value is established by using a valuation technique. Valuation techniques include technique of net present value, discounted cash flow method, reference to the other similar instruments with existing market prices and valuation models.

(VI) Impairment loss

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 separates impairment loss in accordance with the NBRM Decision for establishing classification methodology of active balance and off-balance sheet items of the Bank per risk degree (Official Gazette No. 50/01-3516, 21/02-20, 21/02-21, 80/06-3). According to this Decision, the Bank classifies all separate active balance and off-balance items in groups per risk degree and estimates the impairment loss amount. Objective evidence that financial assets (including equity securities) are impaired can include delay or default of the borrower, loan restructuring by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer of securities 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 of securities in the group, or economic conditions that correlate with defaults in the group.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through discount amortization.

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

Impairment losses on available-for-sale investments are recognized by transferring the difference between the amortized original cost and current fair value of equity in the profit or loss. If, in a subsequent period, the loss due to an impaired available-for-sale debt security decreases, it will be reversed in profit or loss.

However, any subsequent increase in the fair value of impaired available-for-sale equity securities is recognized directly in equity.

h) Cash and cash equivalents

Cash and cash equivalents include cash, demand deposits with banks, deposits with the National Bank of the Republic of Macedonia ("NBRM") and highly liquid securities 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 amortized original cost in the balance sheet.

i) 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 recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

j) Loans and advances approved by the Bank

Loans and receivables approved by the Bank are providing cash funds for the client and differ from those intended to make short-term profit. Loans and receivables approved by the Bank comprise of loans and advances to Banks and clients.

Loans and receivables approved by the Bank are initially recognized at fair value plus direct transaction costs, and subsequently measured at their amortized original cost using the effective interest method.

k) Investments

Investments are initially expressed in their original cost, which is the fair value of the given allowance for them plus direct transaction costs and they are subsequently measured depending on their classification. Available-for-sale investments are financial assets which are not available-for-sale, not approved by the Bank and not kept until maturity. The available-for-sale instruments comprise of treasury notes, government bonds and investments in equity instruments.

Available-for-sale investments are designated according to their fair value with the exception of financial assets without quoted market price whose fair value cannot be reliably measured and that are carried at original cost, less impairment losses.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized 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 recognized in profit or loss. Other fair value changes in available-for-sale investments are recognized in equity until the investment is sold or impaired, and the balance in equity is recognized in profit or loss.

I) Property and equipment

(I) Recognition and measurement

Property and equipment are measured at original cost less accumulated depreciation and impairment losses.

Original 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 capitalized as part of that equipment.

(II) Subsequent costs

The cost of replacing parts of property or equipment is recognized in the carrying amount of the item if it is probable that there will be economic benefits for the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(III) Depreciation

Depreciation of property and equipment is calculated according to the proportional method by writing off the original cost of the assets during their useful lives.

Annual depreciation rates, based on the estimated useful lives for the current and comparative period are as follows:

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

m) Intangible assets

(I) Measurement and recognition

Software supplied by the Bank is stated at original cost less accumulated amortization and accumulated impairment losses.

(II) Subsequent expenditure

Subsequent expenditure on software is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred in the profit and loss.

(III) Amortization

Amortization is recognized according to a proportional method by writing off the original cost of the assets during their useful lives.

The annual amortization rates based on the estimated useful lives for the current and comparative period are as follows:

	%
Software	25
Licences	20

n) Leased assets - lessee

Leases transferring substantially all risks and rewards related to 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 in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized on the Bank's Balance Sheet.

o) 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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Regarding the asset not generating independent cash inflow, the recoverable amount is established for the cash generating unit related to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows largely independent from other assets and groups. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater amount of its net selling price and its use value. 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.

An impairment loss is reversed if there has been an indication that impairment loss recognized for the asset no longer exists and there is change in the estimates used to determine the recoverable amount.

