Macedonian Bank for Development Promotion AD Skopje

Financial Statements
for the year ended 31 December 2007

Contents

KPMG

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

We have audited the accompanying financial statements of Macedonian Bank for Development Promotion AD Skopje ("the Bank"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

23 April 2008

Skopje

KPMG

KPMG

Balance sheet

As at 31 December

In thousands of denars	*Note*	2007	2006
Assets			
Cash and cash equivalents	*13*	456,444	293,260
Placement with other banks	*14*	462,642	437,741
Loans and advances to banks	*15*	2,031,177	1,765,439
Investment securities	*17*	-	158,277
Property and equipment	*18*	119,120	124,943
Intangible assets	*19*	2,201	1,564
Other assets	*21*	9,119	11,017
Total assets		3,080,703	2,792,241
Liabilities			
Borrowed funds	*22*	1,503,575	1,298,469
Impairment provisions related to off balance sheet items	*23*	4,115	3,763
Current tax liabilities		4,207	733
Other liabilities	*25*	4,812	6,261
Total liabilities		1,516,709	1,309,226
Equity	*26*		
Share capital		932,400	932,400
Retained earnings		80,904	48,637
Reserves		550,690	501,978
Total equity		1,563,994	1,483,015
Total liabilities and equity		3,080,703	2,792,241

The notes on pages 5 - 51 are an integral part of these financial statements.

These financial statements set out on pages 1 to 51 were approved by the Board of Directors on 23 April 2008 and were signed on its behalf by:

Mr. Kenan Idrizi
Second General Manager

Mr. Dragan Martinovski
First General Manager

Income statement

For the year ended 31 December

In thousands of denars	***Note***	**2007**	**2006**
Interest income	*7*	166,188	118,458
Interest expense	*7*	(48,726)	(34,890)
Net interest income		117,462	83,568
Fee and commission income	*8*	18,332	22,675
Fee and commission expense	*8*	(4,834)	(2,456)
Net fee and commission income		13,498	20,219
Net foreign exchange gain		528	101
Other operating income	*9*	1,776	37,870
		2,304	37,791
Operating income		133,264	141,758
Net impairment loss on financial assets	*15,16,17*	1,063	(2,184)
Personnel expenses	*10*	(22,430)	(22,975)
Depreciation and amortisation	*18,19*	(6,937)	(5,538)
Other expenses	*11*	(12,777)	(52,250)
Profit before income taxes		92,183	58,811
Income tax expense	*12*	(11,204)	(9,108)
Profit for the period		80,979	49,703

The notes on pages 5 - 51 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

In thousands of denars	**Share Capital**	**Reserve**	**Reserve for security**	**Guarantee fund**	**Retained earnings**	**Total**
Balance at 1 January 2006	932,400	49,336	88,436	-	52,455	1,122,627
Profit for the period	-	-	-	-	49,703	49,703
Total recognised income and expense	-	-	-	-	49,703	49,703
Direct reserve payment	-	-	79,685	231,000	-	310,685
Appropriation to reserve	-	53,521	-	-	(53,521)	-
Balance at 31 December 2006	932,400	102,857	168,121	231,000	48,637	1,483,015
Balance at 1 January 2007	932,400	102,857	168,121	231,000	48,637	1,483,015
Profit for the period					80,979	80,979
Total recognised income and expense	-	-	-	-	80,979	80,979
Appropriation to reserve	-	37,693	-	-	(37,693)	-
Appropriation to reserve for security	-	-	5,000	-	(5,000)	-
Appropriation to guarantee fund	-	-	-	6,019	(6,019)	-
Balance at 31 December 2007	932,400	140,550	173,121	237,019	80,904	1,563,994

