

**MACEDONIAN BANK FOR DEVELOPMENT  
PROMOTION A.D., SKOPJE**

**Financial Statements and  
Independent Auditors' Report  
for the Years Ended  
31 December 2004 and 2003**

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## INDEPENDENT AUDITORS' REPORT

### TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A. D., SKOPJE

We have audited the accompanying balance sheets of Macedonian Bank for development promotion A.D., Skopje (further referred to as "the Bank") as of 31 December 2004 and 2003, and the related statements of income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of 31 December 2004 and 2003, and the results of its operations, changes in equity and cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*Deloitte dooel*

Deloitte DOOEL

Skopje

25 March 2005

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**BALANCE SHEETS**

At 31 December 2004 and 2003

(Expressed in thousands of Denars)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>			
Cash and balances with the Central Bank	11	1,130,648	423,589
Loans to other banks	12	913,794	1,474,204
Securities available-for-sale	13.1	355	353
Securities held-to-maturity	13.2	259,207	-
Equipment	14	4,396	3,575
Intangible assets	14	212	233
Assets held for resale	15	9,685	-
Other receivables		<u>2,952</u>	<u>2,605</u>
<b>Total assets</b>		<u>2,321,249</u>	<u>1,904,559</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Loans payables	16	1,207,643	879,830
Other liabilities	17	12,924	6,039
Liabilities from managed funds, net	18	104,021	53,188
<b>Total liabilities</b>		<u>1,324,588</u>	<u>939,057</u>
<b>Equity</b>			
Share capital	19	932,400	932,400
Bank's reserves		34,211	30,268
Retained earnings		30,050	2,834
<b>Total equity</b>		<u>996,661</u>	<u>965,502</u>
<b>Total liabilities and equity</b>		<u>2,321,249</u>	<u>1,904,559</u>
<b>CONTINGENT LIABILITIES</b>	20	<u>134,470</u>	<u>34,153</u>


The accompanying notes  
are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 23 February 2005.

Signed on behalf of Macedonian Bank for Development Promotion A.D., Skopje

  
Vojislav Bislimovski  
First General Manager



  
Sabina Fakic  
Second General Manager

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**STATEMENTS OF INCOME**

**Years Ended 31 December 2004 and 2003**

**(Expressed in thousands of Denars)**

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Interest income	4	118,982	114,219
Interest expense	4	<u>(29,887)</u>	<u>(33,208)</u>
<b>Net interest income</b>		89,095	81,011
Fee and commission income	5	18,299	15,626
Fee and commission expense	5	<u>(7,739)</u>	<u>(5,338)</u>
<b>Net fee and commission income</b>		10,560	10,288
Foreign exchange gains, net		1,019	6,438
Other operating income	6	3,468	509
Loss on impairment and uncollectability and provision for contingent liabilities, net	7	(24,238)	(94,916)
Other operating expenses	8	<u>(42,657)</u>	<u>(36,804)</u>
<b>Profit/(Loss) before extraordinary items and taxation</b>		37,247	(33,474)
Extraordinary items	9	<u>-</u>	<u>39,095</u>
<b>Profit before taxation</b>		37,247	5,621
Income tax	10	<u>(6,088)</u>	<u>(1,661)</u>
<b>Net profit for the year</b>		<u>31,159</u>	<u>3,960</u>

The accompanying notes  
are an integral part of these financial statements.

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**Years ended 31 December 2004 and 2003**

**(Expressed in thousands of Denars)**

	<u>Share Capital</u>	<u>Bank's Reserves</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance at 1 January 2003	932,400	17,408	11,734	961,542
Net profit for the year	-	-	3,960	3,960
Allocation of profit	-	12,860	(12,860)	-
Balance 31 December 2003	<u>932,400</u>	<u>30,268</u>	<u>2,834</u>	<u>965,502</u>
Balance at 1 January 2004	932,400	30,268	2,834	965,502
Net profit for the year	-	-	31,159	31,159
Allocation of profit	-	3,943	(3,943)	-
Balance 31 December 2004	<u>932,400</u>	<u>34,211</u>	<u>30,050</u>	<u>996,661</u>

The accompanying notes  
are an integral part of these financial statements.