The increased carrying value of the asset due to reversal of impairment loss should not exceed the carrying value that would be determined (net of amortization) if the asset impairment loss was not recognized in previous years.

p) Deposits, loan commitment, debt securities issued and subordinated liabilities

Deposits, loan commitment, 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.

Deposits, loan commitment, debt securities issued and subordinated liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method.

q) Provisions

A provision is recognized 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 discount 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 recognized when the expected benefits for 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 recognizes any impairment loss on the assets associated with that contract.

r) Employee benefits

(I) Defined contribution plans

The Bank contributes to its employees' post retirement plans as prescribed by the Macedonian legislation. Contributions, based on salaries, are made to the pension funds responsible for the payment of pensions. There is no additional liability in respect of these plans for the Bank. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when they are due.

(II) Short-term employee benefits

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

The Bank recognizes liability and expense for the amount expected to be paid as bonus or profit-share if the Bank has a present legal or constructive obligation to pay such amounts as a result of past service provided by the employee and if the liability can be estimated reliably.

(III) Other long-term employee benefits

In accordance with Macedonian legislation the Bank pays two average salaries to its employees at the moment of retirement and jubilee awards in accordance with the General collective agreement.

s) Share capital

(I) Ordinary shares

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

(II) Repurchase of own shares

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

(III) Dividends

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

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.

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 analyze 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 training, 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 periodical 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 of a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, issued guarantees and letters of credit and investment securities. For risk management 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 over 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 standing assessment, risk grading and reporting, documentary and legal procedures, and compliance with statutory requirements.
- *Reviewing and assessing credit risk*. Credit departments assess all credit exposures in excess of designated limits.

- *Oversight of the concentrations of exposure* to geographies and industries (for loans and advances), and to issuers, credit rating from relevant institutions, market liquidity and country (for investments).

- *Banks's credit exposure gradings*, according to the degree of risk of financial loss faced and focusing on risks management. 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 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 and oversee credit policies and procedures of the Bank and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks.

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

Exposure to credit risk

<i>In thousands of denars</i>	<i>Note</i>	Placements to banks		Loans and advances to customers		Investments	
		2008	2007	2008	2007	2008	2007
Carrying amount	13, 14, 15	478,065	13,373	8,479,342	4,831,880	282,322	870,482
Individually impaired							
Grade A		482,941	1,700	7,217,649	4,097,988	3,230	-
Grade B		-	-	465,998	597,893	-	-
Grade C		-	-	469,313	97,358	-	-
Grade D		-	-	331,615	132,695	-	-
Grade E		-	-	79,105	60,974	-	-
Gross amount		482,941	1,700	8,563,680	4,986,908	3,230	-
Allowance for impairment		(4,876)	(17)	(479,585)	(261,488)	(32)	-
Carrying amount		478,065	1,683	8,066,095	4,725,420	3,198	-
Neither past due nor impaired							
Grade A		-	11,690	413,247	106,460	265,124	870,482
Carrying amount		-	11,690	413,247	106,460	265,124	870,482
Total carrying amount		478,065	13,373	8,479,342	4,831,880	268,322	870,482

Impaired loans and securities

Impaired loans and securities are those that require allocating impairment allowance as deemed by the Bank, according to the NBRM Decision for establishing classification methodology of active balance and off-balance sheet items of the bank per risk degree (the "Decision"). These loans are graded A to E, according to the number of delinquent days and other criteria provided in the Decision.

Past due but not impaired loans

Past due but not impaired loans and securities have contractual interest or principal payments past due but the Bank deems impairment is not appropriate based

on the collateral available or the stage of collection of amounts owed to the Bank.

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, as defined in the Decision, 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 subjected 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 / securities (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 (less than allowances for impairment) amounts of individually impaired assets by risk degree.