The notes on pages 5 - 51 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

In thousands of denars	*Note*	2007	2006
Cash flows from operating activities			
Profit for the period		80,979	49,703
Adjustments for:			
Depreciation and amortisation	*18,19*	6,937	5,538
Written-off property and equipment		-	12
Impairment on financial assets	*15,16,17*	(1,063)	2,184
Impairment provision for off-balance sheet items	*11*	352	84
Net interest income	*7*	(117,462)	(83,568)
Income tax expense	*12*	11,204	9,108
		(19,053)	(16,939)
Change in placements with other banks		(25,675)	(436,602)
Change in loans and advances to banks		(266,955)	(313,152)
Change in loans and advances to customers		-	9,572
Change in other assets		1,898	2,592
Change in net liabilities from managed funds		-	(127,924)
Change in government grant		-	815
Change in other liabilities		(1,449)	3,876
		(311,234)	(877,762)
Interest received		169,242	114,798
Interest paid		(48,625)	(34,000)
Income tax paid		(7,730)	(10,940)
Net cash used in operating activities		(198,347)	(807,904)
Cash flows from investing activities			
Purchase of property and equipment	*18*	(392)	(7,420)
Purchase of intangible assets	*19*	(1,359)	(1,483)
Proceeds of investment securities		158,277	-
Purchase of investment securities		-	(66,260)
Net cash used in investing activities		156,526	(75,163)
Cash flows from financing activities			
Payments in the reserves for security		-	79,685
Payments in the guarantee fund		-	231,000
Repayment of borrowings		(206,755)	(114,760)
Proceeds from borrowings		411,760	307,685
Net cash from financing activities		205,005	503,610
Net increase/(decrease) in cash and cash equivalents		163,184	(379,457)
Cash and cash equivalents at 1 January		293,260	672,717
Cash and cash equivalents at 31 December	*13*	456,444	293,260

The notes on pages 5 - 51 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

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

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

St. Veljko Vlahovic 26
1000 Skopje
Republic of Macedonia

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

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

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

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

During the period the Bank adopted IFRS 7 Financial Instruments: *Disclosures and IAS 1 Presentation of Financial Statements – Capital Disclosures*, which increased the level of disclosure in respect of financial instruments and capital, but had no impact on the reported profits or financial position of the Bank. In accordance with the transitional requirements of the amendments, the Bank has provided full comparative information.

(b) Basis of measurement

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

- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value.

Notes to the financial statements

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

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

3. Significant accounting policies

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

(a) Foreign currency transactions

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

Notes to the financial statements

3. Significant accounting policies (continued)

(a) Foreign currency transactions (continued)

The foreign currencies the Bank deals with are predominantly Euro (EUR). The exchange rates used for translation at 31 December 2007 and 2006 were as follows:

	2007 MKD	**2006 MKD**
1 EUR	61,20	61,17

(b) Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense presented in the income statement include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank’s trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(c) Fees and commission

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

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

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Fees and commission (continued)

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

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Dividends

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

(f) Government grant

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

(g) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(h) Income tax expense

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

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Notes to the financial statements

3. Significant accounting policies (continued)

(h) Income tax expense (continued)

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

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

(i) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

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

(iii) Offsetting

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

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(iii) Offsetting (continued)

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

(vi) Identification and measurement of impairment

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

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

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

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment (continued)

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

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

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

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(vii) Designation at fair value through profit or loss

The Bank designates financial assets and liabilities at fair value through profit or loss when either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Notes to the financial statements

3. Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

(vii) Designation at fair value through profit or loss (continued)

Financial assets that have been designated at fair value through profit or loss include financial assets held-for-trading.

(j) Cash and cash equivalents

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

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

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(l) Loans and advances

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

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss as described in accounting policy (i)(vii).

Notes to the financial statements

3. Significant accounting policies (continued)

(m) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

(i) Held-to-maturity

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

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

(ii) Fair value through profit or loss

Investment securities carried at fair value, with fair value changes recognised immediately in profit or loss are described in accounting policy (i)(vii).

(iii) Available-for-sale

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

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

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

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

Notes to the financial statements

3. Significant accounting policies (continued)

(n) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

	%
Buildings	2.5
Furniture and equipment	20 to 25
Vehicles	25

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(o) Intangible assets

(i) Recognition and measurement

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

Notes to the financial statements

3. Significant accounting policies (continued)

(o) Intangible assets (continued)

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

	%
Software and licenses	25

(p) Impairment of non-financial assets

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

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

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

Notes to the financial statements

3. Significant accounting policies (continued)

(p) Impairment of non-financial assets (continued)

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

(q) Provisions

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

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

(r) Employee benefits

(i) Defined contribution plans

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

Notes to the financial statements

3. Significant accounting policies (continued)

(r) Employee benefits (continued)

(ii) Short-term benefits

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

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

(s) Managed funds

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

(t) Share capital and reserves

(i) Ordinary shares

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

(ii) Repurchase of share capital

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

Notes to the financial statements

3. Significant accounting policies (continued)

(t) Share capital and reserves (continued)

(iii) Dividends

Dividends that relate to the State according to regulations are distributed to the Bank's reserves.

