

**Macedonian Bank for Development  
Promotion AD Skopje**

Financial Statements  
for the year ended 31 December  
2008

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## **Report of the auditor to the shareholders of Macedonian Bank for Development Promotion AD Skopje**

We have audited the accompanying financial statements of Macedonian Bank for Development Promotion AD Skopje (“the Bank”), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

### *Auditors’ Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles 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 opinion.



*Opinion*

In our opinion, the financial statements give a true and fair 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 International Financial Reporting Standards.

*KPMG Macedonia DOO*

KPMG Macedonia DOO

30 April 2009

Skopje

**Balance sheet**

As at 31 December

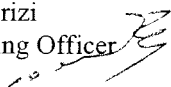
*In thousands of denars*

	<i>Note</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>			
Cash and cash equivalents	<i>13</i>	210,350	456,444
Placement with other banks	<i>14</i>	310,884	462,642
Loans and advances to banks	<i>15</i>	2,171,917	2,031,177
Investment securities	<i>17</i>	166,608	-
Property and equipment	<i>18</i>	115,406	119,120
Intangible assets	<i>19</i>	1,827	2,201
Other assets	<i>20</i>	12,901	9,119
<b>Total assets</b>		<u>2,989,893</u>	<u>3,080,703</u>
<b>Liabilities</b>			
Borrowed funds	<i>21</i>	1,314,717	1,503,575
Impairment provisions related to off balance sheet items	<i>22</i>	2,519	4,115
Current tax liabilities		2,556	4,207
Other liabilities	<i>24</i>	5,206	4,812
<b>Total liabilities</b>		<u>1,324,998</u>	<u>1,516,709</u>
<b>Equity</b>			
	<i>25</i>		
Share capital		932,400	932,400
Retained earnings		100,826	80,904
Other reserves		631,669	550,690
<b>Total equity</b>		<u>1,664,895</u>	<u>1,563,994</u>
<b>Total liabilities and equity</b>		<u>2,989,893</u>	<u>3,080,703</u>

*The notes on pages 5 – 49 are an integral part of these financial statements.*

These financial statements set out on pages 1 to 49 were approved by the Supervisory Board on 30 April 2009 and were signed on its behalf by:

Mr. Kenan Idrizi  
Chief Operating Officer



Mr. Dragan Martinovski  
Chief Executive Officer



**Income statement**

For the year ended 31 December

<i>In thousands of denars</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
Interest income	7	167,281	166,188
Interest expense	7	<u>(37,895)</u>	<u>(48,726)</u>
<b>Net interest income</b>		<u>129,386</u>	<u>117,462</u>
Fee and commission income	8	11,758	18,332
Fee and commission expense	8	<u>(2,951)</u>	<u>(4,834)</u>
<b>Net fee and commission income</b>		<u>8,807</u>	<u>13,498</u>
Net foreign exchange gain		5,067	528
Other operating income	9	<u>4,570</u>	<u>1,776</u>
		<u>9,637</u>	<u>2,304</u>
<b>Operating income</b>		147,830	133,264
Net impairment loss on financial assets	15,16	5,308	1,063
Personnel expenses	10	(22,834)	(22,430)
Depreciation and amortisation	18,19	(6,340)	(6,937)
Other expenses	11	<u>(11,704)</u>	<u>(12,777)</u>
<b>Profit before income taxes</b>		112,260	92,183
Income tax expense	12	<u>(11,359)</u>	<u>(11,204)</u>
<b>Profit for the period</b>		<u>100,901</u>	<u>80,979</u>

*The notes on pages 5 - 49 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>	<b>Share Capital</b>	<b>Reserve</b>	<b>Reserve for security</b>	<b>Guarantee fund</b>	<b>Retained earnings</b>	<b>Total</b>
Balance at 1 January 2007	932,400	102,857	168,121	231,000	48,637	1,483,015
Profit for the period	-	-	-	-	80,979	80,979
Total recognised income and expense	-	-	-	-	80,979	80,979
Appropriation to reserve	-	37,693	-	-	(37,693)	-
Appropriation to reserve for security	-	-	5,000	-	(5,000)	-
Appropriation to guarantee fund	-	-	-	6,019	(6,019)	-
Balance at 31 December 2007	932,400	140,550	173,121	237,019	80,904	1,563,994
Balance at 1 January 2008	932,400	140,550	173,121	237,019	80,904	1,563,994
Profit for the period	-	-	-	-	100,901	100,901
Total recognised income and expense	-	-	-	-	100,901	100,901
Appropriation to reserve	-	68,485	-	-	(68,485)	-
Appropriation to reserve for security	-	-	5,000	-	(5,000)	-
Appropriation to guarantee fund	-	-	-	7,494	(7,494)	-
Balance at 31 December 2008	932,400	209,035	178,121	244,513	100,826	1,664,895

*The notes on pages 5 - 49 are an integral part of these financial statements.*

## Statement of cash flows

For the year ended 31 December

<i>In thousands of denars</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>			
Profit for the period		100,901	80,979
Adjustments for:			
Depreciation and amortisation	<i>18,19</i>	6,340	6,937
Net impairment loss on financial assets	<i>15,16</i>	(5,308)	(1,063)
Impairment provision for off balance sheet items		(1,596)	352
Net interest income	<i>7</i>	(129,386)	(117,462)
Income tax		11,359	11,204
		<u>(17,690)</u>	<u>(19,053)</u>
Change in placements with other banks		151,638	(25,675)
Change in loans and advances to banks		(129,686)	(266,955)
Change in other assets		(3,782)	1,898
Change in other liabilities		394	(1,449)
		<u>874</u>	<u>(311,234)</u>
Interest received		161,655	169,242
Interest paid		(51,272)	(48,625)
Income tax paid		(13,010)	(7,730)
<b>Net cash used in operating activities</b>		<u>98,247</u>	<u>(198,347)</u>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	<i>18</i>	(1,847)	(392)
Acquisition of intangible assets	<i>19</i>	(405)	(1,359)
Proceeds from investment securities		-	158,277
Acquisition of investment securities		(166,608)	-
<b>Net cash used in investing activities</b>		<u>(168,860)</u>	<u>156,526</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowed funds		(237,841)	(206,755)
Proceeds from borrowed funds		62,360	411,760
<b>Net cash from financing activities</b>		<u>(175,481)</u>	<u>205,005</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		(246,094)	163,184
Cash and cash equivalents at 1 January		456,444	293,260
<b>Cash and cash equivalents at 31 December</b>	<i>13</i>	<u>210,350</u>	<u>456,444</u>

*The notes on pages 5 - 49 are an integral part of these financial statements.*



## **Notes to the financial statements**

### **1. Reporting entity**

Macedonian Bank for Development Promotion AD Skopje (“the Bank”) is a state owned joint stock company incorporated and domiciled in the Republic of Macedonia.