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**STATEMENTS OF CASH FLOWS**  
**Years ended 31 December 2004 and 2003**  
**(Expressed in thousands of Denars)**

	<u>2004</u>	<u>2003</u>
<b>Profit before taxation</b>	37,247	5,621
<i>Adjustments for:</i>		
Depreciation and amortization	3,101	3,776
Loss on impairment and uncollectability	27,068	94,916
Undistributed profit in investments available for sale	-	(125)
Foreign exchange gains, net	<u>(1,019)</u>	<u>(6,438)</u>
	66,397	97,750
Net (increase)/decrease in operating assets:		
Loans to banks	533,342	(208,157)
Other assets	(11,223)	3,269
Net increases in operating liabilities:		
Other liabilities	54,817	42,592
Income taxes paid	<u>(1,595)</u>	<u>(1,661)</u>
<b>Net cash from/(used in) operating activities</b>	641,738	(66,207)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in investments held to maturity	(259,207)	-
Purchase of fixed assets, net	<u>(3,285)</u>	<u>(347)</u>
<b>Net cash used in investing activities</b>	(262,492)	(347)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase/(decrease) in borrowings	<u>327,813</u>	<u>(8,165)</u>
<b>Net cash from/(used in) financing activities</b>	327,813	(8,165)
 <b>Net increase (decrease)</b>		
<b>in cash and cash equivalents</b>	707,059	(74,719)
Cash and cash equivalents, beginning of year	<u>423,589</u>	<u>498,308</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>1,130,648</u></u>	<u><u>423,589</u></u>

The accompanying notes  
are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

**31 December 2004 and 2003**

**1. PRINCIPAL ACTIVITIES**

Macedonian Bank for Development Promotion A.D., Skopje (further referred to as “the Bank”) was established as a state owned joint stock company on 23 October 1998. The Bank’s head office is located at 3-ta Makedonska brigada bb, Skopje, Republic of Macedonia.

The Bank operates in accordance with the banking regulations, under the supervision of the Central Bank of the Republic of Macedonia. The Bank is liable for its liabilities with the total of its assets and has no right to any intervention or cover of losses from the State Budget.

The major activities of the Bank include financing of start-up of business and development of small and medium sized enterprises and export-oriented production. These activities are implemented through providing short-term and long-term loans, granting loans for export financing, issuing guarantees for export oriented enterprises and providing short-term insurance of the export from commercial risks. The financial products of the Bank are offered at market terms through participating banks in the Republic of Macedonia, which bear the ultimate risk of collection of the receivables.

The total number of Bank’s employees as of 31 December 2004 and 2003 is 25 and 23, respectively.

**2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND COMPARATIVE FIGURES**

**2.1. Basis of Presentation of Financial Statements**

These financial statements have been prepared in accordance with standards and interpretations approved by the International Accounting Standards Board, which are now referred to as International Financial Reporting Standards (IFRS). These standards and interpretations were previously known as International Accounting Standards (IAS).

The presentation of financial statements in accordance with IFRS requires management to make best estimates and reasonable assumptions that effect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as their reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on the information available as of the date of the financial statements, and the future actual results could differ from those estimates.

The currency used in these financial statements is Macedonian Denar.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1. Income and Expense Recognition**

Interest income and interest expense, other operating income and expenses are accounted for on an accrual basis. Fee and commission receivable are recognized when earned.

Fees from managed assets are recognized when loans are disbursed to the final borrowers.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.2. Foreign Exchange Translation**

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia (NBRM), which is the Central Bank of the Republic of Macedonia, at the dates of the transactions.

Assets and liabilities denominated in foreign currencies are translated at the balance sheet date using official rates of exchange ruling on that date, which approximate prevailing market rates.

Net foreign exchange gains or losses, resulting from foreign currency translation, are included in the statement of income in the period in which they arose.

**3.3. Loans to banks and Allowances for Impairment and Uncollectability**

Loans originated by the Bank are initially recognized at cost, when cash is advanced to the banks. They are subsequently measured at amortized cost using the effective interest rate.

Loans and advances to banks are stated net of losses for impairment. The determination of the allowance for impairment losses is based on an analysis of the loan portfolio and reflects the amount, which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific allowances are made as a result of a detailed appraisal of risk assets. In additions, allowances are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The total increase in the allowance for impairment losses is charged to the income statement and the total of the allowance is deducted in arriving at loans and advances to banks. Management's evaluation of the allowance is based on the Bank's past experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

**3.4. Investments available for sale**

Available for sale securities are those financial assets that are not classified as financial assets held for trading or held-to-maturity investments. This portfolio comprises unquoted equity investments in shares of banks and other financial institutions, where the Bank does not exercise control. These securities are stated at cost, less allowance for impairment.

