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Financial statements and Independent Auditors' Report

Macedonian Bank for Development Promotion
A.D., Skopje

31 December 2010

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Independent Auditors' Report

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To the Management and Shareholders of

Macedonian Bank for Development Promotion A.D., Skopje

We have audited the accompanying financial statements of Macedonian Bank for Development Promotion A.D., Skopje (the "Bank") which comprise of the Statement of financial position as at 31 December 2010, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 40.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Banks'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 Banks's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2009 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 April 2010.



Grant Thornton,

Skopje,

11 March 2011

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Statement of comprehensive income

	Notes	2010	(In 000 MKD) For the year ending 31 December 2009
Interest income		163,513	126,931
Interest (expense)		(49,050)	(24,450)
Net interest income	5	114,463	102,481
Fee and commission income		34,241	30,820
Fee and commission (expense)		(13,232)	(12,456)
Net fee and commission income	6	21,009	18,364
Foreign exchange gain/(loss), net	7	8,740	(6,153)
Other operating income	8	3,774	1,623
Release of impairment provision/ (impairment losses), net	9	29,256	(6,500)
Personnel expenses	10	(24,905)	(24,458)
Amortization and depreciation	17,18	(6,321)	(6,838)
Other operating expenses	11	(15,966)	(19,372)
Profit before tax		130,050	59,147
Income tax expense	12	(103)	(111)
Net profit for the year		129,947	59,036
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		129,947	59,036
Net profit attributable to:			
Equity holders of the Bank		129,947	59,036
Total comprehensive income attributable to:			
Equity holders of the Bank		129,947	59,036
Earnings per share			
Basic earnings per share (In Denars)	13	338	154

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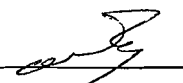
Statement of financial position

	Notes	(In 000 MKD) As at 31 December	
		2010	2009
Assets			
Cash and cash equivalents	14	1,119,101	501,545
Loans and advances to banks	15	5,750,586	3,062,615
Loans and advances to customers	16	10,447	316
Intangible assets	17	253	1,010
Property and equipment	18	106,604	112,040
Other receivables	19	11,552	13,696
Total assets		6,998,543	3,691,222
Liabilities			
Borrowings	20	5,135,156	1,956,013
Provisions	21	3,385	3,069
Other payables	22	6,124	8,209
Total liabilities		5,144,665	1,967,291
Equity			
Share capital	23	1,193,792	1,193,792
Reserves		530,214	478,528
Retained earnings		129,872	51,611
Total equity and reserves		1,853,878	1,723,931
Total liabilities, equity and reserves		6,998,543	3,691,222
Commitments and contingencies	25	309,856	174,707

These financial statements have been approved by the Bank's Supervisory Board on 27 January 2011, and signed on behalf of the Board of Director by:



Mr. Dragan Martinovski
Chief Executive Officer



Mr. Kenan Idrizi
Chief Operating Officer

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Statement of changes in equity

(In 000 MKD)	Share capital	Statutory reserve	Reserves for security and guarantee fund	Retained earnings	Total equity and reserves
At 01 January 2010	1,193,792	325,407	153,121	51,611	1,723,931
Distribution of retained earnings	-	51,686	-	(51,686)	-
<i>Transactions with owners</i>	-	51,686	-	(51,686)	-
Profit for the year	-	-	-	129,947	129,947
Other comprehensive income	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	129,947	129,947
At 31 December 2010	1,193,792	377,093	153,121	129,872	1,853,878
At 01 January 2009	932,400	209,035	422,634	100,826	1,664,895
Distribution of retained earnings	-	86,372	21,879	(108,251)	-
Distribution of other reserves	-	30,000	(30,000)	-	-
Increase of share capital	261,392	-	(261,392)	-	-
<i>Transactions with owners</i>	261,392	116,372	(269,513)	(108,251)	-
Profit for the year	-	-	-	59,036	59,036
Other comprehensive income	-	-	-	-	-
<i>Total comprehensive income</i>	-	-	-	59,036	59,036
At 31 December 2009	1,193,792	325,407	153,121	51,611	1,723,931

See the accompanying Notes to the financial statements

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Statement of cash flows

	Notes	(In 000 MKD)	
		Year ended 31 December 2010	2009
Operating activities			
Profit before taxation		130,050	59,147
Adjustment for:			
Amortization and depreciation		6,321	6,838
Impairment losses on financial assets, net		(29,256)	6,500
Impairment losses on commitments and contingencies		316	550
Other corrections		708	-
Interest income		(163,513)	(126,931)
Interest expenses		49,050	24,450
(Loss) before changes in operating assets		(6,324)	(29,446)
Changes in operating assets			
Loans and advances to banks		(2,651,861)	(884,261)
Loans and advances to customers		(10,131)	(16,753)
Other receivables		1,358	383
Other payables		(2,087)	3,003
(Loss) after changes in operating assets		(2,669,045)	(927,074)
Proceeds from interest		156,659	129,787
Paid interest		(49,050)	(22,360)
Income tax paid		(23)	(3,496)
		(2,561,459)	(823,143)
Investment activities			
Purchase of property and equipment		(128)	(2,655)
Sale of securities available for sale, net		-	166,903
		(128)	164,248
Financial activities			
Proceeds from loans, net		3,179,143	639,206
		3,179,143	639,206
Net change in cash and cash equivalents		617,556	(19,689)
Cash and cash equivalents, beginning of the year	14	501,545	521,234
Cash and cash equivalents, end of the year	14	1,119,101	501,545

Notes to the Financial Statements

1 General information

Macedonian Bank for Development Promotion AD Skopje (“the Bank”) is a state Shareholding Company incorporated and domiciled in the Republic of Macedonia.

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

St. Veljko Vlahovic 26, 1000 Skopje Republic of Macedonia

The Bank sole shareholder is the Government of the Republic of Macedonia. The Bank’s 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, export and domestic credit insurance, issuance of letter of guarantees, etc. Loans are granted through participating banks in the Republic of Macedonia which bear the ultimate risk of collection of the receivables.