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

St. Veljko Vlahovic 26  
1000 Skopje  
Republic of Macedonia

The main activities include funding the start up of businesses and the development of small and medium size enterprises, financing exports with loans and issuing financial guarantees.

Also in accordance with the amendment of the Law for founding of the Macedonian Bank for Development Promotion in 2006, the Bank formed a Guarantee fund for issuing financial guarantees towards commercial banks for long-term loans approved by commercial banks to micro, small and medium trading companies, sole traders and craftsman in the Republic of Macedonia.

Loans are granted through participating banks in the Republic of Macedonia which bear the ultimate risk of collection of the receivables.

### **2. Basis of preparation**

#### **(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB).

#### **(b) Basis of measurement**

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

- available-for-sale financial assets are measured at fair value.

#### **(c) Functional and presentation currency**

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

## Notes to the financial statements

### 2. Basis of preparation (continued)

#### (d) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

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

The foreign currencies the Bank deals with are predominantly Euro (EUR). The exchange rates used for translation at 31 December 2008 and 2007 were as follows:

	<b>2008</b>	<b>2007</b>
	<b>MKD</b>	<b>MKD</b>
1 EUR	61.41	61.20

## **Notes to the financial statements**

### **3. Significant accounting policies (continued)**

#### **(b) Interest**

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

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

Interest income and expense presented in the income statement include:

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

#### **(c) Fees and commission**

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

Other fee and commission income arises on financial services provided by the Bank for issuing letters of financial guarantees for short-term export arrangements. Additionally, the Bank obtains letters of guarantees from foreign insurance institutions in amount of 70% to 90% of the issued financial guarantees. Fee and commission income is recognized as the related services are performed.

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

#### **(d) Dividends**

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

## **Notes to the financial statements**

### **3. Significant accounting policies (continued)**

#### **(e) Government grant**

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Bank will comply with the conditions associated with the grant. Grants that compensate the Bank for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

#### **(f) Income tax expense**

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

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

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

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

#### **(g) Financial assets and liabilities**

##### **(i) Recognition**

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

## **Notes to the financial statements**

### **3. Significant accounting policies (continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(ii) Derecognition**

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

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

##### **(iii) Offsetting**

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

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

##### **(iv) Amortised cost measurement**

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

##### **(v) Fair value measurement**

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

## **Notes to the financial statements**

### **3. Significant accounting policies (continued)**

#### **(g) Financial assets and liabilities (continued)**

##### **(vi) *Identification and measurement of impairment***

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

The Bank considers evidence of impairment at specific asset level. All individually significant financial assets are assessed for specific impairment.

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

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

## **Notes to the financial statements**

### **3. Significant accounting policies (continued)**

#### **(h) Cash and cash equivalents**

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

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

#### **(i) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

#### **(j) Investment securities**

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

#### **(i) *Held-to-maturity***

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

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

#### **(ii) *Available-for-sale***

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available-for-sale financial instruments include investments in equity securities.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (j) Investment securities (continued)

##### (ii) *Available-for-sale (continued)*

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

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

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

#### (k) Property and equipment

##### (i) *Recognition and measurement*

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

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

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### (ii) *Subsequent costs*

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

##### (iii) *Depreciation*

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



## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (k) Property and equipment (continued)

##### (iii) Depreciation (continued)

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

	%
Buildings	2.5
Furniture and equipment	10 - 25
Vehicles	25

The depreciation method, estimated useful lives and residual values are reassessed at each reporting date.

#### (l) Intangible assets

##### (i) Recognition and measurement

Intangible assets acquired by the Bank are stated at cost less accumulated amortisation and accumulated impairment losses.

##### (ii) Subsequent expenditure

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

##### (iii) Amortisation

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

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

	%
Software and licenses	25

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (m) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

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

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

#### (n) Provisions

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

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

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (o) Employee benefits

##### (i) *Defined contribution plans*

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

##### (ii) *Short-term benefits*

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

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

##### (iii) *Other long-term employee benefits*

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement. The employee benefits are discounted to determine their present value. The discount rate is the yield at the reporting date on high - quality bonds that have maturity dates approximating the terms of the Bank's obligations. There is no additional liability in respect of post retirement.

#### (p) Managed funds

Assets and liabilities managed on a fee basis on behalf of the banks and the Government of the Republic of Macedonia are included in the balance sheet on a net basis. Net liability position as reported in the balance sheet reflects timing difference in collection of receivables or settlement of liabilities on behalf of the banks and the Government of the Republic of Macedonia.

#### (q) Share capital and reserves

##### (i) *Ordinary shares*

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

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (q) Share capital and reserves (continued)

##### (ii) *Repurchase of share capital*

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

##### (iii) *Dividends*

The dividend that relate to the State according to regulations is distributed to the Bank's reserves.

#### (r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- Amendment to IFRS 2 *Share-based Payment* (effective for annual periods beginning on or after 1 January 2009) – clarifies the definition of *vesting* conditions and introduces the concept of *non-vesting* conditions. Non-vesting conditions are to be reflected in grant-date fair value and failure to meet non-vesting conditions will generally result in treatment as a cancellation. The amendment to IFRS 2 is not relevant to the Banks's operations as the Bank does not have any share-based compensation plans.
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Subsequent change in contingent consideration will be recognized in profit or loss.
  - Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (r) New standards and interpretations not yet adopted (continued)

Revised IFRS 3 is not relevant to the Bank's operations as the Bank does not have any interests in subsidiaries that will be affected by the revisions to the Standard.