<i>In thousands of denars</i>	Loans and advances to banks		Loans and advances to customers	
	Gross	Net	Gross	Net
31 December 2008				
Grade A	482,941	478,065	7,217,649	7,128,904
Grade B	-	-	465,998	419,399
Grade C	-	-	469,313	351,985
Grade D	-	-	331,615	165,807
Grade E	-	-	79,105	-
Total	482,941	478,065	8,563,680	8,066,095
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

The Bank holds collateral against loans and advances to customers in the form of mortgage, 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 placements to banks. Collateral usually is not held against securities, and no such collateral was held at 31 December 2008 or 2007.

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	
		2008	2007	2008	2007	2008	2007
Carrying amount	13, 14, 15	478,065	13,373	8,479,342	4,831,880	268,322	870,482
Concentration by sector							
Corporate		-	-	3,231,077	2,148,741	-	-
Public organs		-	-	-	-	14,993	269,261
Banks		478,065	13,373	-	-	253,329	601,221
Retail		-	-	5,248,265	2,683,139	-	-
		478,065	13,373	8,479,342	4,831,880	268,322	870,482
Concentration by location							
EU countries		-	13,373	-	-	-	-
Republic of Macedonia		478,065	-	8,479,342	4,831,880	268,322	870,482
		478,065	13,373	8,479,342	4,831,880	268,322	870,482

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

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting 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 receives 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 maintains a portfolio of short-term liquid assets, largely made up of short-term liquid securities, 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 and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the costs. 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 which are required to meet the 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.

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 2008								
<i>Non-derivative liabilities</i>								
Deposits from banks	21	4,613,241	(4,613,241)	(718,767)	(2,777,008)	(1,117,466)	-	-
Deposits from customers	22	4,931,801	(4,931,801)	(2,261,986)	(837,819)	(766,133)	(1,065,863)	-
Credit commitments	23	480,807	(480,807)	(480,807)	-	-	-	-
Other liabilities	25	26,850	(26,850)	(17,638)	-	-	(9,212)	-
		10,052,699	(10,052,699)	(3,479,198)	(3,614,827)	(1,833,599)	(1,075,075)	-
Credit cards commitments		278,636	(278,636)	(278,636)	-	-	-	-
		10,331,335	(10,331,335)	(3,757,834)	(3,614,827)	(1,833,599)	(1,075,075)	-
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	25	24,509	(24,509)	(24,509)	-	-	-	-
		5,381,460	(5,381,460)	(3,664,619)	(363,650)	(1,285,189)	(68,002)	-
Credit cards commitments		277,287	(277,287)	(277,287)	-	-	-	-
		5,658,747	(5,658,747)	(3,941,906)	(363,650)	(1,285,189)	(68,002)	-

The previous table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognized credit 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 remain stable and to be withdrawn within one month.

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

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 due to maturing of interest-earning assets and interest-bearing liabilities or interest rate repricing at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basic risk, which is the difference in repricing characteristics of the various floating rate indices, such as the savings rate, LIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, with 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 sensitive to asset repricing because for 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:

<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 2008							
Cash and cash equivalents	12	1,767,799	1,767,799	-	-	-	-
Placements to banks	13	478,065	478,065	-	-	-	-
Loans and advances to customers	15	8,479,342	576,160	352,959	1,783,221	3,437,629	2,329,373
Investments	16	268,322	250,131	14,993	-	-	3,198
		10,993,528	3,072,155	367,952	1,783,221	3,437,629	2,332,571
Deposits from banks	21	(4,613,241)	(718,767)	(2,777,008)	(1,117,466)	-	-
Deposits from customers	22	(4,931,801)	(2,261,986)	(837,819)	(766,133)	(1,065,863)	-
Credit commitments	24	(480,807)	(480,807)	-	-	-	-
Other liabilities	25	(28,850)	(28,850)	-	-	-	-
		(10,054,699)	(3,490,410)	(3,614,827)	(1,883,599)	(1,065,863)	-
		938,829	(418,255)	(3,246,875)	(100,378)	2,371,766	2,332,571
31 December 2007							
Cash and cash equivalents	12	1,026,790	1,026,790	-	-	-	-
Placements 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
Investments	16	870,482	629,691	168,689	54,295	14,907	2,900
Other assets	20	23,095	23,095	-	-	-	-
		6,765,620	1,971,284	456,656	1,497,266	2,185,619	654,795
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	25	(24,509)	(24,509)	-	-	-	-
		(5,381,460)	(3,664,619)	(363,650)	(1,285,189)	(68,002)	-
		1,384,160	(1,693,335)	93,006	212,077	2,117,617	654,795