In accordance with the amendment of the Law for founding of the Macedonian Bank for Development Promotion in the official gazette n. 105/09 from 21 August 2009, apart from other changes introduced, the Bank is allowed to perform loan financing directly to the customers or jointly with the other Banks or non-banking financial institutions.

Furhtermore, according to the aforementioned amendment, the Bank has transferred the funded 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, to share capital.

The Bank does not hold any investment in subsidiaries. Also, the Bank shares are not listed on any stock exchange market.

Notes to the financial statements (continued)

2 Accounting policies

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement basis are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank's management to exercise judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgments.

The financial statements have been prepared as at and for the years ended 31 December 2010 and 2009. Current and comparative data stated in these financial statements are expressed in Denar thousand. Where necessary, comparative figures have been adjusted to conform with the changes in presentation for the current year.

2.2 Changes in accounting policies and disclosures**(a) New standards and amendments applied by the Bank**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

IFRS 3 (revised), "Business combinations", and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Bank has adopted IFRS 3 (revised), it is required to adopt IAS 27 (revised), "consolidated and separate financial statements", at the same time. IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.

Notes to the financial statements (continued)
Accounting policies (continued)

Changes in accounting policies and disclosures (continued)

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Bank

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank accounting periods beginning on or after 1 January 2009 or later periods, but not relevant for the Bank.

- **IFRIC 17, “Distributions of non-cash assets to owners”**, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Bank, as it has not made any non-cash distributions.
- **IFRIC 18, “Transfers of assets from customers”**, effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Bank, as it has not received any assets from customers.
- **IFRIC 9, ‘Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement’**, effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the ‘fair value through profit or loss’ category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.
- **IFRIC 16, “Hedges of a net investment in a foreign operation”**, effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.
- **IAS 38 (amendment), ‘Intangible assets’**, effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.
- **“Additional exemptions for first-time adopters” (Amendment to IFRS 1)** was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Bank.
- **IAS 36 (amendment), “Impairment of assets”**, effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, “Operating segments”(i.e., before the aggregation of segments with similar economic characteristics).

Notes to the financial statements (continued)
Accounting policies (continued)

Changes in accounting policies and disclosures (continued)

- **IFRS 2 (amendments), “Group cash-settled share-based payment transactions“**, effective from 1 January 2010. In addition to incorporating IFRIC 8, ‘Scope of IFRS 2’, and IFRIC 11, ‘IFRS 2 – Group and treasury share transactions’, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- **IFRS 5 (amendment), ‘Non-current assets held for sale and discontinued operations’**. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.
- **Improvements to International Financial Reporting Standards 2009** were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

(c) Standards, interpretations and amendments to standards issued but not effective for the financial year beginning 1 January 2010

- **IFRS 9, “Financial instruments”**, issued in December 2009. This addresses the classification and measurement of financial assets and is likely to affect the Bank’s accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Bank is yet to assess IFRS 9’s full impact. The Bank has not yet decided when to adopt IFRS 9.
- **Revised IAS 24, “Related party disclosures”**, issued in November 2009. It supersedes IAS 24, “Related party disclosures”, issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application is permitted.
- **“Classification of rights issues” (Amendment to IAS 32)**, issued in October 2009. For rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity’s existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted.
- **“Prepayments of a minimum funding requirement” (Amendments to IFRIC 14)**, issued in November 2009. The amendments correct an unintended consequence of IFRIC 14, “IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction”. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

Notes to the financial statements (continued)
Accounting policies (continued)

Changes in accounting policies and disclosures (continued)

- **FRIC 19, “Extinguishing financial liabilities with equity instruments”**. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.
- **Improvements to International Financial Reporting Standards 2010** were issued in May 2010. The effective dates vary standard by standard but most are effective 1 July 2010 or 1 January 2011.

2.3 Foreign currency translation

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

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
1 EUR	61.5050 Denar	61.1732 Denar
1 USD	46.3140 Denar	42.6651 Denar
1 CHF	49.3026 Denar	41.1165 Denar

2.4 Offsetting

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

2.5 Interest income and expense

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

2.6 Fee and commission income

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

2.7 Dividend income

Dividends are recognized in the profit or loss when the Bank’s right to receive payment is established.

Notes to the financial statements (continued)
Accounting policies (continued)

2.8 Financial assets

The Bank classifies its investments into the following categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Loans and receivables

Loans and receivables are non – derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include all receivables arising from the transactions with customers and banks, and are recognized when the cash is advanced.

Financial assets at fair value through profit or loss

This category of financial assets consists of securities held for trading and securities at fair value through profits and losses classified as it at initial recognition. A financial asset is classified as asset held for trading if it is acquired or incurred principally for the purpose of generating profit through short – term fluctuations in the price or if it is included in the portfolio for which a short – term actual form of profit gain exists. The Bank has no assets classified in this category.

Financial assets available – for – sale

Financial assets available – for – sale are non – derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Financial assets available – for – sale are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or share prices. The Bank has no assets classified in this category.

Financial assets held to maturity

Financial assets held to maturity are non – derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Management has the positive intention and ability to hold to maturity. If the Bank sells a significant amount of the financial assets held to maturity before they reach the maturity date, then the entire category of these assets will be reclassified in financial assets available – for – sale. The Bank has no assets classified in this category.

Initial recognition and derecognition

Purchases and sales of financial assets available – for – sale and held to maturity financial assets are recognized on trade – date – the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets cease to be recognized after the rights to receive cash flows from the funds ends or after their transfer, and the Bank transferred substantially all risks and benefits of ownership.

Notes to the financial statements (continued)
Accounting policies (continued)

Financial assets (continued)

Subsequent measurement

After initial recognition, the Bank measures financial assets carried at fair value through profit or loss, or as available – for – sale, at fair values without any deduction for transaction costs it may incur on their sale.

The fair value of quoted financial assets is their bid prices at the Statement of financial position date.

If the market on which the financial asset is quoted is not active, the Bank establishes fair values by using a valuation technique. Valuation techniques include the use of recent arm's length market transactions, references to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If the value of equity instruments cannot be reliably measured, they are measured at cost.