(u) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised Standard will clarifies the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to the Bank's operations as the Bank does not have any share-based compensation plans.

- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Transaction costs are not included in the acquisition accounting.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree.
  - Acquisitions of additional non-controlling equity interests after the business combination must be accounted for as equity transactions.

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

Notes to the financial statements

3. Significant accounting policies (continued)

(u) New standards and interpretations not yet adopted (continued)

- IFRS 8 *Operating Segments* (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Bank has not yet completed its analysis of the impact of the standard.

- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Bank is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.

- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 is not relevant to the Bank's operations as the Bank does not have any qualifying assets for which borrowing costs would be capitalised.

- Revised IAS 27 *Consolidated and Separate financial statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. Revised IAS 27 currently is not relevant to the Bank's operations.

- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent should be accounted for as cash-settled or equity-settled in the entity's financial statements. The Interpretation is not relevant to the Bank's operations as the Bank does not have any share-based compensation plans.

Notes to the financial statements

3. Significant accounting policies (continued)

(u) New standards and interpretations not yet adopted (continued)

- IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The Interpretation is not relevant to the Bank's operations.

- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Bank does not expect the Interpretation to have any impact on the financial statements.

- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available, how a minimum funding requirements (MFR) might affect the availability of reductions in future contributions and when a MFR might give rise to a liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Bank does not operate in country that has a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.

Notes to the financial statements

4. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks.

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

Risk management framework

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

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

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

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk

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

Management of credit risk

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

- *Formulating credit policies*, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Reviewing and assessing credit risk.* Credit department assesses all credit exposures prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

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

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

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

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

Exposure to credit risk

In thousands of denars	***Note***	**Placements with other banks**		**Loans and advances to banks**		**Loans and advances to customers**		**Investment securities**	
		2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Carrying amount	*14,15, 16,17*	462,642	437,741	2,031,177	1,765,439	-	-	-	158,277
Individually impaired									
Grade A		-	-	2,066,774	949,379	-	-	-	-
Grade B		-	-	-	6,183	-	-	-	-
Grade C		-	-	-	-	-	-	-	-
Grade D		-	-	-	-	-	-	-	-
Grade E		-	-	100,610	134,452	31,349	14,694	-	367
Gross amount		-	-	2,167,384	1,090,014	31,349	14,694	-	367
Allowance for impairment		-	-	(136,207)	(153,925)	(31,349)	(14,694)	-	(367)
Carrying amount		-	-	2,031,177	936,089	-	-	-	-
Neither past due nor impaired									
Grade A		462,642	437,741	-	829,350	-	-	-	158,277
Carrying amount		462,642	437,741	-	829,350	-	-		158,277
Total carrying amount		462,642	437,741	2,031,177	1,765,439	-	-	-	158,277

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

Impaired loans and securities

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

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Allowances for impairment

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

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when the Board of Directors determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

In thousands of denars	***Note***	**Loans and advances to banks**		**Loans and advances to customers**		**Investment securities**	
		Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
31 December 2007	*15,16,17*						
Grade A		2,066,774	2,031,177	-	-	-	-
Grade B		-	-	-	-	-	-
Grade C		-	-	-	-	-	-
Grade D		-	-	-	-	-	-
Grade E		100,610	-	31,349	-	-	-
Total		2,167,384	2,031,177	31,349	-	-	-
31 December 2006							
Grade A		949,379	930,524	-	-	-	-
Grade B		6,183	5,565	-	-	-	-
Grade C		-	-	-	-	-	-
Grade D		-	-	-	-	-	-
Grade E		134,452	-	14,694	-	367	-
Total		1,090,014	936,089	14,694	-	367	-