The Bank performs analysis of the sensitivity of the financial assets and liabilities to various 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:

<i>Effect in thousands of denars</i>	<i>(Loss) / profit for the period</i>
2008	
Interest income (1% increase)	66,306
Interest income (1% decrease)	(66,306)
Interest expense (1% increase)	(47,812)
Interest expense (1% decrease)	47,812
2007	
Interest income (1% increase)	47,469
Interest income (1% decrease)	(47,469)
Interest expense (1% increase)	(25,947)
Interest expense (1% decrease)	25,947

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.

The Bank's exposure to currency risk is as follows:

2008	MKD	EUR	USD	Other	Total
Cash and cash equivalents	976,683	686,037	75,910	29,169	1,767,799
Placements to banks	-	478,065	-	-	478,065
Loans and advances to customers	3,367,422	5,111,913	1	6	8,479,342
Investments	268,322	-	-	-	268,322
Other assets	35,785	21,643	805	11	58,244
	4,648,212	6,297,658	76,716	29,186	11,051,772
Deposits from banks	276,885	4,336,338	18	-	4,613,241
Deposits from customers	2,599,028	2,221,520	91,426	19,827	4,931,801
Credit commitments	480,807	-	-	-	480,807
Other liabilities	16,612	10,238	-	-	26,850
	3,373,332	6,568,096	91,444	19,827	10,052,699
Net exposure	1,274,880	(270,438)	(14,728)	9,359	999,073
Commitments and contingencies	(643,374)	(201,928)	-	-	(845,302)
Net FX exposure	631,506	(472,366)	(14,728)	9,359	153,771
2007	MKD	EUR	USD	Other	Total
Cash and cash equivalents	530,914	359,018	95,781	41,077	1,026,790
Placements to banks	-	2,142	11,231	-	13,373
Loans and advances to customers	2,255,292	2,576,588	-	-	4,831,880
Investments	870,482	-	-	-	870,482
Other assets	18,719	4,376	-	-	23,095
	3,675,407	2,942,124	107,012	41,077	6,765,620
Deposits from banks	2	1,148,886	33	7	1,148,928
Deposits from customers	2,529,273	1,554,535	107,449	16,766	4,208,023
Other liabilities	9,209	15,300	-	-	24,509
	2,538,484	2,718,721	107,482	16,773	5,381,460
Net exposure	1,136,923	223,403	(470)	24,304	1,384,160
Commitments and contingencies	(745,326)	(149,771)	(1,491)	-	(896,588)
Net FX exposure	391,597	73,632	(1,961)	24,304	487,572

5. Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values.

<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 2008						
Cash and cash equivalents	12	1,767,799	-	-	1,767,799	1,767,799
Placements to banks	13	478,065	-	-	478,065	478,065
Loans and advances to customers	14	8,479,342	-	-	8,479,342	8,479,342
Investments	15	-	268,322	-	268,322	268,322
Other assets	20	58,244	-	-	58,244	58,244
		10,783,450	268,322	-	11,051,772	11,051,772
Deposits from banks	21	-	-	4,613,241	4,613,241	4,613,241
Deposits from customers	22	-	-	4,931,801	4,931,801	4,931,801
Credit commitments	23	-	-	480,807	480,807	480,807
Other liabilities	25	-	-	26,850	26,850	26,850
		-	-	10,052,699	10,052,699	10,052,699
31 December 2007						
Cash and cash equivalents	12	1,026,790	-	-	1,026,790	1,026,790
Placements to banks	13	13,373	-	-	13,373	13,373
Loans and advances to customers	14	4,831,880	-	-	4,831,880	4,831,880
Investments	15	-	870,482	-	870,482	870,482
Other assets	20	23,095	-	-	23,095	23,095
		5,895,138	870,482	-	6,765,620	6,765,620
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	25	-	-	24,509	24,509	24,509
		-	-	5,381,460	5,381,460	5,381,460