- Amendments to IFRS 7 *Financial Instruments: Disclosure* (effective for annual period beginning on or after 1 January 2009) - The amendments to the Standard require improved disclosures regarding financial instruments, in particular:
  - Enhanced disclosures over fair value measurements, specifically in relation to disclosures over the inputs used in valuations techniques and the uncertainty associated with such valuations; and
  - Improving disclosures over liquidity risk requiring quantitative disclosures based on how liquidity risk is managed and strengthening the relationship between quantitative and qualitative liquidity risk disclosures.

The amendments to IFRS 7 will have no effect on the profit or loss or equity. However, the Bank expects the new Standard to result in expanded disclosure relating to fair value measurement of financial instruments.

- IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard introduces the "management approach" to segment reporting and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters.

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the Bank's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance.

IFRS 8 will be effective for the financial statements in 2009. The Bank has not yet completed its analysis of the impact of the standard.

- Revised IAS 1 *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement), or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (r) New standards and interpretations not yet adopted (continued)

- Revised IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009). The revised Standard removes the option to expense borrowing costs and requires the capitalization of borrowing costs that relate to qualifying assets (those that take a substantial period of time to get ready for use or sale). Revised IAS 23 is not relevant to the Bank's operations as the Bank does not have any qualifying assets for which borrowing costs would be capitalised.
- Amendments to IAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009). The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. The amendments of IAS 27 is currently not relevant to the Bank's operations.
- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 is currently not relevant to the Bank's operations.
- Amendments to IAS 32 *Financial Instruments: Presentation*, and IAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009). The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The amendments are not relevant to the Bank's financial statements as none of the Bank entities have in the past issued puttable instruments that would be affected by the amendments.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009). The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the Bank's operations as the Bank does not apply hedge accounting.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (r) New standards and interpretations not yet adopted (continued)

- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Bank does not expect the Interpretation to have any impact on the financial statements.
- IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:
  1. the agreement meets the definition of a construction contract in accordance with IAS 11.3;
  2. the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
  3. the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the Bank's operations as the Bank does not provide real estate construction services or develop real estate for sale.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008). The Interpretation explains the type of exposure that may be hedged, where in the group the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. IFRIC 16 is not relevant to the Bank's operations as the Bank does not have any investments in a foreign operation.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009). The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed.

## Notes to the financial statements

### 3. Significant accounting policies (continued)

#### (r) New standards and interpretations not yet adopted (continued)

The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. The Bank does not expect the Interpretation to have any impact on the financial statements.

- IFRIC 18 *Transfers of Assets from Customers* (effective prospectively for transfers of assets from customers received on or after 1 July 2009. Early adoption is permitted under limited circumstances.) - The Interpretation applies to the accounting by entities that receive contributions of property, plant and equipment from their customers. The Interpretation requires an entity that receives a contribution in the scope of the Interpretation to recognize the item as an asset at its fair value if the contributed item meets the criteria for property, plant and equipment in IAS 16, Property, Plant and Equipment. The Interpretation also requires the entity to recognize the amount as revenue; the timing of the revenue recognition will depend on the facts and circumstances of the particular agreement. The Interpretation is not relevant to the Bank's financial statements.
- IAS 40, *Investment Property* (effective for annual periods beginning on or after 1 January 2009). IAS 40 is amended to include property under construction or development for future use as investment property in its definition of "investment property". This results in such property being within the scope of IAS 40; previously it was within the scope of IAS 16. The standard is not relevant to the Bank's operations as the Bank does not have any investment property.

### 4. Financial risk management

#### (a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks

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



## Notes to the financial statements

### 4. Financial risk management (continued)

#### Risk management framework

The Supervisory Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Supervisory Board of the Bank is responsible for developing and monitoring of Bank's risk management policies in their specified areas.

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

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

#### (b) Credit risk

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

#### Management of credit risk

The Supervisory Board has delegated responsibility for the management of credit risk to its Risk Management Committee that approves all credit exposures. The Supervisory Board has delegated responsibility for the management of credit risk to its Credit Committee that approves all credit exposures less 10% of the Bank's own funds. All credit exposures greater than 10% of the Bank's own funds must be approved by the Supervisory Board. Bank's Credit department is responsible for oversight of the Bank's credit risk, including:

- *Formulating credit policies* including covering collateral requirement, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Reviewing and assessing credit risk.* Credit department assesses all credit exposures subject to established limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- *Reviewing concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

## Notes to the financial statements

### 4. Financial risk management (continued)

#### (b) Credit risk (continued)

##### Management of credit risk (continued)

- *Developing and maintaining the Bank's credit risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

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

Regular audits of Credit department's processes are undertaken by the Internal Audit.

##### Exposure to credit risk

<i>In thousands of denars</i>	<i>Note</i>	Placements with		Loans and advances		Loans and advances		Investment	
		other banks	to banks	to banks	to customers	to banks	to customers	securities	
		2008	2007	2008	2007	2008	2007	2008	2007
Carrying amount	14,15,16, 17	310,884	462,642	2,171,917	2,031,177	-	-	166,608	-
<b>Assets at amortised cost</b>									
Individually impaired									
Grade A		-	-	-	-	-	-	-	-
Grade B		-	-	366,133	303,707	-	-	-	-
Grade C		-	-	-	-	-	-	-	-
Grade D		-	-	-	-	-	-	-	-
Grade E		-	-	85,575	100,610	36,709	31,349	-	-
Gross amount		-	-	451,708	404,317	36,709	31,349	-	-
Allowance for impairment		-	-	(125,539)	(136,207)	(36,709)	(31,349)	-	-
Carrying amount		-	-	326,169	268,110	-	-	-	-
Neither past due nor impaired									
Grade A		310,884	462,642	1,845,748	1,763,067	-	-	166,608	-
Carrying amount		310,884	462,642	1,845,748	1,763,067	-	-	166,608	-
Total carrying amount		310,884	462,642	2,171,917	2,031,177	-	-	166,608	-

## **Notes to the financial statements**

### **4. Financial risk management (continued)**

#### **(b) Credit risk (continued)**

##### **Impaired loans and securities**

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

##### **Allowances for impairment**

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

##### **Write-off policy**

The Bank writes off a loan / security balance (and any related allowances for impairment losses) 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.