Notes to the financial statements

4. Financial risk management (continued)

(b) Credit risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

In thousands of denars	*Note*	**Placements with other banks**		**Loans and advances to banks**		**Investment securities**	
		2007	**2006**	**2007**	**2006**	**2007**	**2006**
Carrying amount	*14,15, 17*	462,642	437,741	2,031,177	1,765,439	-	158,277
Concentration by sector							
Government		-	-	-	-	-	158,277
Bank		462,642	437,741	2,031,177	1,765,439	-	-
Concentration by location							
EU countries		462,642	437,741	-	-	-	-
Republic of Macedonia		-	-	2,031,177	1,765,439	-	158,277
		462,642	437,741	2,031,177	1,765,439	-	158,277

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

(c) Liquidity risk

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

Management of liquidity risk

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

Department for treasury and liquidity receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Department for treasury and liquidity then maintain a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, and placements with other banks, to ensure that sufficient liquidity is maintained within the Bank.

Notes to the financial statements

4. Financial risk management (continued)

(c) Liquidity risk (continued)

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

Exposure to liquidity risk

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

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Residual contractual maturities of financial liabilities

In thousands of denars	*Note*	**Carrying amount**	**Gross nominal inflow / (outflow)**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2007								
Non-derivative liabilities								
Borrowed funds	*22*	1,503,575	(1,503,575)	-	(57,377)	(57,377)	(243,395)	(1,145,426)
Other liabilities	*25*	4,812	(4,812)	(2,102)	(39)	(2,671)	-	-
		1,508,387	(1,508,387)	(2,102)	(57,416)	(60,048)	(243,395)	(1,145,426)
Unrecognised loan commitments		-	(29,499)	(29,499)	-	-	-	-
		1,508,387	(1,537,886)	(31,601)	(57,416)	(60,048)	(243,395)	(1,145,426)
31 December 2006								
Non-derivative liabilities								
Borrowed funds	*22*	1,298,469	(1,298,469)	(7,929)	(66,006)	(57,381)	(534,509)	(632,644)
Other liabilities	*25*	6,261	(6,261)	(578)	(843)	(4,840)	-	-
		1,304,730	(1,304,730)	(8,507)	(66,849)	(62,221)	(534,509)	(632,644)
Unrecognised loan commitments		-	(36,704)	(36,704)	-	-	-	-
		1,304,730	(1,341,434)	(45,211)	(66,849)	(62,221)	(534,509)	(632,644)

Notes to the financial statements

4. Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

(d) Market risks

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

Exposure to interest rate risk – non-trading portfolios

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

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

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, the Bank is asset sensitive because of the majority of the interest-earning assets and liabilities. In decreasing interest rate environments, margins earned will narrow as liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However, the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

In thousands of denars	*Note*	Carrying amount	Less than 1 month	1- 3 months	3-12 months	1-5 years	More than 5 years
31 December 2007							
Cash and cash equivalents	*13*	456,444	456,444	-	-	-	-
Placement with other banks	*14*	462,642	462,642	-	-	-	-
Loans and advances to banks	*15*	2,031,177	147,772	80,031	496,630	1,180,691	126,053
Other assets	*21*	9,119	3,894	581	248	1,364	3,032
		2,959,382	1,070,752	80,612	496,878	1,182,055	129,085
Borrowed funds	*22*	(1,503,575)	-	(57,377)	(57,377)	(229,507)	(1,159,314)
Other liabilities	*25*	(4,812)	(2,102)	(39)	(2,671)	-	-
		(1,508,387)	(2,102)	(57,416)	(60,048)	(229,507)	(1,159,314)
		1,450,995	1,068,650	23,196	436,830	952,548	(1,030,229)
31 December 2006							
Cash and cash equivalents	*13*	293,260	293,260	-	-	-	-
Placement with other banks	*14*	437,741	437,741	-	-	-	-
Loans and advances to banks	*15*	1,765,439	106,758	15,162	244,990	1,398,529	-
Investment securities	*17*	158,277	-	158,277	-	-	-
Other assets	*21*	11,017	2,180	1,703	2,378	1,344	3,412
		2,665,734	839,939	175,142	247,368	1,399,873	3,412
Borrowed funds	*22*	(1,298,469)	(7,929)	(66,006)	(57,381)	(534,509)	(632,644)
Other liabilities	*25*	(6,261)	(578)	(843)	(4,840)	-	-
		(1,304,730)	(8,507)	(66,849)	(62,221)	(534,509)	(632,644)
		1,361,004	831,432	108,293	185,147	865,364	(629,232)