**3.5. Held-to-maturity investments**

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. This portfolio comprises government bonds issued by the Government of the Republic of Macedonia with short-term maturity. These securities are measured at amortized cost using the effective interest rate method.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.6. Equipment and Intangible Fixed Assets**

Equipment and intangible assets are recorded at cost less accumulated depreciation and accumulated impairment loss, if any. The initial cost of equipment and intangible assets comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation based on the prior year end amounts and cost of additions during the year is calculated on a straight line basis at the following prescribed annual minimum rates in order to allocate of the depreciable amount of the assets over their estimated useful lives as follows:

<u>Annual rates applied</u>	<u>2004-2003</u>
Computers	25%
Motor vehicles	20%
Furniture and equipment	10%-25%
Intangible assets	25%

When depreciable assets are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the respective accounts. Any gains or losses on disposal are recognized in operating revenues or operating costs respectively.

**3.7. Cash and Cash Equivalents**

Cash and cash equivalents, for purposes of the statement of cash flows, include cash on current account, other cash balances and treasury bills with maturity less than one month.

**3.8. Managed Funds**

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

**3.9. Provision for contingent liabilities**

In the normal course of business, the Bank enters into credit related commitments which are recorded in off balance sheet accounts and include commitments related to export credit insurance against commercial risks. In order to cover the risk from uncollectability the insurance contracts of the Bank are 95% re-insured within the foreign re-insurer. Specific provisions are made for estimated losses on the outstanding balance net of re-insurance on the same basis as set out in note 3.3.

**3.10. Employment Benefits**

The Bank does not have defined benefit plans or share-based remuneration options as of 31 December 2004 and 2003. The management estimates that the present value of the future obligations to employees with respect to retirement benefits are not materially significant at 31 December 2004 and 2003. The Bank's management has not performed a calculation of the present value of the relating liabilities.

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**3.11. Taxation**

Taxation is calculated in accordance with the provisions of the relevant legislation of the Republic of Macedonia based on the profit or loss recognized in the income statement prepared pursuant to Macedonian fiscal regulations. The estimated tax on monthly profit is paid in advance as determined by the tax authorities. Final taxes on profit of 15% are payable based on the annual profit shown in the statutory profit and loss account.

Deferred income tax is provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss). Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized, unless the deferred asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

**4. INTEREST INCOME AND EXPENSE**

Interest income and expense can be analyzed by the sectors to which loans and advances have been granted, and the related sources of borrowings obtained, as follows:

	<b>In thousands of Denars</b>			
	<b>Years ended 31 December</b>			
	<b>2004</b>		<b>2003</b>	
	<u><b>Income</b></u>	<u><b>Expense</b></u>	<u><b>Income</b></u>	<u><b>Expense</b></u>
Interest on loans, securities held to maturity and borrowings:				
- Banks and financial institutions	99,230	28,396	107,399	31,964
- Foreign banks	14,727	97	6,820	154
- Government and local authorities	<u>5,025</u>	<u>1,394</u>	<u>-</u>	<u>1,090</u>
	<u>118,982</u>	<u>29,887</u>	<u>114,219</u>	<u>33,208</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**5. FEE AND COMMISSION INCOME AND EXPENSE**

	<b>In thousands of Denars</b>	
	<b>Years ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
<b>Income</b>		
- commission business	16,091	13,707
- insurance premium written	2,208	1,794
- other	-	125
	<u>18,299</u>	<u>15,626</u>
<b>Expenses</b>		
- commission business	5,096	3,633
- insurance premium ceded	1,855	1,207
- prior year expenses for insurance premium ceded	267	348
- other	521	150
	<u>7,739</u>	<u>5,338</u>

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia, disbursing the loans from Italian Credit Line to the final borrowers through selected commercial banks in the Republic of Macedonia. Fees and commissions arising from the financial services provided by the Bank, related to the managed funds are calculated in the range from 4% to 5% on the amount of loans disbursed to the final borrowers. On received funds from the Italian Credit Line the Bank is paying commission fee of 1.75%.

The fees and commissions from premiums for export credit insurance and re-insurance against commercial risks are calculated based on the risk category of the country where the export is performed and accordingly, the Bank accrues insurance premiums in the rate range of 0.01% to 2.5%, calculated on the monthly amount of goods that has been exported. According to the agreement with the re-insurer, the re-insurer receives the proportion of 95% of the original gross premiums received by the Bank, after the deduction of the Bank's allowed commission at the rate of 18%.