6. Net interest income

<i>In thousands of denars</i>	<i>Note</i>	<i>2008</i>	<i>2007</i>
Interest income			
Cash and cash equivalents	12	7,244	2,639
Placements to banks	13	10,754	20,346
Loans and advances to customers	14	646,622	319,191
Investments	15	27,584	51,129
Total interest income		692,204	393,305
Interest expense			
Deposits from banks	21	124,979	17,959
Deposits from customers	22	213,817	88,584
Credit commitments	23	17,135	-
Total interest expense		355,931	106,543
Net interest income		336,273	286,762

7. Net fees and commissions income

<i>In thousands of denars</i>	<i>2008</i>	<i>2007</i>
Fees and commissions income		
Payment operations in the country	24,175	24,217
Payment operations abroad	40,439	43,523
Commitments and contingencies	21,607	23,289
Other	5,594	6,274
Total fees and commissions income	91,815	97,303
Fees and commissions expense		
Payment operations within the country	9,944	6,492
Payment operations abroad	4,569	3,166
Total fees and commissions expense	14,513	9,658
Net fees and commissions income	77,302	87,645

8. Other operating income

<i>In thousands of denars</i>	2008	2007
Income from renting safes	458	421
Dividends on available-for-sale investments	330	110
Other	3,028	1,936
	3,816	2,467

9. Personnel expenses

<i>In thousands of denars</i>	2008	2007
Salaries	107,986	57,547
Compulsory contributions	50,724	26,630
Employee rewards	-	5,676
Other staff costs	22,748	8,770
	181,458	98,623

Other staff costs comprise of allowances according to the collective agreement (food

and travel costs), holiday allowances, professional employee training etc.

10. Other operating expenses

<i>In thousands of denars</i>	2008	2007
Service expenses	81,260	24,738
Marketing expenses	24,628	24,362
Material expenses	21,239	15,617
Impairment provisions related to off balance sheet items	1,917	7,546
Insurance premiums for deposits	8,545	4,932
Representation and donations	1,551	2,451
Computer maintenance	1,218	2,020
Impairment of assets held for sale	-	105
Other	18,553	8,108
	158,911	89,879

11. Income tax expenses

Recognized in the income statement

<i>In thousands of denars</i>	<i>Note</i>	<i>2007</i>	<i>2008</i>
Current tax expense		-	14,214
Current year		-	14,214
Deferred tax income			
Temporary differences	19	377	(1,885)
Total income tax expense in the income statement		377	12,329

Reconciliation of effective tax rate

<i>In thousands of denars</i>		<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
(Loss) / Profit before income tax	%	(209,697)		%	90,740
Income tax	10.00	(20,970)		12.00	10,889
Expenses non-deductible for tax purposes	(0.24)	513		1.63	1,478
Tax exempt income	0.02	(33)		(0.04)	(38)
Current year loss for which differed tax is not recognized	(9.95)	20,867		-	-
Total income tax expense in income statement		(0.18)	377	13.59	12,329

12. Cash and cash equivalents

<i>In thousands of denars</i>	<i>2008</i>	<i>2007</i>
Cash	218,878	178,681
Deposits with the National Bank of Republic of Macedonia	1,459,209	726,639
Current accounts with foreign banks	84,428	117,476
Current accounts with local banks	3,504	499
Other short term highly liquid investments	1,780	3,495
	1,767,799	1,026,790

At 31 December 2008 cash and cash equivalents included MKD 364,022 thousand (2007: MKD 164,660 thousand) as obligatory reserve requirement in MKD and MKD 589,346 thousand (2007: MKD 267,832

thousand) as obligatory reserve in foreign currency requirement. Funds from obligatory reserve in foreign currency are not available for the Bank's daily business.