Investments held to maturity and loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

Realised gains and losses, and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, are included in the profit or loss in the period in which they arise.

Net changes in the fair value of financial assets classified as at fair value through profit and loss includes interest income.

Unrealised gains and losses arising from changes in the fair value of financial assets available – for – sale are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss.

When financial assets available – for – sale are sold or impaired, the cumulative gains or losses previously recognised in equity are recognised in the profit or loss. Where financial assets available – for – sale are interest bearing, interest calculated using the effective interest method is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the financial statements (continued)
Accounting policies (continued)

2.9 Impairment of financial assets

Assets carried at amortized cost

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

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

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

The Bank assesses the existence of objective evidence for impairment on individual basis for all credit exposures.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of comprehensive income.

Assets carried at fair value

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired. Significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value is recognized in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Notes to the financial statements (continued)
Accounting policies (continued)

2.10 Intangible assets

Computer software

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

Other intangible assets

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

2.11 Property and equipment

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

Depreciation is charged on a straight-line basis at prescribed rates in order to allocate the cost of property and equipment over their useful lives.

The following are approximations of the annual depreciation rates applied to significant items of property and equipment:

Buildings	2.5%
Furniture and equipment	20 - 25%
Other assets	10 - 25%

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

2.12 Impairment of non financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

2.13 Cash and cash equivalents

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

Notes to the financial statements (continued)
Accounting policies (continued)

2.14 Provisions

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

2.15 Employee benefits

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

The Bank has not provided for the employees' accrued separate minimum amount on retirement, this amount would not have a material effect on the financial statements.

The Bank does not operate any pension scheme or retirement benefit plans and consequentially, has no liability for pensions. The Bank is not obliged to provide additional benefits for its current or previous employees.

2.16 Current and deferred income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax at 10% rate is paid to non-deductible items for the tax purposes adjusted for tax credits as well as on the distributed profit for dividends to legal entities – non residents and to individuals. Undistributed profit (retained earnings) is exempted from taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to statement of comprehensive income, in which case the deferred tax is also dealt with in statement of comprehensive income.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Bank has not recognized any deferred tax liability or asset at 31 December 2010 and 2009, as there are no temporary differences existing at that date.

2.17 Borrowings

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

Notes to the financial statements (continued)
Accounting policies (continued)

2.18 Equity*(a) Shareholders' capital*

Share capital represents the nominal value of shares that have been issued.

(b) Reserves

Reserves, which comprise of reserves for securities and guarantee fund as well as statutory reserves, are generated throughout the period, distributed from the accumulated gains based on legal regulation and decisions by the Bank's management.

(c) Retained earnings

Retained earnings comprise of non-distributed earnings from the current and past periods.

2.19 Fiduciary activities

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

2.20 Segment reporting

A business segment is a distinguishable component of an entity engaged in providing an individual – or a group of related – product(s) or service(s) subject to risks and rewards that are different from those of other business segments. A geographical segment is a distinguishable component defined as for a business segment, but subject to risks and rewards related to particular economic environments.

2.21 Commitments and contingencies

The Bank undertakes liabilities in its operating activities arising from loan placements accounted for in the off Statement of financial position accounts, which primarily include guarantees and letter of credits. These financial liabilities are accounted for in the statement of financial position when become recoverable. Impairment provision related to commitments and contingencies is recognized as a liability within the statement of financial position.

2.22 Events after the reporting period

Events after the reporting period that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Notes to the financial statements (continued)

3 Financial risk management

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

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

Risk management is carried out by Risk management Board under policies approved by the Supervisory Board. This board identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Supervisory Board provides written principles for overall risk management, whereas the Board of directors provides written policies covering specific areas, such as liquidity risk, foreign exchange risk, interest rate risk and credit risk.

3.1 Credit risk

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

Management of credit risk

Management of credit risk is part of the integrated process for management with all financial risks on which the Bank is exposed. Clearly defined organisation structure is the key element of credit risk management process that provides credit risk exposure to be in the limits determined by the Supervisory Board.

The Supervisory Board approves individual credit exposures greater than 10% of the Bank's own funds, and also the credit exposure to each bank participant over 25% from Bank's own fund. The exposures less than these limits are approved by the Credit Committee and Insurance Committee.

The Bank has established internal grading system in the process of analysing/approving the credit risk exposures to banks participant, which has influence on determining the credit limits, and on the process of measurement of the risk and consequently on the determining the amount and the quality of the collateral. The measurement of the credit risk is performed on individual basis, and the main indicators for credit risk are the exposure, the probability of bankruptcy, the probability for decreased credit worthiness, the probability of collection of written of receivables etc.

The Department for loans and guarantees, the Insurance Department and the Treasury and Liquidity Department follows all credit exposures in accordance with the prescribed limits. The Management Board is responsible for performing control over the credit risk exposures and therefore has implemented internal acts, in which the internal limits are determined, with the purpose to help in the control and management of the risk. Namely, the controlling process has the purpose to minimise the risk influence over the capital and the profit in accordance with the strategic objectives of the Bank.

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

Credit risk (continued)

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

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 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.

Impairment and provisioning policies

The Bank assesses the existence of objective evidence for impairment on individual basis for all credit exposures. The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

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

Risk limit control and mitigation policies

The Bank manages, limits, and controls concentrations of credit risk wherever they are identified – in particular, to individual commercial Banks and individual counter parties and groups, where applicable.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of commercial banks/borrowers to meet payment obligations and by changing these lending limits where appropriate.

Following the fact that the Bank main customers are reputable commercial Bank, collateral is not common practice to mitigate the credit risk.