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

**Notes to the financial statements**

**4. Financial risk management (continued)**

**(b) Credit risk (continued)**

<i>In thousands of denars</i>	<b>Loans and advances to banks</b>		<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
<b>31 December 2008</b>				
Individually impaired				
Grade A	-	-	-	-
Grade B	366,133	326,169	-	-
Grade C	-	-	-	-
Grade D	-	-	-	-
Grade E	85,575	-	36,709	-
<b>Total</b>	<b>451,708</b>	<b>326,169</b>	<b>36,709</b>	<b>-</b>
<b>31 December 2007</b>				
Individually impaired				
Grade A	-	-	-	-
Grade B	303,707	268,110	-	-
Grade C	-	-	-	-
Grade D	-	-	-	-
Grade E	100,610	-	31,349	-
<b>Total</b>	<b>404,317</b>	<b>268,110</b>	<b>31,349</b>	<b>-</b>

## Notes to the financial statements

### 4. Financial risk management (continued)

#### (b) Credit risk (continued)

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>	<b>Placements with other banks</b>		<b>Loans and advances to banks</b>		<b>Investment securities</b>	
		<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Carrying amount	<i>14,15, 17</i>	310,884	462,642	2,171,917	2,031,177	166,608	-
<b>Concentration by sector</b>							
Government		-	-	-	-	166,608	-
Banks		310,884	462,642	2,171,917	2,031,177	-	-
<b>Concentration by location</b>							
EU countries		310,884	462,642	-	-	-	-
Republic of Macedonia		-	-	2,171,917	2,031,177	166,608	-
		310,884	462,642	2,171,917	2,031,177	166,608	-

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

#### (c) Liquidity risk

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

#### Management of liquidity risk

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

Department for treasury and liquidity 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. Department for treasury and liquidity then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, and placements with other banks, to ensure that sufficient liquidity is maintained within the Bank.

## Notes to the financial statements

### 4. Financial risk management (continued)

#### (c) Liquidity risk (continued)

The daily liquidity position and market conditions are regularly monitored. All liquidity policies and procedures are subject to review and approval by Supervisory Board of the Bank. Monthly reports on Bank's liquidity are regularly submitted to NBRM.

#### Exposure to liquidity risk

According to the Law for establishing of the Macedonian Bank for Development Promotion, the Bank is not allowed to take savings and deposits. Funds are raised with borrowings and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

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>	<b>Carrying amount</b>	<b>Gross nominal inflow / (outflow)</b>	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>31 December 2008</b>								
<i>Non-derivative liabilities</i>								
Borrowed funds	21	1,314,717	(1,314,717)	(28,506)	(31,126)	(68,122)	(214,728)	(972,235)
Other liabilities	24	5,206	(5,206)	(562)	(2,556)	-	(2,088)	-
		<u>1,319,923</u>	<u>(1,319,923)</u>	<u>(29,068)</u>	<u>(33,682)</u>	<u>(68,122)</u>	<u>(216,816)</u>	<u>(972,235)</u>
Unrecognised loan commitments	26	-	(59)	(59)	-	-	-	-
		<u>1,319,923</u>	<u>(1,319,982)</u>	<u>(29,127)</u>	<u>(33,682)</u>	<u>(68,122)</u>	<u>(216,816)</u>	<u>(972,235)</u>
<b>31 December 2007</b>								
<i>Non-derivative liabilities</i>								
Borrowed funds	21	1,503,575	(1,503,575)	-	(57,377)	(57,377)	(243,395)	(1,145,426)
Other liabilities	24	4,812	(4,812)	(2,102)	(39)	(2,671)	-	-
		<u>1,508,387</u>	<u>(1,508,387)</u>	<u>(2,102)</u>	<u>(57,416)</u>	<u>(60,048)</u>	<u>(243,395)</u>	<u>(1,145,426)</u>
Unrecognised loan commitments	26	-	(29,499)	(29,499)	-	-	-	-
		<u>1,508,387</u>	<u>(1,537,886)</u>	<u>(31,601)</u>	<u>(57,416)</u>	<u>(60,048)</u>	<u>(243,395)</u>	<u>(1,145,426)</u>

## **Notes to the financial statements**

### **4. Financial risk management (continued)**

#### **(c) Liquidity risk (continued)**

The previous table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis.

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

#### **(d) Market risks**

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

#### **Exposure to interest rate risk – non-trading portfolios**

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprise at different times or in differing amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as LIBOR and different types of interest.

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies. The Bank places loans at equal terms to all participating banks and for each credit line appropriate interest margin for the Bank is predetermined.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. 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.

## Notes to the financial statements

### 4. Financial risk management (continued)

#### (d) Market risks (continued)

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>	<b>Carrying amount</b>	<b>Less than 1 month</b>	<b>1- 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>31 December 2008</b>							
Cash and cash equivalents	13	210,350	210,350	-	-	-	-
Placement with other banks	14	310,884	310,884	-	-	-	-
Loans and advances to banks	15	2,171,917	86,570	33,270	299,886	1,696,207	55,984
Other assets	20	12,901	4,487	123	587	5,000	2,704
		<u>2,706,052</u>	<u>612,291</u>	<u>33,393</u>	<u>300,473</u>	<u>1,701,207</u>	<u>58,688</u>
Borrowed funds	21	(1,314,717)	(28,506)	(31,126)	(68,122)	(214,728)	(972,235)
Other liabilities	24	(5,206)	(562)	(2,556)	-	(2,088)	-
		<u>(1,319,923)</u>	<u>(29,068)</u>	<u>(33,682)</u>	<u>(68,122)</u>	<u>(216,816)</u>	<u>(972,235)</u>
		<u>1,386,129</u>	<u>583,223</u>	<u>(289)</u>	<u>232,351</u>	<u>1,484,391</u>	<u>(913,547)</u>
<b>31 December 2007</b>							
Cash and cash equivalents	13	456,444	456,444	-	-	-	-
Placement with other banks	14	462,642	462,642	-	-	-	-
Loans and advances to banks	15	2,031,177	147,772	80,031	496,630	1,180,691	126,053
Other assets	20	9,119	3,894	581	248	1,364	3,032
		<u>2,959,382</u>	<u>1,070,752</u>	<u>80,612</u>	<u>496,878</u>	<u>1,182,055</u>	<u>129,085</u>
Borrowed funds	21	(1,503,575)	-	(57,377)	(57,377)	(229,507)	(1,159,314)
Other liabilities	24	(4,812)	(2,102)	(39)	(2,671)	-	-
		<u>(1,508,387)</u>	<u>(2,102)</u>	<u>(57,416)</u>	<u>(60,048)</u>	<u>(229,507)</u>	<u>(1,159,314)</u>
		<u>1,450,995</u>	<u>1,068,650</u>	<u>23,196</u>	<u>436,830</u>	<u>952,548</u>	<u>(1,030,229)</u>