Included in the cash and cash equivalents as at 31 December 2008 is the amount of MKD 232,683 thousand (2007: nil) as a compulsory deposit. According to the decision from the National Bank of the Republic of Macedonia (NBRM), the banks

are obliged to allocate a compulsory deposit in the NBRM if at the end of the month compared to 31 May 2008, the Bank registers higher growth in the retail loans than the allowed growth rate. The allowed growth rate for December 2008 was 18.1%.

13. Placements to banks

<i>In thousands of denars</i>	2008	2007
Placements to domestic banks	482,941	-
Placements to foreign banks	-	13,390
Less specific allowances for impairment	(4,876)	(17)
	482,065	13,373
Specific allowances for impairment		
Balance at 1 January	17	-
Impairment loss for the year:		
Additional allowance for impairment	4,859	17
Balance at 31 December	4,876	17

Placements to banks as at 31 December 2008 represent two deposits placed in two domestic commercial banks as collateral for

the short-term credit commitments to the same banks (see note 23).

14. Loans and advances to customers

<i>In thousands of denars</i>	2008	2007
Loans and advances to customers at amortised original cost	8,479,342	4,831,880
	8,479,342	4,831,880

Loans and advances to customers at amortized cost

<i>In thousands of denars</i>	2008	2007
Retail customers:		
Mortgage lending	1,549,860	980,016
Consumer loans	2,867,862	1,101,807
Credit cards	323,484	128,178
Other	810,548	555,577
Corporate customers:		
Mortgage lending	3,425,173	2,327,790
	8,976,927	5,093,368
Less allowances for impairment	(497,585)	(261,488)
	8,479,342	4,831,880

Specific allowances for impairment

<i>In thousands of denars</i>	2008	2007
Balance at 1 January	261,488	166,233
Impairment loss for the year:		
Additional allowance for impairment	236,097	95,326
Write-offs	-	(71)
Balance at 31 December	497,585	261,488

15. Investments

<i>In thousands of denars</i>	2008	2007
Available-for-sale investments	268,322	870,482
	268,322	870,482

Available-for-sale investments

<i>In thousands of denars</i>	2008	2007
Treasury Bills	249,048	598,321
Government Bills	-	228,040
Bonds	16,076	41,221
Unquoted investments at original cost	3,230	2,900
	268,354	870,482
Less than specific allowances for impairment	(32)	-
	268,322	870,482

Specific allowances for impairment

<i>In thousands of denars</i>	2008	2007
Balance at 1 January	-	-
Impairment loss for the year:		
Additional allowance for impairment	32	-
Balance at 31 December	32	-

16. Assets classified as held for sale

<i>In thousands of denars</i>	2008	2007
Buildings	30,158	30,158
Equipment	1,505	1,505
	31,663	31,663

Assets held for sale represent assets acquired through collection of the pledged collateral on non performing 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 2007 an impairment loss of MKD 105 thousand, established on the lower of its carrying amount and its fair value less costs to sell, has been recognized in other expenses (see note 10).