Maximum exposure to credit risk before collateral held

The maximum exposure to credit risk is presented with the carrying amounts of financial assets in the Statement of financial position, provided in the table below:

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

Credit risk (continued)

Analysis of maximum exposure to credit risk

(in 000 MKD)	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Fee and commission receivables		Other receivables		Commitments and contingencies		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Individually impaired														
Risk category A	-	2,679,825	-	-	-	-	-	-	-	-	10,501	6,341	10,501	2,686,166
Risk category B	-	-	-	-	-	-	-	-	-	-	10,411	6,337	10,411	6,337
Risk category V	-	-	-	-	-	-	-	-	-	-	866	2,023	866	2,023
Risk category G	-	-	-	-	-	-	-	-	-	-	223	-	223	-
Risk category D	77,828	85,038	62,491	56,500	-	-	1,086	53	-	-	559	802	141,964	142,393
Net carrying value before provision for impairment	77,828	2,764,863	62,491	56,500	-	-	1,086	53	-	-	22,560	15,503	163,965	2,836,919
(Provision for impairment)	(77,828)	(113,042)	(62,491)	(56,500)	-	-	(1,086)	(53)	-	-	(3,385)	(3,069)	(144,790)	(172,664)
Net carrying value less provision for impairment	-	2,651,821	-	-	-	-	-	-	-	-	19,175	12,434	19,175	2,664,255
Not past due nor impaired														
Risk category A	5,750,586	410,794	10,447	316	1,119,101	501,545	6,889	8,588	3,914	4,279	290,681	162,273	7,181,618	1,087,795
Net carrying value	5,750,586	410,794	10,447	316	1,119,101	501,545	6,889	8,588	3,914	4,279	290,681	162,273	7,181,618	1,087,795
Net carrying value	5,750,586	3,062,615	10,447	316	1,119,101	501,545	6,889	8,588	3,914	4,279	309,856	174,707	7,200,793	3,752,050

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

Credit risk (continued)

Geographic sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographic region as at 31 December 2010 and 2009.

In (000) MKD	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalent		Fee and commission receivables		Other receivables		Commitments and contingencies		2010	Total 2009
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009		
Republic of Macedonia	5,750,586	3,062,615	10,447	316	425,412	331,355	3,606	3,711	3,914	4,083	7,118	7,937	6,201,083	3,410,017
EU members	-	-	-	-	693,689	170,190	3,277	4,877	-	196	285,314	156,259	982,280	331,522
Other European countries	-	-	-	-	-	-	6	-	-	-	14,979	10,511	14,985	10,511
Other countries	-	-	-	-	-	-	-	-	-	-	2,445	-	2,445	-
	5,750,586	3,062,615	10,447	316	1,119,101	501,545	6,889	8,588	3,914	4,279	309,856	174,707	7,200,793	3,752,050

Industrial sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by industrial sector as at 31 December 2010 and 2009.

In (000) MKD	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Commitments and contingencies		2010	Total 2009
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009				
Industrial sectors																		
Non-resident	-	-	-	-	-	-	-	-	693,689	-	3,233	4,930	-	196	279,282	166,779	976,204	171,905
Agriculture, hunting and forestry	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,223	-	1,223
Fishery	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	760	-	760
Processing industry	-	-	-	-	-	-	-	-	-	-	230	-	-	-	12,652	-	12,882	-
Construction	-	-	-	-	-	-	-	-	-	-	2	12	-	-	-	-	2	12
Wholesale and retail; repair of automobiles, motorcycles and subject to personal use and for households	-	-	-	-	-	-	-	-	-	-	355	44	-	-	14,387	665	14,742	709
Hotel and restaurants	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	-	3	-
Traffic, storage and communication	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35	-	35	-
Financial mediation	5,750,586	3,062,615	10,447	-	-	-	-	-	425,412	501,545	1,191	31	-	-	-	-	6,187,636	3,564,191
Activities related to property, renting and business activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,500	-	3,500	-
Public management and defense; mandatory social protection	-	-	-	316	-	-	-	-	-	-	1,875	2,518	-	-	-	-	1,875	2,834

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

Credit risk (continued)

Industrial sectors (continued)

	Loans and advances to banks		Loans and advances to customers		Investment in financial assets available for sale		Investment in financial assets held to maturity		Cash and cash equivalent		Fee and commission receivables		Other receivables		Commitments and contingencies		Total		
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
Health and social sphere	-	-	-	-	-	-	-	-	-	-	-	1,053	-	-	-	-	-	-	1,053
Other utilities, cultural, general and personal service activities	-	-	-	-	-	-	-	-	-	-	-	-	413	219	-	5,280	413	5,499	
Individuals													3,501	3,864			3,501	3,864	
Total	5,750,586	3,062,615	10,447	316	-	-	-	-	1,119,101	501,545	6,889	8,588	3,914	4,279	309,856	174,707	7,200,793	3,752,950	

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

3.2 Liquidity risk

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

The 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 operations. Department for treasury and liquidity maintains 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.

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.

The tables below analyses financial liabilities of the Bank into relevant maturity based on the remaining period at the statement of financial position date to the contractual maturity date (in Denar thousand).

31 December 2010	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Liabilities						
Borrowings	68,122	-	481,749	3,584,019	1,001,266	5,135,156
Other payables	3,336	504	2,284	-	-	6,124
	71,458	504	484,033	3,584,019	1,001,266	5,141,280
31 December 2009						
Liabilities						
Borrowings	9,996	29,165	46,313	872,472	998,067	1,956,013
Other payables	4,785	47	3,377	-	-	8,209
	14,781	29,212	49,690	872,472	998,067	1,964,222

3.3 Market risks

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

Interest rate risk

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

The table below analyses the existence of a gap between the interest rates of assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date as at 31 December 2010 and 31 December 2009.