**6. OTHER OPERATING INCOME**

	<b>In thousands of Denars</b>	
	<b>Years ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
Investment income	-	125
Capital gains	392	-
Income from rights assigned by DEG	2,873	-
Other	203	384
	<u>3,468</u>	<u>509</u>

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2004 and 2003

7. LOSS ON IMPAIRMENT AND UNCOLLECTABILITY AND PROVISION FOR CONTINGENT LIABILITIES

a. Charge for the Year/(Release)

	In thousands of Denars Years ended 31 December	
	2004	2003
- loans to banks and financial institutions	25,631	92,537
- investments available for sale	(2)	9
- contingent liabilities	(1,391)	2,370
	<u>24,238</u>	<u>94,916</u>

b. Movements in the balance of allowance for impairment and uncollectability and provision for contingent liabilities for 2004 and 2003

	In thousand of Denars Year ended 31 December 2004			
	Loans to banks	Investments available for sale	Contingent liabilities	Total
Balance, beginning of year	144,119	14	4,284	148,417
Charge for the year/(release), net	25,631	(2)	(1,391)	24,238
Accrued penalties on bad and doubtful receivables	18,249	-	-	18,249
Balance, end of year	<u>187,999</u>	<u>12</u>	<u>2,893</u>	<u>190,904</u>

	In thousand of Denars Year ended 31 December 2003			
	Loans to banks	Investments available for sale	Contingent liabilities	Total
Balance, beginning of year	45,932	5	1,914	47,851
Charge for the year, net	92,537	9	2,370	94,916
Accrued penalties on bad and doubtful receivables	5,650	-	-	5,650
Balance, end of year	<u>144,119</u>	<u>14</u>	<u>4,284</u>	<u>148,417</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**8. OTHER OPERATING EXPENSES**

	<b>In thousands of Denars</b>	
	<b>Years ended 31 December</b>	<b>2003</b>
	<b>2004</b>	<b>2003</b>
Material and services	7,608	5,930
Depreciation and amortization	3,101	3,776
Publicity and entertainment	1,655	1,809
Gross salaries and other personnel expenses	22,404	18,408
Taxes	334	188
Rent	4,372	4,383
Court claims and out of court settlements	1,713	258
Insurance premium	367	887
Allocation of 1% to the Guarantee fund referring to prior year	-	551
Other expenses	1,103	614
	<u>42,657</u>	<u>36,804</u>

**9. EXTRAORDINARY ITEMS**

Extraordinary items for FY 2003, in the amount of Denar 39,095 thousand include amount of Denar 30,180 thousand related to the write off of non-repayable Guarantee Fund. Based on the settlement agreement signed on 19 December 2003 between DEG, the Bank and the Ministry of finance of the Republic of Macedonia, the Bank is obliged to repay the liabilities related to the Credit Fund on the discounted bases starting from 1 December 2003 to 30 June 2004. The aforementioned agreement stipulates that upon the payment of liabilities, all rights and obligations of the Bank shall be considered as completely fulfilled. Pursuant to the stipulations of the settlement agreement the Bank's management has written off a non-repayable Guarantee Fund, and recognized extraordinary income in the amount of Denar 30,180 thousand. As of 31 December 2004 the Bank has no outstanding liabilities with respect to the aforescribed agreement.

**10. INCOME TAX**

	<b>In thousands of Denars</b>	
	<b>Year Ended 31</b>	<b>Year Ended 31</b>
	<b>December</b>	<b>December</b>
	<b>2004</b>	<b>2003</b>
Profit before taxation	37,247	5,621
Adjustments to statutory result not recognized for the tax purposes	-	(16)
Profit before taxation as stated in the statutory financial statements	<u>37,247</u>	<u>5,605</u>
Income tax at the statutory rate of 15%	5,587	841
Tax effect of expenses that are not deductible in determining taxable profit	<u>501</u>	<u>820</u>
Income tax	<u><u>6,088</u></u>	<u><u>1,661</u></u>

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 December 2004 and 2003**

**11. CASH AND BALANCES WITH THE CENTRAL BANK**

	<b>In thousands of Denars</b>	
	<b>31 December 2004</b>	<b>31 December 2003</b>
Cash on hand	100	93
Balances with the Central Bank	10,229	56,407
Foreign currency accounts at call:		
- with foreign banks	772,221	367,089
Treasury bills	348,098	-
	<u>1,130,648</u>	<u>423,589</u>

As of 31 December 2004, the amount of Denar 640,225 thousand included within foreign currency accounts at call held with foreign banks relates to funds held with two banks from the European Union countries.

As of 31 December 2004, the amount of Denar 348,098 thousand relates to treasury bills issued by the National Bank of the Republic of Macedonia with maturity up to 28 January 2005 and annual yield of 10%.