17. Property and equipment

<i>In thousands of denars</i>	Buildings	Investments in leased property	Furniture & equipment	Assets under construction	Total
Original cost					
Balance at 1 January 2008	109,851	46,606	133,673	13,377	303,507
Increase	-	-	-	174,397	174,397
Transfers	-	53,470	72,828	(126,298)	-
Alienation	-	-	(9,117)	-	(9,117)
Balance at 31 December 2008	109,851	100,076	197,384	61,476	468,787
Depreciation					
Balance at 1 January 2008	18,047	21,224	88,302	-	127,573
Depreciation for the period	2,746	10,510	20,113	-	33,369
Alienation	-	-	(8,789)	-	(8,789)
Balance at 31 December 2008	20,793	31,734	99,626	-	152,153
Present value					
Balance at 1 January 2008	91,804	25,382	45,371	13,377	175,934
Balance at 31 December 2008	89,058	68,342	97,758	61,476	316,634

As at 31 December 2008 the Bank does not have any property and equipment pledged as collateral (2007: none).

Operating leases

The Bank leases business premises under operating leases. The lease contracts are

cancellable and typically run for a period of up to 5 years.

18. Intangible assets

<i>In thousands of denars</i>	Software	Licences	On going investments	Total
Original cost				
Balance at 1 January 2008	22,547	26,306	46,263	95,116
Increase	-	-	54,715	54,715
Transfer	99,050	-	(99,050)	-
Balance at 31 December 2008	121,597	26,306	1,928	149,831
Amortization				
Balance at 1 January 2008	19,860	5,262	-	25,122
Amortization for the year	17,216	5,260	-	22,476
Balance at 31 December 2008	37,076	10,522	-	47,598
Present value				
Balance at 1 January 2008	2,687	21,044	46,263	69,994
Balance at 31 December 2008	84,521	15,784	1,928	102,233

19. Deferred tax assets and liabilities

Not recognized deferred tax assets and liabilities

Deferred tax assets were not recognized for the account of the following items:

<i>In thousands of denars</i>	2008	2007
Tax losses	20,867	-
	20,867	-

Deferred tax assets are not recognized in these financial statements because the existing legally provided forms of annual

account and chart of accounts lack the possibility for deferred tax assets reporting in the Bank's books.

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of denars</i>	Assets	Liabilities 2008	Net	Assets	Liabilities 2007	Net
Loans and advances to customers	1,508	-	1,508	1,885	-	1,885
Net receivables/(liabilities) for deferred tax	1,508	-	1,508	1,885	-	1,885

Movements in temporary differences during the year

<i>In thousands of denars</i>	Opening balance	Recognized in profit or loss	Recognized in equity	Closing balance
2008				
Loans and advances to customers	1,885	377	-	1,508
	1,885	377	-	1,508

20. Other assets

<i>In thousands of denars</i>	2008	2007
Petty inventory	15,903	11,983
Receivables from other banks	19,286	9,546
Prepaid expenses	9,672	827
Other	13,383	739
	58,244	23,095

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

21. Deposits from banks

<i>In thousands of denars</i>	2008	2007
Domestic banks		
Demand deposits	430	1,466
Foreign banks		
Demand deposits	4,612,811	1,147,462
	4,613,241	1,148,928

22. Deposits from customers

<i>In thousands of denars</i>	2008	2007
Retail customers:		
Term deposits	1,133,389	468,000
Demand deposits	429,979	523,208
Corporate customers:		
Term deposits	2,047,941	1,700,858
Demand deposits	1,320,492	1,515,957
	4,931,801	4,208,023

23. Credit commitment

<i>In thousands of denars</i>	2008	2007
Secured bank loans	480,807	-
	480,807	-

Terms and debt repayment schedule

Terms on debt repayment of loans till the end of the year were as follows:

<i>In thousands of denars</i>	Currency	Nominal interest rate	Year of maturity	31 Dec 2008		31 Dec 2007	
				Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	MKD	7.3% 28 days treasury bills plus 0.4 points	2009	100,182	100,182	-	-
Secured bank loan	MKD		2009	380,625	380,625	-	-
				480,807	480,807	-	-

24. Impairment provisions related to off balance sheet items

<i>In thousands of denars</i>	Note	2008	2007
Balance at 1 January		9,347	1,801
Provisions made during the year	10	1,917	7,546
Balance at 31 December		11,264	9,347