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

Market risks (continued)
Interest rate risk (continued)

Analysis of interest rate gap between financial assets and liabilities (excluding portfolio held for trading and derivatives)

(in 000 MKD)	Effective interest rate (in %)	Instruments with variable interest rate	Instruments with fixed and variable interest, including those with a variable interest rate dependant on decisions from relevant Bank bodies					Non-interest bearing	Total
			Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years		
31 December 2010									
Assets									
Cash and cash equivalents	-	509,804	606,556	-	-	-	-	2,741	1,119,101
Loans and advances to banks	-	331,143	254,857	38,884	971,453	4,077,446	56,464	20,339	5,750,586
Loans and advances to customers	-	-	-	-	-	-	-	10,447	10,447
Other receivables	-	-	38	76	351	2,155	882	7,301	10,803
		840,947	861,451	38,960	971,804	4,079,601	57,346	40,828	6,890,937
Liabilities									
Borrowings	-	2,029,545	-	-	82,031	1,999,291	1,001,264	23,025	5,135,156
Other payables	-	-	-	-	-	-	-	6,124	6,124
		2,029,545	-	-	82,031	1,999,291	1,001,264	29,149	5,141,280
Net interest gap		(1,188,598)	861,451	38,960	889,773	2,080,310	(943,918)	11,679	1,749,657
31 December 2009									
Total assets	-	954,060	498,218	137,706	379,444	1,477,757	104,354	25,804	3,577,343
Total liabilities	-	955,103	-	-	-	37,214	953,210	18,695	1,964,222
Net interest gap		(1,043)	498,218	137,706	379,444	1,440,543	(848,856)	7,109	1,613,121

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

Market risks (continued)

Sensitivity analysis

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2010, if interest rates had been 200 basis points higher/lower with all other variables were held constant, the Bank's pre-tax profit for the twelve month period ended 31 December 2010 would respectively decrease/increase by approximately Denar 34,760 thousands (2009: Denar 32,120 thousands).

Foreign currency risk

The measurement of the currency risk is performed the relation between aggregate foreign exchange position and the Bank's own fund. In the policy for managing of currency risk this internal limit is defined, which are different from the one prescribed by the law, since according to the Law for establishment of Macedonian Bank for Development and Promotion the procedures for open foreign currency position are not applicable to the Bank. Monitoring of this risk on a regular basis provides safety for the Supervisory and Managing.

The following tables summarize the net foreign currency risk position of the Bank at 31 December 2010 and 2009 (in Denar thousands).

	MKD	EUR	USD	Total
As at 31 December 2010				
Assets				
Cash and cash equivalents	425,412	693,689	-	1,119,101
Loans and advances to banks	-	5,750,586	-	5,750,586
Loans and advances to customers	-	10,447	-	10,447
Other receivables	4,703	6,100	-	10,803
Total Assets	430,115	6,460,822	-	6,890,937
Liabilities				
Borrowings	153,724	4,981,432	-	5,135,156
Other payables	3,312	2,812	-	6,124
Total Liabilities	157,036	4,984,244	-	5,141,280
Net foreign currency position	273,079	1,476,578	-	1,749,657
As at 31 December 2009				
Total Assets	156,877	3,420,381	85	3,577,343
Total Liabilities	155,029	1,809,193	-	1,964,222
Net foreign currency position	1,848	1,611,188	85	1,613,121

The following table shows the sensitivity of the Bank of an increase of the value of the Denar compared to foreign currency. The sensitivity analysis includes only the monetary items denominated in foreign currency at the end of the year, thus making adjustment of their value when the exchange rate of the foreign currencies is changed by 1% and/or 5%. Adverse amount below marks a decrease of the profit or the other equity which appears in case the Denar increases its value compared to the foreign currencies by 1% and/or 5%. When the value of the Denar compared to foreign currencies decreases by 1% and/or 5%, the effect on the profit or the other equity is equal but with reverse index as showed in the table below (in Denar thousand).

	Change in 2010	Change in 2009	2010	2009 Profit or loss
EUR	1%	1%	14,766	16,112
USD	-	5%	-	4

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

3.4 Fair value estimation

Fair value represents the amount at which an asset could be replaced or a liability settled on an arm's length basis. Fair values have been based on Management assumptions according to the asset and liability type.

Financial instruments presented at fair value

The Bank has accepted the amendments to IFRS 7 – Improved disclosures for the financial instruments that became effective on 1 January 2009. These changes require the Bank's presentation of certain information regarding the financial instruments that are recognized at fair value in the Statement of financial position.

According to the fair value measurement hierarchy, assets and liabilities are grouped into three levels on the basis of the significance of inputs used in measuring the fair value. The hierarchy according to the fair value is determined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

At 31 December 2010 and 2009, the Bank has no assets and liabilities measured at fair value in the Statement of financial position.

Financial assets not measured at fair value

The difference between carrying value and fair value of those financial assets and liabilities which are not presented in the Statement of financial position at their fair value are as follows:

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

Fair value estimation (continued)
Financial instruments not measured at fair value (continued)

	Loans and receivables	Other at amortised cost	Carrying value	Fair value
31 December 2010				
Assets				
Cash and cash equivalents	1,119,101	-	1,119,101	1,119,101
Loans and advances to banks	5,750,586	-	5,750,586	5,750,586
Loans and advances to customers	10,447	-	10,447	10,447
Other receivables	10,803	-	10,803	10,803
Liabilities				
Borrowings	-	5,135,156	5,135,156	5,135,156
Other payables	-	6,124	6,124	6,124
31 December 2009				
Assets				
Cash and cash equivalents	501,545	-	501,545	501,545
Loans and advances to banks	3,062,615	-	3,062,615	3,062,615
Loans and advances to customers	316	-	316	316
Other receivables	12,867	-	12,867	12,867
Liabilities				
Borrowings	-	1,956,013	1,956,013	1,956,013
Other payables	-	8,209	8,209	8,209

Loans and advances to banks

Loans and advances to other banks comprise inter-bank placements. The fair value of placements and overnight deposits is their carrying amount due to their short-term nature.

Loans and advances to customers

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

Other financial assets

The fair value of monetary assets that includes cash and cash equivalents is considered to approximate their respective carrying values by definition and due to their short-term nature.

Notes to the financial statements (continued)

Financial risk management (continued)

3.5 Capital management

The bank's objectives regarding capital management are:

- To comply with the capital requirements by the regulators;
- To safeguard the Bank's ability to provide returns to shareholders;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Bank's management, using techniques prescribed by national regulatory authority (National Bank of Republic of Macedonia). The required information is submitted to regulatory authority on a quarterly basis. The regulatory authority requires that each bank has to maintain capital adequacy ratio above 8%.