**12. LOANS TO OTHER BANKS**

	<b>In thousands of Denars</b>					
	<b>31 December 2004</b>			<b>31 December 2003</b>		
	<b>Up to one year</b>	<b>Over one year</b>	<b>Total</b>	<b>Up to one year</b>	<b>Over one year</b>	<b>Total</b>
In Denars:						
- Loans for support of export arrangements with interest rate of 8% p.a.	279,895		279,895	650,678	-	650,678
- Loans from German - Macedonian fund credited through banks with interest rate of 8% p.a.	-	46,963	46,963	-	52,406	52,406
- Loans for development of small and medium sized enterprises with interest rate of 8% p.a.	-	103,718	103,718	37,749	80,214	117,963
	<u>279,895</u>	<u>150,681</u>	<u>430,576</u>	<u>688,427</u>	<u>132,620</u>	<u>821,047</u>
In Forex:						
- Loans from German credit line with interest rate of 8% p.a.	-	615,219	615,219	86,126	647,629	733,755
- Loans from German - Macedonian fund with interest rate of 5.5% p.a.	-	55,998	55,998	-	63,521	63,521
	<u>-</u>	<u>671,217</u>	<u>671,217</u>	<u>86,126</u>	<u>711,150</u>	<u>797,276</u>
Current maturities of loans over one year	356,261	(356,261)	-	435,490	(435,490)	-
	<u>636,156</u>	<u>465,637</u>	<u>1,101,793</u>	<u>1,210,043</u>	<u>408,280</u>	<u>1,618,323</u>
Less: Allowance for impairment and uncollectability	(147,283)	(40,716)	(187,999)	(141,803)	(2,316)	(144,119)
	<u>488,873</u>	<u>424,921</u>	<u>913,794</u>	<u>1,068,240</u>	<u>405,964</u>	<u>1,474,204</u>

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2004 and 2003

13. INVESTMENTS

13.1 Securities available for sale

	In thousands of Denars	
	31 December 2004	31 December 2003
Unquoted equity investments in banks and other financial institutions in Denars	367	367
Less: Allowance for impairment and uncollectability	(12)	(14)
	<u>355</u>	<u>353</u>

13.2 Securities held-to-maturity

As of 31 December 2004, securities held-to-maturity in the amount of Denar 259,207 thousand represent bonds issued by the Government of the Republic of Macedonia, with maturities from 3 to 6 months and annual interest rate ranging from 8.80 percent to 9.50 percent.

14. EQUIPMENT AND INTANGIBLE ASSETS

a) Movements of fixed assets in 2004

	In thousands of Denars			
	Furniture and equipment	Motor vehicles	Total	Intangible Assets
<b>Cost</b>				
Balance at 1 January 2004	10,638	3,873	14,511	1,306
Additions during the year	920	2,784	3,704	197
Disposals	-	(1,459)	(1,459)	-
Balance at 31 December 2004	<u>11,558</u>	<u>5,198</u>	<u>16,756</u>	<u>1,503</u>
<b>Accumulated depreciation and amortization</b>				
Balance at 1 January 2004	8,198	2,738	10,936	1,073
Charge for the year	1,642	1,241	2,883	218
Disposals	-	(1,459)	(1,459)	-
Balance at 31 December 2004	<u>9,840</u>	<u>2,520</u>	<u>12,360</u>	<u>1,291</u>
<b>Net book value</b>				
<b>31 December 2004</b>	<u>1,718</u>	<u>2,678</u>	<u>4,396</u>	<u>212</u>
<b>31 December 2003</b>	<u>2,440</u>	<u>1,135</u>	<u>3,575</u>	<u>233</u>

15. ASSETS HELD FOR RESALE

As of 31 December 2004 non-monetary assets received in settlement of debts comprise residential apartments in the amount of Denar 9,685 thousands (2003 - nil). The Bank intends to sell these assets in the near future.

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31 December 2004 and 2003

16. LOANS PAYABLE

	In thousands of Denars	
	31 December 2004	31 December 2003
	<u>Long term</u>	<u>Long term</u>
By sources:		
- German credit line - Kreditanstalt fuer Wiederbau (KfW) - for credit support of modernization and expansion of existing private small and medium-sized enterprises, as well as the creation of new ones by providing medium and long-term credits for investments, with repayment period of 11 years set in equal semiannual installments, 3 years grace period included and interest of EURIBOR plus 1.85% p.a. The total loan should be fully repaid on 25 August 2010.	699,622	757,556
- German credit line - Kreditanstalt fuer Wiederbau (KfW) - for credit support of the existing German-Macedonian fund ("GMF"), which is designed to refinance loans to micro, small and medium-sized enterprises for the purpose of financing fixed and current assets, with repayment period of 40 years set in equal semiannual installments, 10 years grace period which will be disbursed in two tranche with interest rate of 0.75% and 2.00% p.a. The total loan should be fully repaid on 30 December 2044.	379,190	-
- Credit fund financed by German government - for credit support of Macedonian residents returnees from FR Germany as well as support of small and medium sized enterprises, with repayment period of 30 years set in equal semiannual installments, 10 years grace period included and interest rate of 2% p.a. The total loan should be fully repaid on 30 June 2026	128,831	122,274
	<u>1,207,643</u>	<u>879,830</u>
Current portion of long term borrowings	<u>(114,956)</u>	<u>(114,928)</u>
	<u>1,092,687</u>	<u>764,902</u>