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

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

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

In thousands of denars	**Gain/loss for the period**
2007	
At 31 December	
Interest income (1% increase)	302,309
Interest income (1% decrease)	(302,309)
Interest expense (1% increase)	(166,567)
Interest expense (1% decrease)	166,567
2006	
At 31 December	
Interest income (1% increase)	228,354
Interest income (1% decrease)	(228,354)
Interest expense (1% increase)	(146,546)
Interest expense (1% decrease)	146,546

Exposure to currency risk – non-trading portfolios

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

Notes to the financial statements

4. Financial risk management (continued)

(d) Market risks (continued)

	2007				2006			
	MKD	**EUR**	**USD**	**Total**	**MKD**	**EUR**	**USD**	**Total**
Monetary assets								
Cash and cash equivalents	400,612	55,713	119	456,444	243,399	49,844	17	293,260
Placements with other banks	-	462,642	-	462,642	-	437,741	-	437,741
Loans and advances to banks		2,031,177	-	2,031,177	-	1,765,439	-	1,765,439
Investment securities	-	-	-	-	158,277	-	-	158,277
Other assets	3,522	5,597	-	9,119	6,455	4,562	-	11,017
	404,134	2,555,129	119	2,959,382	408,131	2,257,586	17	2,665,734
Monetary liabilities								
Borrowed funds	149,445	1,354,130	-	1,503,575	144,003	1,154,466	-	1,298,469
Other liabilities	641	4,171	-	4,812	4,905	1,198	158	6,261
	150,086	1,358,301	-	1,508,387	148,908	1,155,664	158	1,304,730
Net position	254,048	1,196,828	119	1,450,995	259,223	1,101,922	(141)	1,361,004

Notes to the financial statements

4. Financial risk management (continued)

(e) Capital management

Regulatory capital

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

In implementing current capital requirements NBRM requires the Bank to maintain a prescribed ratio of 8% of guarantee capital to sum of total risk-weighted assets.

Bank's guarantee capital is a sum of core capital, supplementary capital, less deductions, as follows:

- Core capital, which includes ordinary and non-cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings, profit for the year discounted by 50% if confirmed by the certified auditor, after deductions for accumulated loss from the previous years, loss for the year, the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment, licenses, patents, goodwill and other trademarks, and treasury shares.

- Supplementary capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, revaluation reserve based on revaluation on property and equipment, hybrid capital instruments and subordinated liabilities.

- The total of core capital and supplementary capital is reduced by the Bank's capital investments, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital.

The amount of the supplementary capital cannot exceed the amount of the core capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The bank shall hold adequate capital level required for covering credit risk arising from its banking book, exchange rate risk and the commodity risk arising from its banking book and its trading book, and other market risks arising from its trading book.

Notes to the financial statements

4. Financial risk management (continued)

(e) Capital management (continued)

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

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

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

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

In thousands of denars	**2007**	**2006**
Core capital		
Ordinary share capital	932,400	932,400
Reserves	550,690	501,978
Retained earnings	80,904	48,637
Less gain for the current year	(80,979)	-
Less patents, licenses, goodwill and other trademarks	(569)	(558)
Total	1,482,446	1,482,457
Supplementary capital		
Revaluation reserve	-	-
Total	-	-
Gross guarantee capital	1,482,446	1,482,457
Less Bank's capital investments in banks and other financial institutions	-	-
Guarantee capital	1,482,446	1,482,457
Risk-weighted assets		
Risk-weighted assets	2,153,619	1,796,576
Risk-weighted off-balance sheet items	20,757	10,488
Less Bank's capital investments in banks and other financial institutions	-	-
Total risk-weighted assets	2,174,376	1,807,064
Capital ratios		
Total guarantee capital expressed as a percentage of sum of total risk-weighted assets	68,2%	82,2%