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

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

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

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

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

The table below summarizes the compositions of regulatory capital and the capital adequacy ratio of the Bank for the years ended 31 December 2010 and 2009 regarding the requirement of regulatory authority. During these two years, the Bank complied with all of the regulatory imposed capital requirements to which the Bank is subject.

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

Capital management (continued)

Tier 1 capital	2010	2009
Ordinary and non-cumulative non-voting shares and share premium	1,193,792	1,193,792
Nominal value of ordinary shares	1,193,792	1,193,792
Statutory reserves	377,093	325,408
Reserve fund	377,093	325,408
Deduction from Tier 1 capital	(72)	(203)
Intangible assets, including revaluation surplus	(72)	(203)
Total qualifying Tier 1 capital	1,570,813	1,518,997
Tier 2 capital	-	-
Total qualifying Tier 2 capital	-	-
Deduction from regulatory capital	-	-
Total regulatory capital	1,570,813	1,518,997
Credit risk-weight assets		
On-balance sheet	5,814,366	3,056,549
Off-balance sheet	309,856	174,707
Total credit risk-weighted assets	6,124,222	3,231,256
Forex risk-weighted assets	1,574,924	1,778,247
Total risk weighted assets	7,699,146	5,009,503
Capital adequacy ratio	20%	30%

Notes to the financial statements (continued)

4 Critical accounting estimates and judgments

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

4.1 Impairment losses on loans and advances

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

4.2 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At 31 December 2010 Management assesses that the useful lives represent the expected utility of the assets to the Bank. The carrying amounts are analyzed in Note 18. Actual results, however, may vary due to technical obsolescence.

Notes to the financial statements (continued)

As at and for the year ended 31 December 2010

(All amounts expressed in Denar thousand, unless otherwise stated)

5 Net interest income

Structure of interest income and (expenses) according to type of financial instruments

	2010	2009
Interest income		
Loans and advances to banks	136,659	87,188
Cash and cash equivalents	21,769	34,132
Collected bad and doubtful interest	4,746	5,197
Securities	2,289	-
Loans and advances to customers	1,225	475
(Provision of impairment of interest income, net)	(3,175)	(61)
	163,513	126,931
Interest expense		
Borrowings	49,050	24,450
	49,050	24,450
Net interest income	114,463	102,481

Sector analysis of interest income and expenses

	2010	2009
Interest income		
Banks	126,046	105,732
State	31,108	14,145
Non-financial entities	3,525	158
Non-residents	1,263	1,760
(Provision of impairment of interest income, net)	(3,175)	(61)
Collected bad and doubtful interest	4,746	5,197
	163,513	126,931
Interest expense		
Non-residents	47,624	22,708
State	1,426	1,742
	49,050	24,450
Net interest income	114,463	102,481

6 Net fee and commission income

Structure of fees and commission income and expenses according to type of financial activities

	2010	2009
Fee and commission income		
Letters of credit and guarantees	19,019	12,389
Asset management	15,019	18,270
Loans and advances	203	161
	34,241	30,820
Fee and commission expenses		
Letters of credit and guarantees	12,780	9,365
Payment operations		
- Domestic	258	320
- International	194	170
Loans and advances	-	2,448
Other	-	153
	13,232	12,456
Net fee and commission income	21,009	18,364

Notes to the financial statements (continued)
As at and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

Net fee and commission income (continued)

Sector analysis of income and expenses from fees and commission

	2010	2009
Fee and commission income		
Banks	21,105	14,875
Non-financial entities	11,905	8,342
State	1,231	3,557
Non-residents	-	4,046
	34,241	30,820
Fee and commission expenses		
State	6,871	4,035
Non-residents	6,106	8,101
Other financial entities	255	320
	13,232	12,456
Net fee and commission income	21,009	18,364

7 Foreign exchange gain/(loss), net

	2010	2009
Foreign exchange gains	325,383	38,052
Foreign exchange (losses)	(316,643)	(44,205)
	8,740	(6,153)

8 Other operating income

	2010	2009
Income from foreign operations POE	1,884	-
Income from promotion	820	-
Other income	1,070	1,623
	3,774	1,623

9 (Release) of provision/ Impairment losses, net

	2010	2009
Charge / (recovery) for:		
Loans and advances to banks (Note 15)	(36,137)	(12,501)
Loans and advances to customers (Note 16)	5,933	19,791
Other receivables (Note 19)	948	(790)
	(29,256)	6,500

10 Personnel expenses

	2010	2009
Net salaries	16,436	15,858
Social and health contributions	7,991	8,178
Other mandatory contributions	478	422
	24,905	24,458

11 Other operating expenses

	2010	2009
Materials and services	11,035	13,210
Administrative and marketing expenses	891	4,288
Insurance premiums on property and employees	479	415
Impairment losses on commitments (note 21)	316	550
Other taxes and contributions	138	-
Litigation expenses	42	-
Other expenses	3,065	909
	15,966	19,372

Notes to the financial statements (continued)

As at and for the year ended 31 December 2010

(All amounts expressed in Denar thousand, unless otherwise stated)

12 Income tax

	2010	2009
Current tax	103	111
Deferred tax	-	-
	103	111

The reconciliation of the total income tax in the Statement of comprehensive income for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
Non – deductible expenses for tax purposes	1,031	1,110
	1,031	1,110
Tax at rate of 10% (2009: 10%)	103	111
	103	111

13 Earnings per share

The basic earnings per share are computed when the net profits for the year (belonging to the common share holders) is divided with the weighted average number of shares during the year.