25. Other liabilities

<i>In thousands of denars</i>	2008	2007
Suppliers payable	26,167	17,516
Other	683	6,993
	26,850	24,509

26. Capital and reserves

Share capital

<i>In number of shares</i>	Ordinary shares	
	2008	2007
On issue at 1 January	4,668	1,548
Issued by transfer from statutory reserves and retained earnings	-	3,120
On issue at 31 December	4,668	4,668

At 31 December 2008 the authorised share capital comprised 4,668 ordinary shares (2007: 4,668). Ordinary shares have a par value of MKD 120,000 (2007: MKD 120,000). All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared 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, 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. The original cost of the property and equipment at 1 January 2005, the effective date of the new accounting

standards, was determined as deemed cost at that date.

Statutory reserve

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

27. Commitments and contingencies

The Bank provides bank 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>	<i>Note</i>	<i>2008</i>	<i>2007</i>
Payment guarantees			
in MKD		373.299	475.797
in foreign currency		145.487	109.531
Letters of credit			
in foreign currency		59.144	43.320
Credit card			
commitments		278.636	277.287
Provisions	24	(11.264)	(9.347)
		845.302	896.588

These contingent liabilities have off balance-sheet credit risk because only organization fees and accruals for probable losses are recognized in the balance sheet until the commitments are fulfilled or mature.

Many of the contingent liabilities and commitments will mature without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

28. Related parties transactions

According to the Banking Law, the General Meeting of Shareholders is constituted of all the shareholders of the Bank's registered shares. The overall control of the Bank is with the non-executive Supervisory Board that 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. The volumes of related-party transactions, balances at the year-end, and related expense and income are as follows:

(I) Placements to related banks

<i>In thousands of denars</i>	Transactions with Parent Bank	
	2008	2007
Deposits at 1 January	11,249	74,631
Deposits granted during the year	3,448,559	9,581,505
Deposits withdrawn during the year	(3,459,808)	(9,644,887)
Deposits as 31 December	-	11,249
Interest income	1,150	2,766

(II) Loans and advances to related parties

<i>In thousands of denars</i>	Key management personnel of the Bank and related parties	
	2008	2007
Loans at 1 January	8,568	4,960
Loans granted during the year	2,249	6,178
Loan repayments during the year	(1,083)	(2,570)
Loans at 31 December	9,734	8,568
Specific allowance for impairment losses	105	101
Impairment losses (net)	26	79
Interest income earned	454	576

The Bank's policy is to require suitable collateral to be provided by the customers prior to the disbursement of approved loans.

Collateral for loans, guarantees and letters of credit is usually obtained in the form of cash, immovable property, inventory or other property.

(III) Deposits from related parties

<i>In thousands of denars</i>	Transactions with Parent bank and related parties	
	2008	2007
Deposits at 1 January	1,149,402	-
Deposits received during the year	80,065,140	69,730,462
Deposits withdrawn during the year	(76,598,704)	(68,581,060)
Deposits at 31 December	4,615,838	1,149,401
Interest expense on deposits	122,835	17,733

(IV) Other transactions with related parties

<i>In thousands of denars</i>	Parent Bank and related parties	
	2008	2007
Cash and cash equivalents	4,490	1,156
Other assets	16	16
Commitment and contingencies	39,470	38,557
Fees and commissions income	19	37
Fees and commissions expense	-	23
Rent expenses	1,876	-

(V) Key management personnel transactions

<i>In thousands of denars</i>	2008	2007
Short-term employee benefits	22,582	21,079
	22,582	21,079

29. Subsequent events

On 22 December 2008 the amendments to the Income Tax Law and Personnel Income Tax Law, effective from 1 January 2009, were published in the Official Gazette Number 159. The amendments changed

significantly the corporate income tax concept, out of which the most significant is the exclusion of the undistributed profit from taxation in the Republic of Macedonia. In addition, there have also been significant changes in the taxation of the physical persons.

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