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**17. OTHER LIABILITIES**

	<b>In thousands of Denars</b>	
	<b>31 December 2004</b>	<b>31 December 2003</b>
Due for income tax	4,493	201
Trade payables	1,992	676
Advances received	1,442	-
Provision for contingent liabilities	2,893	4,284
Other liabilities:		
- in Denars	1,943	668
- in foreign currencies	161	210
	<u>12,924</u>	<u>6,039</u>

**18. LIABILITIES FROM MANAGED FUNDS, NET**

	<b>In thousands of Denars</b>	
	<b>31 December 2004</b>	<b>31 December 2003</b>
Receivables from managed funds	324,039	171,382
Liabilities from managed funds	<u>(428,060)</u>	<u>(224,570)</u>
	<u>(104,021)</u>	<u>(53,188)</u>

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia, disbursing the credits from Italian Credit Line to the final borrowers through selected commercial banks from the Republic of Macedonia. The funds are disbursed with 5.5 years grace period and should be repaid by the Bank within the 15 years repayment period in 30 equal semi-annual installments. The Bank pays commission fee of 1.75% on received funds. The Bank is placing the abovementioned funds to the commercial banks with one and half years grace period and repayment in 22 equal quarterly installments. The Bank bears no credit risk with respect to loans transferred to the commercial banks. Commercial banks are placing received funds to final borrowers at annual interest rate of 7%. The net liability from managed funds in the amount of Denar 104,021 thousands (2003 – Denar 53,188 thousands) reflects the timing difference arising from the mismatching grace period of the disbursed and placed funds from the abovementioned credit line.

**19. EQUITY**

The share capital of the Bank as of 31 December 2004 consists of 300,000 common shares owned by the Government of the Republic of Macedonia, with a par value of Denar 3,108 each.

The holder of common shares has the right to take part in the management of the Bank through voting rights at shareholders meetings as well as in the profit distribution.

The Bank's Reserves consist of allocations of profit and can be used to off-setting of losses. Such reserves are not distributable to shareholders except in the case of the Bank's liquidation.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**20. CONTINGENT LIABILITIES**

The bank is exposed to customers for export credit insurance against commercial risk. The Bank covers the risk of uncollectability of receivables of its customers from exported goods and services. The insurance contracts are re-insured to Slovenska izvozna druzba, d.d., Ljubljana. Summary of the Bank's net exposure is as follows:

	<b>In thousands of Denars</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>
Receivables insured	134,470	34,153
Re-insurance	(127,747)	(32,445)
<b>Total exposure, net of reinsurance</b>	<b><u>6,723</u></b>	<b><u>1,708</u></b>

The provision for contingent liabilities as of 31 December 2004 amounts to Denar 2,893 thousand (31 December 2003 – 4,284).

As of 31 December 2004 and 2003 there are no pending legal actions filed against the Bank.

**21. NON-COMPLIANCE WITH LOCAL REGULATIONS**

The Bank is required to maintain certain minimum or maximum ratios with respect to the volume of its activities and composition of risk assets in compliance with the requirements of the Macedonian Law on Banks and the National Bank of the Republic of Macedonia regulations. As of 31 December 2004, the open foreign currency position ratio of 67.3% exceeded prescribed maximum of 50% of the Bank's core capital.

**22. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value of financial instruments is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a certain portion of the Bank's financial instruments. In circumstances where the quoted market prices are not readily available, the fair value is estimated using discounted cash flow models or other pricing models as appropriate. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affects the estimates. Therefore, the calculated fair market estimates cannot be realized in a current sale of the financial instrument.

As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. Due to undeveloped interest rate market, prevailing market rates of interest for financial instrument having substantially the same terms and characteristics cannot be reasonably determined. Accordingly, fair values of debt instruments cannot be reliably measured.

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**22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

As of 31 December 2004 and 2003, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash, balances with the Central Bank and due from financial institutions*

For these short-term instruments the carrying amount is a reasonable estimate of fair value.