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

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



**Notes to the financial statements**

**4. Financial risk management (continued)**

**(d) Market risks (continued)**

<i>In thousands of denars</i>	<b>Gain/loss for the period</b>
<b>2008</b>	
<b>At 31 December</b>	
Interest income (1% increase)	18,084
Interest income (1% decrease)	(18,084)
Interest expense (1% increase)	(11,735)
Interest expense (1% decrease)	11,735
<b>2007</b>	
<b>At 31 December</b>	
Interest income (1% increase)	30,230
Interest income (1% decrease)	(30,230)
Interest expense (1% increase)	(16,656)
Interest expense (1% decrease)	16,656

**Exposure to currency risk – non-trading portfolios**

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



## **Notes to the financial statements**

### **4. Financial risk management (continued)**

#### **(e) Capital management**

##### **Regulatory capital**

The Bank's lead regulator NBRM sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by the local regulators.

In implementing capital adequacy requirements NBRM requires the Bank to maintain a prescribed ratio of 8% of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets and sum of capital requirements for currency risk.

Bank's own funds are a sum of core capital, supplementary capital, less deductions, as follows:

- Core capital, which includes ordinary and non cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the balance sheet and confirmed by a Decision of the Bank's Shareholders' Assembly or accumulated loss from previous year, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.
- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.
- The total of core capital and supplementary capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

When determining the amount of own funds, the bank shall observe the following restrictions:

- The amount of the supplementary capital cannot exceed the amount of the core capital.
- The sum of the nominal value of subscribed and paid-in ordinary shares, the share premium of such shares and the amount of reserves and the retained earnings, less the deductions from the core capital and supplementary capital previously described, should exceed the sum of other positions which are part of the Bank's core capital.

The amount of subordinated instruments which are part of the supplementary capital is not to exceed 50% of the amount of core capital.

## Notes to the financial statements

### 4. Financial risk management (continued)

#### (e) Capital management (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

The Bank's guarantee capital position at 31 December was as follows:

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
<b>Core capital</b>		
Ordinary share capital	932,400	932,400
Reserves	631,669	550,690
Retained earnings	100,826	80,904
Less gain for the current year	(100,901)	(80,979)
Less patents, licenses, goodwill and other trademarks	(363)	(569)
Total	<u>1,563,631</u>	<u>1,482,446</u>
<b>Supplementary capital</b>		
Revaluation reserve	-	-
Total	<u>-</u>	<u>-</u>
<b>Gross guarantee capital</b>	1,563,631	1,482,446
Less Bank's capital investments in banks and other financial institutions	-	-
<b>Guarantee capital</b>	<u>1,563,631</u>	<u>1,482,446</u>
<b>Risk-weighted assets</b>		
Risk-weighted assets	2,120,286	2,153,619
Risk-weighted off-balance sheet items	19,036	20,757
Less Bank's capital investments in banks and other financial institutions	-	-
Total risk-weighted assets	<u>2,139,322</u>	<u>2,174,376</u>
<b>Capital ratios</b>		
Total guarantee capital expressed as a percentage of sum of total risk-weighted assets	73,1%	68,2%

## **Notes to the financial statements**

### **4. Financial risk management (continued)**

#### **(e) Capital management (continued)**

##### **Capital allocation**

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Supervisory Board.

### **5. Use of estimates and judgements**

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

These disclosures supplement the commentary on financial risk management (see note 4).

#### **Key sources of estimation uncertainty**

##### **Allowances for impairment losses on loans and advances**

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g)(vi).

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a 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.

## **Notes to the financial statements**

### **5. Use of estimates and judgements (continued)**

#### **Allowance for impairment of available for sale equity investments**

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, 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.

#### **Determining fair values**

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(v). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### **Critical accounting judgments in applying the Bank's accounting policies**

Critical accounting judgements made in applying the Bank's accounting policies include:

#### **Financial asset and liability classification**

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(j)(i).

## Notes to the financial statements

### 6. 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>	Note	Loans and receivables	Held-to-maturity	Other amortised cost	Total carrying amount	Fair value
<b>31 December 2008</b>						
Cash and cash equivalents	I3	210,350	-	-	210,350	210,350
Placements with other banks	I4	310,884	-	-	310,884	310,884
Loans and advances to banks	I5	2,171,917	-	-	2,171,917	2,171,917
Investment securities	I7	-	166,608	-	166,608	166,608
Other assets	20	12,901	-	-	12,901	12,901
		2,706,052	166,608	-	2,872,660	2,872,660
<b>Borrowed funds</b>						
Other liabilities	21	-	-	1,314,717	1,314,717	1,314,717
	24	-	-	5,206	5,206	5,206
		-	-	1,319,923	1,319,923	1,319,923
<b>31 December 2007</b>						
Cash and cash equivalents	I3	456,444	-	-	456,444	456,444
Placements with other banks	I4	462,642	-	-	462,642	462,642
Loans and advances to banks	I5	2,031,177	-	-	2,031,177	2,031,177
Other assets	20	9,119	-	-	9,119	9,119
		2,959,382	-	-	2,959,382	2,959,382
<b>Borrowed funds</b>						
Other liabilities	21	-	-	1,503,575	1,503,575	1,503,575
	24	-	-	4,812	4,812	4,812
		-	-	1,508,387	1,508,387	1,508,387

## **Notes to the financial statements**

### **6. Financial assets and liabilities (continued)**

*Loans and advances to banks:* The Bank is the only development bank in the Republic of Macedonia. There are no similar financial instruments on the market. Therefore, the interest rates that the Bank sets for these financial instruments are the market interest rates. The carrying amount of the loans at the balance sheet date approximates their fair value.