	2010	2009
Net-profit attributable to shareholders	129,947	59,036
Dividends for non-redeemable preference shares	-	-
Net-profit attributable to holders of ordinary shares	129,947	59,036
Weighted average number of shares	384,103	384,103
Basic earning per share (in Denars)	338	154

14 Cash and cash equivalents

	2010	2009
Cash in hand	32	23
Account and balances with the NBRM	1,922	2,138
Current accounts and deposits with foreign banks	598,326	78,430
Current accounts and deposits with domestic banks	1	1
Treasury bills traded on the secondary market	422,703	149,460
Government bills traded on the secondary market	-	69,342
Term deposits with a maturity period less or equal to three months	95,333	201,871
Interest receivable	784	280
	1,119,101	501,545

15 Loans and advances to banks

	2010		2009	
	Short-term	Long-term	Short-term	Long-term
Loans to banks	167,335	5,640,740	88,038	3,074,134
Interest	20,339	-	13,485	-
Current maturity	1,303,498	(1,303,498)	865,542	(865,542)
	1,491,172	4,337,242	967,065	2,208,592
Less: provision for impairment	(77,828)	-	(85,164)	(27,878)
	1,413,344	4,337,242	881,901	2,180,714

	2010	2009
Movement of impairment provision		
At 01 January	113,042	125,539
Additional impairment provision (Note 9)	1,874	54,883
(Release) of impairment provision (Note 9)	(38,011)	(67,384)
Forex differences	923	4
At 31 December	77,828	113,042

Notes to the financial statements (continued)

As at and for the year ended 31 December 2010

(All amounts expressed in Denar thousand, unless otherwise stated)

16 Loans and advances to customers

Structure of loans and advances to customers by type of debtor

	2010		2009	
	Short-term	Long-term	Short-term	Long-term
<i>Non-financial institutions</i>				
Principal	62,048	-	56,059	-
Interest	443	-	441	-
	62,491	-	56,500	-
<i>State</i>				
Principal	10,447	-	316	-
	10,447	-	316	-
<i>Current maturity</i>				
	-	-	-	-
	72,938	-	56,816	-
Less: provision for impairment	(62,491)	-	(56,500)	-
	10,447	-	316	-

At 31 December 2010 nonperforming loans amounted to Denar 96,359 thousand (2009: Denar 93,303 thousand). Unrecognized interest relating to such loans amounted to Denar 30,014 thousand (2009: Denar 27,781 thousand).

	2010	2009
Movements of provision for impairment		
At 01 January	56,500	36,709
Additional provision for impairment (Note 9)	5,933	19,791
Foreign exchange differences	58	-
At 31 December	62,491	56,500

Structure of loans and advances to customers by type of collateral

	2010	2009
<i>Net carrying value of loans and advances</i>		
First class collaterals		
- state guarantees	10,447	-
- bank guarantees	-	316
	10,447	316

Notes to the financial statements (continued)
As at and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

17 Intangible assets

Movements in the components of the Intangible assets for the periods considered are as follows:

	Software and licenses	Other Intangible assets	Total
Cost			
At 01 January 2009	4,134	702	4,836
Additions during the year	11	-	11
31 December 2009/01 January 2010	4,145	702	4,847
31 December 2010	4,145	702	4,847
Accumulated amortization			
At 01 January 2009	2,665	344	3,009
Amortization for the year	667	161	828
31 December 2009/01 January 2010	3,332	505	3,837
Amortization for the year	628	129	757
31 December 2010	3,960	634	4,594
Net carrying value			
At 01 January 2010	813	197	1,010
At 31 December 2010	185	68	253

18 Property and equipment

Movements in the components of the Property and equipment for the periods considered are as follows:

	Buildings	Vehicles	Office equipment	Total
Cost				
At 01 January 2009	120,584	5,198	20,537	146,319
Additions during the year	-	1,230	1,414	2,644
31 December 2009/01 January 2010	120,584	6,428	21,951	148,963
Additions during the year	-	-	128	128
31 December 2010	120,584	6,428	22,079	149,091
Accumulated depreciation				
At 01 January 2009	11,026	5,198	14,689	30,913
Depreciation for the year	3,015	219	2,776	6,010
31 December 2009/01 January 2010	14,041	5,417	17,465	36,923
Depreciation for the year	3,014	307	2,243	5,564
31 December 2010	17,055	5,724	19,708	42,487
Net carrying value				
At 01 January 2010	106,543	1,011	4,486	112,040
At 31 December 2010	103,529	704	2,371	106,604

At 31 December 2010 and 2009, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property and equipment.

Notes to the financial statements (continued)
As at and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

19 Other receivables

	2010	2009
Fees and commission receivables	7,975	8,588
Receivables from customers	3,501	3,917
Current income tax receivables	749	829
Prepaid expenses	413	415
	<u>12,638</u>	<u>13,749</u>
Less: provision for impairment	(1,086)	(53)
	<u>11,552</u>	<u>13,696</u>

	2010	2009
Movements of provision for impairment		
At 01 January	53	843
Additional impairment provision (Note 9)	1,561	790
(Release) of impairment provision (Note 9)	(613)	(1,580)
Foreign exchange differences	85	-
At 31 December	1,086	53

20 Borrowings

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

	2010		2009	
	Short-term	Long-term	Short-term	Long-term
<i>Banks</i>				
Principal	-	4,969,186	35,807	1,766,775
Interest payable	12,246	-	1,133	-
	<u>12,246</u>	<u>4,969,186</u>	<u>36,940</u>	<u>1,766,775</u>
<i>State</i>				
Principal	-	142,945	-	142,945
Interest payable	10,779	-	9,353	-
	<u>10,779</u>	<u>142,945</u>	<u>9,353</u>	<u>142,945</u>
	<u>23,025</u>	<u>5,112,131</u>	<u>46,293</u>	<u>1,909,720</u>
<i>Current maturity</i>	<i>526,846</i>	<i>(526,846)</i>	<i>39,181</i>	<i>(39,181)</i>
	<u>549,871</u>	<u>4,585,285</u>	<u>85,474</u>	<u>1,870,539</u>

Borrowings by creditors

	2010		2009	
	Short-term	Long-term	Short-term	Long-term
<i>Domestic sources:</i>				
Republic of Macedonia	10,779	142,945	9,353	142,945
	<u>10,779</u>	<u>142,945</u>	<u>9,353</u>	<u>142,945</u>
<i>Foreign sources:</i>				
EIB	11,938	3,998,928	316	762,571
KfW	-	852,076	36,297	847,479
CEB	308	118,182	327	156,725
	<u>12,246</u>	<u>4,969,186</u>	<u>36,940</u>	<u>1,766,775</u>
<i>Current maturity</i>	<i>526,846</i>	<i>(526,846)</i>	<i>39,181</i>	<i>(39,181)</i>
	<u>549,871</u>	<u>4,585,285</u>	<u>85,474</u>	<u>1,870,539</u>

Borrowed funds for German micro - credit line (KfW) second tranche, German micro - credit line (KfW) third tranche and European Investment Bank (EIB) 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.