*Loans to other banks*

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

*Securities held-to-maturity*

Securities held-to-maturity comprise bonds issued by the Government of the Republic of Macedonia for which there is no active market. However, due to short-term maturities carrying amount approximates fair value of these securities.

**23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

	In thousands of Denars					Total
	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	
<b>ASSETS</b>						
Cash and balances with the Central Bank	1,130,648	-	-	-	-	1,130,648
Loans to other banks	51,282	-	396,875	458,930	6,707	913,794
Securities available for sale					355	355
Held -to maturity securities	184,522	54,623	20,062	-	-	259,207
Equipment	-	-	-	-	4,396	4,396
Intangible assets					212	212
Assets held for resale				-	9,685	9,685
Other receivables	2,952	-	-	-	-	2,952
<b>Total assets</b>	<u>1,369,404</u>	<u>54,623</u>	<u>416,937</u>	<u>458,930</u>	<u>21,355</u>	<u>2,321,249</u>
<b>LIABILITIES</b>						
Loans payable	-	57,478	57,478	459,825	632,862	1,207,643
Other liabilities	12,924	-	-	-	-	12,924
Liabilities from managed funds, net		-	-	-	104,021	104,021
<b>Total liabilities</b>	<u>12,924</u>	<u>57,478</u>	<u>57,478</u>	<u>459,825</u>	<u>736,883</u>	<u>1,324,588</u>
<b>Net liquidity gap</b>	<u>1,356,480</u>	<u>(2,855)</u>	<u>359,459</u>	<u>(895)</u>	<u>(715,528))</u>	<u>996,661</u>

**MACEDONIAN BANK FOR DEVELOPMENT PROMOTION A.D., SKOPJE**

**NOTES TO THE FINANCIAL STATEMENTS**  
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**23. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	<b>In thousands of Denars</b>					
	<b>31 December 2003</b>					
	<b>Less than one month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
Cash, nostros and balances with the Central Bank	423,589	-	-	-	-	423,589
Loans to other banks	291,391	81,796	695,053	405,964	-	1,474,204
Investments available for sale	-	-	-	-	353	353
Other receivables	2,605	-	-	-	-	2,605
Property and equipment	-	-	-	-	3,575	3,575
Intangible assets	-	-	-	-	233	233
<b>Total assets</b>	<b>717,585</b>	<b>81,796</b>	<b>695,053</b>	<b>405,964</b>	<b>4,161</b>	<b>1,904,559</b>
<b>LIABILITIES</b>						
Loans payable	-	-	122,274	-	757,556	879,830
Other liabilities	6,039	-	-	-	-	6,039
Liabilities from managed funds, net	-	-	-	-	53,188	53,188
<b>Total liabilities</b>	<b>6,039</b>	<b>-</b>	<b>122,274</b>	<b>-</b>	<b>810,744</b>	<b>939,057</b>
<b>Net liquidity gap</b>	<b>711,546</b>	<b>81,796</b>	<b>572,779</b>	<b>405,964</b>	<b>(806,583)</b>	<b>965,502</b>

Items with indefinite maturities are included in the over five years category.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rates. Currently, a considerable part of customer deposits are repayable on demand. However, the fact that the number and type of customers and the Bank's previous experience diversify these deposits indicate that these deposits are a stable and long-term source of finance for the Bank.

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24. INTEREST RATE RISK POSITION

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Bank's interest rate exposures are, amongst other methods monitored and managed using interest rate sensitivity reports, however the monetary assets and liabilities are able to be reprised at relatively short notice and any interest rate sensitivity gaps are considered immaterial.

	In thousands of Denars 31 December 2004		
	Interest bearing	Non interest bearing	Total
<b>ASSETS</b>			
Cash, nostros and balances with the Central Bank	358,438	772,210	1,130,648
Loans to other banks	913,794	-	913,794
Securities available for sale	-	355	355
Held -to maturity securities	259,207	-	259,207
Other receivables	-	2,952	2,952
<b>Total assets</b>	<u>1,531,439</u>	<u>775,517</u>	<u>2,306,956</u>
<b>LIABILITIES</b>			
Loans payable	1,207,643	-	1,207,643
Other liabilities	-	12,924	12,924
Liabilities from managed funds, net	104,021	-	104,021
<b>Total liabilities</b>	<u>1,311,664</u>	<u>12,924</u>	<u>1,324,588</u>
<b>Interest sensitivity gap</b>	<u>219,775</u>	<u>762,593</u>	<u>982,368</u>