*Borrowed funds:* Bank's long term borrowings are borrowed from financial institutions that offer financial instruments with specific conditions, interest and maturity. There are no similar borrowings on the market. Therefore, the interest rates set by the financial institutions are the market interest rates. The fair value of borrowed funds is estimated as the present value of future cash flows, discounted at interest rates available at the balance sheet date to the Bank for new debt of similar type and remaining maturity. The carrying amount of the borrowed funds at the balance sheet date approximates their fair value.



## Notes to the financial statements

### 7. Net interest income

<i>In thousands of denars</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
<b>Interest income</b>			
Cash and cash equivalents	13	30,419	8,640
Placements with other banks	14	21,476	28,857
Loans and advances to banks	15	114,093	122,503
Loans and advances to customers	16	1,293	-
Investment securities	17	-	6,188
Total interest income		<u>167,281</u>	<u>166,188</u>
<b>Interest expense</b>			
Borrowed funds	21	<u>37,895</u>	<u>48,726</u>
Total interest expense		<u>37,895</u>	<u>48,726</u>
Net interest income		<u>129,386</u>	<u>117,462</u>

Interest income on investment securities in 2007 of MKD 6,188 thousand represents interest income from placed funds during the year in government bills from the Guarantee Fund of the Bank (see note 17).

### 8. Net fee and commission income

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
<b>Fee and commission income</b>		
Trust activities	2,597	6,880
Management fee	5,471	5,825
Letter of guarantees issued	3,557	5,524
Other	133	103
Total fee and commission income	<u>11,758</u>	<u>18,332</u>
<b>Fee and commission expense</b>		
Letter of guarantees obtained ceded to reinsurer	2,405	3,874
Other	546	960
Total fee and commission expense	<u>2,951</u>	<u>4,834</u>
Net fee and commission income	<u>8,807</u>	<u>13,498</u>

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia disbursing the loans from the Italian Credit Line, Self-employment Project and Sustainable Energy Project financed by the International Bank for Reconstruction and Development (IBRD) through domestic banks.

## Notes to the financial statements

### 8. Net fee and commission income (continued)

Part of the management fee in the amount of MKD 4,506 thousand (2007: MKD 4,330 thousand) represents fee income from managing deposits from the KfW credit line. The remainder of the management fee, in the amount of MKD 965 thousand (2007: MKD 1,495 thousand) represents fee income from managing the NEPA Foundation.

Fee and commission income for financial guarantees arise from issued letters of guarantees for short-term export arrangements. Fee and commission expense arise from financial guarantees from foreign reinsurers (see note 26).

### 9. Other operating income

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Release of impairment provision for off-balance sheet items	1,596	-
Other	2,974	1,776
	<u>4,570</u>	<u>1,776</u>

### 10. Personnel expenses

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Wages and salaries	13,588	12,970
Compulsory social security obligations	6,607	6,419
Payments to the members of the Supervisory Board	681	642
Other staff costs	1,958	2,399
	<u>22,834</u>	<u>22,430</u>

Other staff costs comprise of collective agreement expenses (allowances for food, transportation of employees, compensation for annual holiday).

## Notes to the financial statements

### 11. Other expenses

<i>In thousands of denars</i>	2008	2007
Materials and services	8,729	8,574
Costs for business trips	799	912
Representation and marketing costs	410	753
Insurance premiums	264	214
Training costs	209	846
Impairment provision for off balance sheet items	-	352
Other	1,293	1,126
	<u>11,704</u>	<u>12,777</u>

### 12. Income tax expenses

#### Recognised in the income statement

<i>In thousands of denars</i>	2008	2007
<b>Current tax expense</b>		
Current year	11,359	11,204
	<u>11,359</u>	<u>11,204</u>

#### Reconciliation of effective tax rate

<i>In thousands of denars</i>	2008	2008	2007	2007
Profit before income tax		<u>112,260</u>		<u>92,183</u>
Income tax using the domestic corporation tax rate	10.0%	11,226	12.0%	11,062
Non-deductible expenses	0.1%	133	0.2%	142
Total income tax expense in income statement	10.1%	<u>11,359</u>	12.2%	<u>11,204</u>

### 13. Cash and cash equivalents

<i>In thousands of denars</i>	2008	2007
Cash on hand	75	96
Balances with NBRM	92,434	167,986
Current accounts with foreign banks	31,994	55,913
Current accounts with domestic banks	21,780	-
Treasury bills	64,067	232,449
	<u>210,350</u>	<u>456,444</u>

### Notes to the financial statements

#### 13. Cash and cash equivalents (continued)

According to the changes of the Law for establishing the Macedonian Bank for Development Promotion made in 2008 the Bank is not obliged to keep obligatory reserve as at 31 December 2008. At 31 December 2007 cash and cash equivalents included MKD 13,902 thousand as obligatory reserve requirement in MKD.

Part of balances with NBRM in the amount of MKD 88,445 thousand (2007: MKD 80,965 thousand), represent funds from the Guarantee Fund of the Bank. These funds are used for issuing guarantees as collateral for long term loans approved by banks and other financial institutions in the Republic of Macedonia to micro, small and medium size traders, sole traders and craftsmen (see note 25) and are not interest bearing.

As at 31 December 2008 the Bank does not have invested funds from the Guarantee Fund in the treasury bills. As at 31 December 2007 part of the treasury bills in the amount of MKD 164,475 thousand represent funds invested from the Guarantee Fund of the Bank.

#### 14. Placements with other banks

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Placements with foreign banks	<u>310,884</u>	<u>462,642</u>
	<u>310,884</u>	<u>462,642</u>

#### 15. Loans and advances to banks

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Loans and advances to banks at amortised cost	<u>2,171,917</u>	<u>2,031,177</u>
	<u>2,171,917</u>	<u>2,031,177</u>

## Notes to the financial statements

### 15. Loans and advances to banks (continued)

#### Loans and advances to banks at amortised cost

<i>In thousands of denars</i>	Gross amount	Impairment allowance 2008	Carrying Amount	Gross amount	Impairment allowance 2007	Carrying amount
Support of export arrangement	165,733	(27,388)	138,345	225,192	(43,078)	182,114
Development promotion of small and medium enterprises	1,030,231	(43,174)	987,057	858,348	(38,657)	819,691
Working capital	37,862	(742)	37,120	19,860	(320)	19,540
German – Macedonian fund	7,133	(130)	7,003	20,201	(317)	19,884
German credit line	44,417	(35,112)	9,305	69,917	(35,579)	34,338
German micro-credit line	794,212	(15,085)	779,127	756,941	(14,343)	742,598
Council of Europe Development Bank	217,868	(3,908)	213,960	216,925	(3,913)	213,012
	<u>2,297,456</u>	<u>(125,539)</u>	<u>2,171,917</u>	<u>2,167,384</u>	<u>(136,207)</u>	<u>2,031,177</u>