Notes to the financial statements (continued)
As at and for the year ended 31 December 2010
(All amounts expressed in Denar thousand, unless otherwise stated)

21 Provisions

	Commitments and contingencies
Balance at 01 January 2009	2,519
Additional impairment provision (Note 9)	5,213
(Release) of impairment provision (Note 9)	(4,663)
Balance at 31 December 2009	3,069
Balance at 01 January 2010	3,069
Additional impairment provision (Note 9)	3,593
(Release) of impairment provision (Note 9)	(3,277)
Balance at 31 December 2010	3,385

22 Other payables

	2010	2009
Fees and commission payable	2,686	1,325
Deferred interest income	2,091	4,448
Liabilities toward suppliers	627	1,927
Accrued expenses	17	68
Other	703	441
	6,124	8,209

23 Equity

Share capital

As at 31 December 2010 and 2009, total share capital of the Bank amounts to Denar 1,193,792 thousand and is comprised of 384,103 authorized and fully paid ordinary shares. The nominal value per share is Denar 3,108.

In October 2009 according the changes in the Law for establishing the Macedonian Bank for Development Promotion guarantee fund was transferred to share capital. New 84,103 shares were issued with par value of MKD 3,108 thousand each. The State as sole shareholder is entitled to receive dividends as declared 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.

Reserves for Security

According to the Law for establishing the Macedonian Bank for Development Promotion the Bank should maintain reserves for securities. 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 Bank does not have insurance and passive reinsurance of foreign investments in the Republic of Macedonia.

Notes to the financial statements (continued)

As at and for the year ended 31 December 2010

(All amounts expressed in Denar thousand, unless otherwise stated)

Share capital (continued)

Guarantee fund

In accordance with the amendment of the Law for founding of the Macedonian Bank for Development Promotion in 2009, the Bank transferred 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, to share capital. The guarantees issued from the guarantee fund up to the date when the Law get in force, are liabilities of the Bank.

24 Activities on behalf of third parties

	Assets	Liabilities	2010 Net- position	Assets	Liabilities	2009 Net- position
<i>Asset administration on behalf and at the expense of third parties</i>						
Loans in Denar	762,970	762,970	-	762,468	762,468	-
Loans in foreign currencies	517,459	517,459	-	564,508	564,508	-
Total	1,280,429	1,280,429		1,326,976	1,326,976	

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia, disbursing the credits from EIB, 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.

25 Commitments and contingencies

	2010	2009
Payment guarantees in Denar	418	7,780
Other off statement of financial position items	312,823	169,996
	313,241	177,776
Provision for impairment (Note 21)	(3,385)	(3,069)
	309,856	174,707

Litigations

At 31 December 2010, no legal proceedings are raised against the Bank.

Taxation

The tax authorities may at any time inspect the books and records up to 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Bank's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

Capital commitments

As at the Statement of financial position date, there are no capital commitments that have been recognized in the financial reports.

26 Pension plans

The Bank does not operate any defined contribution plans or share-based remuneration options as at 31 December 2010 and 2009. The management believes that the present value of the future obligations to employees with respect to retirement and other benefits and awards are not material to these financial statements as at 31 December 2010 and 2009.

Notes to the financial statements (continued)
 As at and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

27 Related party transactions

According to the Banking Law, related parties are considered: persons with special rights and responsibilities in the Bank and persons related to them; shareholders with a qualified contribution to the Bank (direct or indirect ownership of at least 5% of the total number of shares, or voting right shares), affiliates and entities under common ownership, control and management with the Bank, or whose activities the Bank has an ability to control.

The Bank grants loans, performs payment transfers and deposits funds of related enterprises and financial institutions. It is the opinion of the Bank's management that these transactions are carried out on normal commercial terms and conditions and during the regular course of business activities.

As at 31 December 2010 and 2009, the balances and volume of transactions with related entities and Key management personnel are as follows:

	Major shareholder		Key management personnel		Total	
	2010	2009	2009	2009	2010	2009
Assets						
Loans and other receivables	10,653	-	-	-	10,653	-
Investment securities	-	69,342	-	-	-	69,342
	10,653	69,342	-	-	10,653	69,342
Liabilities						
Borrowings	153,724	152,298	-	-	153,724	152,298
Other payables	-	815	-	-	-	815
	153,724	153,113	-	-	153,724	153,113
Income						
Interest income	47,585	14,145	-	-	47,585	14,145
Fee and commission income	4,588	3,557	-	-	4,588	3,557
	52,173	17,702	-	-	52,173	17,702
Expenses						
Interest expenses	40,261	1,742	-	-	40,261	1,742
Short term employee benefits	-	-	14,779	14,069	14,779	14,069
	40,261	1,742	14,779	14,069	55,040	15,811

Notes to the financial statements (continued)
 As at and for the year ended 31 December 2010
 (All amounts expressed in Denar thousand, unless otherwise stated)

28 Segment reporting

	Corporate banking	
	2010	2009
Income & expenses		
Net interest income/(expenses)	114,463	102,481
Net fee and commission income	21,009	18,364
Other operating income	12,514	(4,530)
Impairment losses, net	29,256	(6,500)
Depreciation and amortization	(6,321)	(6,838)
Other expenses	(40,871)	(43,830)
Profit before tax per segment	130,050	59,147
Income tax	(103)	(111)
Profit for the year	129,947	59,036
Total assets per segment	6,998,543	3,691,222
Total assets	6,998,543	3,691,222
Total liabilities per segment	5,144,665	1,967,291
Total liabilities	5,144,665	1,967,291

29 Events after the reporting period

After 31 December 2010 - the reporting date until the approval of these financial statements, there are no adjusting events that are materially significant for disclosure in these financial statements.