	In thousands of Denars 31 December 2003		
	Interest bearing	Non interest bearing	Total
<b>ASSETS</b>			
Cash, nostros and balances with the Central Bank	56,500	367,089	423,589
Loans to other banks	1,474,204	-	1,474,204
Securities available for sale	-	353	353
Other receivables	-	2,605	2,605
<b>Total assets</b>	<u>1,530,704</u>	<u>370,047</u>	<u>1,900,751</u>
<b>LIABILITIES</b>			
Loans payable	879,830	-	879,830
Other liabilities	-	6,039	6,039
Liabilities from managed funds, net	53,188	-	53,188
<b>Total liabilities</b>	<u>933,018</u>	<u>6,039</u>	<u>939,057</u>
<b>Interest sensitivity gap</b>	<u>597,686</u>	<u>364,008</u>	<u>961,694</u>

NOTES TO THE FINANCIAL STATEMENTS  
31 December 2004 and 2003

25. FOREIGN CURRENCY EXPOSURES

The following tables summarize the net foreign currency position of the Bank's monetary assets and liabilities as of 31 December 2004 and 2003.

In thousands of Denars 31 December 2004					
	EUR	USD	Total foreign currencies	Local currency	Total
<b>ASSETS</b>					
Cash, nostros and balances with the Central Bank	772,221	-	772,221	358,427	1,130,648
Loans to other banks	856,835	16	856,851	56,943	913,794
Securities available for sale	-	-	-	355	355
Held -to maturity securities	-	-	-	259,207	259,207
Other receivables	-	-	-	2,952	2,952
<b>Total assets</b>	<u>1,629,056</u>	<u>16</u>	<u>1,629,072</u>	<u>677,884</u>	<u>2,306,956</u>
<b>LIABILITIES</b>					
Loans payable	1,207,643	-	1,207,643	-	1,207,643
Other liabilities	-	-	-	12,924	12,924
Liabilities from managed funds, net	104,021	-	104,021	-	104,021
<b>Total liabilities</b>	<u>1,311,664</u>	<u>-</u>	<u>1,311,664</u>	<u>12,924</u>	<u>1,324,588</u>
<b>Net currency position</b>	<u>317,392</u>	<u>16</u>	<u>317,408</u>	<u>664,960</u>	<u>982,368</u>

In thousands of Denars 31 December 2003					
	EUR	USD	Total foreign currencies	Local currency	Total
<b>ASSETS</b>					
Cash, nostros and balances with the Central Bank	367,089	-	367,089	56,500	423,589
Loans to other banks	1,465,271	18	1,465,289	8,915	1,474,204
Investments available for sale	-	-	-	353	353
Other receivables	-	-	-	2,605	2,605
<b>Total assets</b>	<u>1,832,360</u>	<u>18</u>	<u>1,832,378</u>	<u>68,373</u>	<u>1,900,751</u>
<b>LIABILITIES</b>					
Loans payable	757,556	-	757,556	122,274	879,830
Other liabilities	-	-	-	6,039	6,039
Liabilities from managed funds, net	53,188	-	53,188	-	53,188
<b>Total liabilities</b>	<u>810,744</u>	<u>-</u>	<u>810,744</u>	<u>128,313</u>	<u>939,057</u>
<b>Net currency position</b>	<u>1,021,616</u>	<u>18</u>	<u>1,021,634</u>	<u>(59,940)</u>	<u>961,694</u>

As of 31 December 2004 and 2003 loans to customers, accrued interest and other assets, deposits from banks and customers and other liabilities indexed to the Denar: EUR exchange rate are presented as assets and liabilities in EUR.

NOTES TO THE FINANCIAL STATEMENTS

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**26. CREDIT RISK MANAGEMENT**

The Bank's primary exposure to credit risk, the risk that counterparties might default on their contractual obligation, arises through its loans to other banks. The Bank has a set of policies and procedures in relation to credit approval and credit exposures management. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the balance sheet and is determined by a set of limits and internal rules approved by the Credit Committee and the Board of Directors.

**27. INTEREST RATE RISK MANAGEMENT**

The matching and controlled mismatching of the maturity and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank's interest rate exposures are monitored and managed by interest rate sensitivity reports. The majority of the Bank's interest bearing assets and liabilities are structured to match either short term assets and short term liabilities, or long term assets and liabilities with reprising opportunities within one year, or long term assets and corresponding liabilities where reprising is performed simultaneously. Most monetary assets and liabilities are capable of being reprised at relatively short notice and any interest rate sensitivity gaps are considered immaterial.

**28. EXCHANGE RATES**

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies, were as follows:

	<u>2004</u>	<b>In Denars</b> <u>2003</u>
1 USD	45.0676	49.0502
1 CHF	39.7085	39.3056
1 EUR	61.3100	61.2931