#### Allowances for impairment

<i>In thousands of denars</i>	2008	2007
<b>Specific allowances for impairment</b>		
Balance at 1 January	136,207	153,925
Impairment loss for the year		
Release of impairment	(10,668)	(17,718)
Balance at 31 December	<u>125,539</u>	<u>136,207</u>

### 16. Loans and advances to customers

<i>In thousands of denars</i>	2008	2007
Loans and advances to customers at amortised cost	36,709	31,349
Less specific allowance for impairment	<u>(36,709)</u>	<u>(31,349)</u>
	<u>-</u>	<u>-</u>

**Notes to the financial statements**

**16. Loans and advances to customers (continued)**

**Allowances for impairment**

*In thousands of denars* **2008** **2007**

**Specific allowances for impairment**

Balance at 1 January	31,349	14,694
Impairment loss for the year		
Charge for the year	5,360	16,655
Balance at 31 December	36,709	31,349

**17. Investment securities**

*In thousands of denars* **2008** **2007**

Held-to-maturity investment securities	166,608	-
	166,608	-

**Held-to-maturity investment securities with fixed interest rate**

*In thousands of denars* **2008** **2007**

Government bills	166,608	-
	166,608	-

**Specific allowances for impairment for available-for-sale investment securities**

Balance at 1 January	-	367
Write-offs	-	(367)
Balance at 31 December	-	-

As at 31 December 2008 (2007: none) government bills represent investments from the Guarantee fund of the Bank. The Bank can place up to 70% of the funds in short-term securities issued by the Government of the Republic of Macedonia and NBRM with maturity up to three months.

## Notes to the financial statements

### 18. Property and equipment

<i>In thousands of denars</i>	<b>Buildings</b>	<b>Furniture &amp; equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
<b>Cost</b>				
Balance at 1 January 2007	120,584	18,473	5,198	144,255
Acquisitions	-	392	-	392
Balance at 31 December 2007	<u>120,584</u>	<u>18,865</u>	<u>5,198</u>	<u>144,647</u>
Balance at 1 January 2008	120,584	18,865	5,198	144,647
Acquisitions	-	1,847	-	1,847
Disposals and write-offs	-	(175)	-	(175)
Balance at 31 December 2008	<u>120,584</u>	<u>20,537</u>	<u>5,198</u>	<u>146,319</u>
<b>Depreciation</b>				
Balance at 1 January 2007	4,997	9,963	4,352	19,312
Depreciation for the period	3,015	2,504	696	6,215
Balance at 31 December 2007	<u>8,012</u>	<u>12,467</u>	<u>5,048</u>	<u>25,527</u>
Balance at 1 January 2008	8,012	12,467	5,048	25,527
Depreciation for the period	3,014	2,397	150	5,561
Disposals	-	(175)	-	(175)
Balance at 31 December 2008	<u>11,026</u>	<u>14,689</u>	<u>5,198</u>	<u>30,913</u>
<b>Carrying amounts</b>				
Balance at 31 December 2007	<u>115,587</u>	<u>8,510</u>	<u>846</u>	<u>124,943</u>
Balance at 31 December 2007	<u>112,572</u>	<u>6,398</u>	<u>150</u>	<u>119,120</u>
Balance at 31 December 2008	<u>109,558</u>	<u>5,848</u>	<u>-</u>	<u>115,406</u>

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

## Notes to the financial statements

### 19. Intangible assets

<i>In thousands of denars</i>	<b>Software and licences</b>
<b>Cost</b>	
Balance at 1 January 2007	3,072
Acquisitions	1,359
Balance at 31 December 2007	<u>4,431</u>
Balance at 1 January 2008	4,431
Acquisitions	405
Balance at 31 December 2008	<u>4,836</u>
<b>Amortisation</b>	
Balance at 1 January 2007	1,508
Amortisation for the period	722
Balance at 31 December 2007	<u>2,230</u>
Balance at 1 January 2008	2,230
Amortisation for the period	779
Balance at 31 December 2008	<u>3,009</u>
<b>Carrying amounts</b>	
Balance at 1 January 2007	<u>1,564</u>
Balance at 31 December 2007	<u>2,201</u>
Balance at 31 December 2008	<u>1,827</u>

### 20. Other assets

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Accrued commission	1,079	1,766
Management fee receivables	2,284	2,185
Receivables from sold assets acquired through foreclosure procedures	4,346	4,719
Other	5,192	449
	<u>12,901</u>	<u>9,119</u>



## Notes to the financial statements

### 21. Borrowed funds

This note provides information about the contractual terms of the Bank's interest-bearing loans and borrowings. For more information about the Bank's exposure to interest rate and foreign currency refer to note 4.

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Borrowed funds	<u>1,314,717</u>	<u>1,503,575</u>
	<u>1,314,717</u>	<u>1,503,575</u>

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of denars</i>	Curre ncy	Nominal interest rate	Year of maturity	31 Dec 2008		31 Dec 2007	
				Face value	Carrying amount	Face value	Carrying amount
German credit line (KfW)	EUR	EURIBOR + six-month 1.85%	2003-2010	95,860	95,860	352,210	352,210
German micro - credit line (KfW) second tranche	EUR	0.75%-2.00%	2014-2044	379,823	379,823	378,520	378,520
German micro - credit line (KfW) third tranche	EUR	2.00%	2017-2037	470,910	470,910	406,991	406,991
Ministry of Finance	MKD	1.00%	2011-2031	150,872	150,872	149,475	149,475
Council of Europe Development Bank (CEB)	EUR	three-month EURIBOR plus 0.28%	2009-2013	217,252	217,252	216,379	216,379
				<u>1,314,717</u>	<u>1,314,717</u>	<u>1,503,575</u>	<u>1,503,575</u>

Borrowed funds for German micro - credit line (KfW) second tranche and German micro - credit line (KfW) third tranche are secured with the guarantees from the Republic of Macedonia. German credit line (KfW) and borrowing from Council of Europe Development Bank (CEB) are secured with the guarantees from the Government of the Republic of Macedonia.

### 22. Impairment provisions related to off balance sheet items

<i>In thousands of denars</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
Balance at 1 January		4,115	3,763
(Release) / provisions during the year	9, 11	<u>(1,596)</u>	<u>352</u>
Balance at 31 December	26	<u>2,519</u>	<u>4,115</u>

## Notes to the financial statements

### 23. Net liabilities from managed funds

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Receivables from managed funds	1,026,684	646,579
Liabilities from managed funds	<u>1,026,684</u>	<u>(646,579)</u>
	<u><u>-</u></u>	<u><u>-</u></u>

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia, disbursing the credits from the Italian credit line, funds from the Republic of Macedonia for Self - employment Project and the funds from IBRD for the Sustainable Energy Project to the final borrowers through selected commercial banks from the Republic of Macedonia.

### 24. Other liabilities

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Government grant (Deferred income)	815	815
Insurance premium	709	432
Suppliers payable	544	707
Other	<u>3,138</u>	<u>2,858</u>
	<u><u>5,206</u></u>	<u><u>4,812</u></u>

### 25. Capital and reserves

<i>Share capital</i>	<b>Ordinary shares</b>	
<i>In number of shares</i>	<b>2008</b>	<b>2007</b>
Issued and fully paid at 1 January	<u>300,000</u>	<u>300,000</u>
Issued and fully paid at 31 December	<u><u>300,000</u></u>	<u><u>300,000</u></u>

At 31 December 2008, the authorised share capital comprised 300,000 (2007: 300,000) ordinary shares. Ordinary shares have a par value of MKD 3,108. The State as sole shareholder is entitled to receive dividends as declared from time to time and is entitled to one vote per share at the meetings of the shareholders of the Bank. According to the Law for establishing the Macedonian Bank for Development Promotion, dividends that relate to the State are distributed to the Bank's reserves. All shares rank equally with regard to the Bank's residual assets. All share capital is State owned.

#### *Reserves*

The Bank's reserves consist of allocation of profit and can be used for loss recovery. Such reserves can not be distributed to the shareholders as dividends, except in the case of the Bank's liquidation.

## Notes to the financial statements

### 25. Capital and reserves (continued)

#### *Reserves for Security*

Reserves for Security are for risk management regarding insurance and reinsurance of receivables based on export arrangements from commercial and non commercial risks, as well as insurance and passive reinsurance of foreign investments in the Republic of Macedonia and investments of domestic entities abroad from non commercial risks.

The Reserves for Security are created by setting aside part of the insurance premiums collected and as appropriation of the retained earning, profit-share of the state. The level of the Reserves for Security is decreed by the Government of the Republic of Macedonia.

#### *Guarantee fund*

The Guarantee Fund is used for issuing guarantees as collateral for long term loans approved by banks and other financial institutions in the Republic of Macedonia to micro, small and medium size traders, sole traders and craftsmen. The exposure of the Guarantee Fund towards a single bank can not exceed the amount of the Guarantee fund. The Fund guarantees maximum one third of the loans up to EUR 150,000 taking in consideration that the amount of the guarantee can not exceed EUR 35,000. The Guarantee Fund is provided from the Budget of the Republic of Macedonia as non refundable deposit in the amount of MKD 265,000 thousand, domestic and foreign donations, commission income for issued guarantees, income from investments and other sources. The funds of the Guarantee Fund are kept at a separate account with NBRM.

### 26. Contingencies

The Bank has contingent liabilities arising from issued letters of guarantees for short-term export arrangements. The Bank obtains letters of guarantees from foreign insurance institutions in the amount of 70% to 90% (2007: 70% to 90%) of the guaranteed amount.

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

<i>In thousands of denars</i>	<i>Note</i>	<b>2008</b>	<b>2007</b>
Payment guarantees		113,280	92,827
Commitments to lend		59	29,499
Impairment provisions related to off-balance sheet items	22	(2,519)	(4,115)
		<u>110,820</u>	<u>118,211</u>

## Notes to the financial statements

### 27. Related parties

According to the Bank's Articles of Association, the supreme body is the Assembly of the Bank. The overall control of the Bank is with the non-executive Supervisory Board ("the Managing Board") which is consisted of the representatives of the State, and acts on its behalf. Members of the Supervisory Board are appointed by the Government of the Republic of Macedonia.

The Bank can not approve loans and extend guarantees to the State, to public enterprises or to institutions funded by the State's budget.

#### *Transactions with government institutions*

At the year end the transactions with government institutions, identified as related parties, were as follows:

#### (i) *Investment securities from related parties*

<i>In thousands of denars</i>	<b>Government institutions</b>	
	<b>2008</b>	<b>2007</b>
Investment securities at 1 January	-	158,277
Proceeds from investment securities	-	(158,277)
Acquisition of investment securities	166,608	-
Investment securities outstanding at 31 December	<u>166,608</u>	<u>-</u>
Interest income earned	<u>-</u>	<u>6,188</u>

#### (ii) *Borrowed funds from related parties*

<i>In thousands of denars</i>	<b>Government institutions</b>	
	<b>2008</b>	<b>2007</b>
Borrowed funds at 1 January	149,475	144,439
Proceeds from borrowings during the year	-	980
Accrued interest	1,397	4,056
Borrowed funds at 31 December	<u>150,872</u>	<u>149,475</u>
Interest expense on borrowed funds	<u>1,427</u>	<u>1,386</u>

**Notes to the financial statements**

**27. Related parties (continued)**

**(iii) Other transactions with related parties**

<i>In thousands of denars</i>	<b>Government institutions</b>	
	<b>2008</b>	<b>2007</b>
Fee end commission income from trust activities	2,597	6,880
Other liabilities – deferred income from government grant	815	815

**(iv) Key management personnel compensation**

<i>In thousands of denars</i>	<b>2008</b>	<b>2007</b>
Short-term employee benefits	8,604	9,824
	8,604	9,824

**28. 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 addition, there have also been significant changes in the taxation of the natural persons.

In February 2009 the Bank received from the Government of the Republic of Macedonia funds in the amount of MKD 360,000 thousand for the Self-employment project.