Notes to the financial statements

4. Financial risk management (continued)

(e) Capital management (continued)

Capital allocation

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

5. Use of estimates and judgements

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

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

Key sources of estimation uncertainty

Allowances for impairment losses on loans and advances

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

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the financial statements

5. Use of estimates and judgements (continued)

Allowance for impairment of available for sale equity investments

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

Determining fair values

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

Critical accounting judgments in applying the Bank's accounting policies

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

Financial asset and liability classification

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

- In classifying financial assets as "trading", the Bank has determined that it meets the description of financial assets held for trading set out in accounting policy 3(k).

- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy 3(i)(vii).

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

Notes to the financial statements

6. Financial assets and liabilities

Accounting classifications and fair values

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

In thousands of denars	***Note***	**Loans and receivables**	**Held-to-maturity**	**Other amortised cost**	**Total carrying amount**	**Fair value**
31 December 2007						
Cash and cash equivalents	*13*	456,444	-	-	456,444	456,444
Placement with other banks	*14*	462,642	-	-	462,642	462,642
Loans and advances to banks	*15*	2,031,177	-	-	2,031,177	2,031,177
Other assets	*21*	9,119	-	-	9,119	9,119
		2,959,382	-	-	2,959,382	2,959,382
Borrowed fund	*22*	-	-	1,503,575	1,503,575	1,503,575
Other liabilities	*25*	-	-	4,812	4,812	4,812
		-	-	1,508,387	1,508,387	1,508,387
31 December 2006						
Cash and cash equivalents	*13*	293,260	-	-	293,260	293,260
Placement with other banks	*14*	437,741	-	-	437,741	437,741
Loans and advances to banks	*15*	1,765,439	-	-	1,765,439	1,765,439
Investment securities	*17*	-	158,277	-	158,277	158,277
Other assets	*21*	11,017	-	-	11,017	11,017
		2,507,457	158,277	-	2,665,734	2,665,734
Borrowed fund	*22*	-	-	1,298,469	1,298,469	1,298,469
Other liabilities	*25*	-	-	6,261	6,261	6,261
		-	-	1,304,730	1,304,730	1,304,730

Notes to the financial statements

6. Financial assets and liabilities (continued)

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

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

Notes to the financial statements

7. Net interest income

In thousands of denars	*Note*	**2007**	**2006**
Interest income			
Cash and cash equivalents	*13*	8,640	16,620
Placements with other banks	*14*	28,857	11,492
Loans and advances to banks		122,503	80,159
Investment securities	*17*	6,188	10,187
Total interest income		166,188	118,458
Interest expense			
Borrowed funds	*22*	48,726	34,890
Total interest expense		48,726	34,890
Net interest income		117,462	83,568

Part of interest income on investment securities in 2007 of MKD 6,188 thousand (2006: MKD 7,081 thousand) represents interest income from placed funds during the year in government bills and treasury bills from the Guarantee Fund of the Bank (see note 17).

8. Net fee and commission income

In thousands of denars	**2007**	**2006**
Fee and commission income		
Trust activities	6,880	12,746
Management fee	5,825	5,706
Letter of guarantees issued	5,524	3,924
Other	103	299
Total fee and commission income	18,332	22,675
Fee and commission expense		
Letter of guarantees obtained ceeded to reinsurer	3,874	1,962
Other	960	494
Total fee and commission expense	4,834	2,456
Net fee and commission income	13,498	20,219

The Bank is authorized to act as an agent bank of the Government of Republic of Macedonia disbursing the loans from the Italian Credit line through domestic banks.

Part of the management fee in the amount of MKD 4,330 thousand (2006: MKD 4,228 thousand) represents fee income from managing deposits from the KfW credit line. The remainder of the management fee, in the amount of MKD 1,495 thousand (2006: MKD 1,478 thousand) represents fee income from managing the NEPA Foundation.

Notes to the financial statements

9. Other operating income

In thousands of denars	*Note*	2007	2006
Government grant	*11*	-	35,884
Other		1,776	1,986
		1,776	37,870

Government grant income represents income from the funds for promotion of the Republic of Macedonia. Namely, in April 2006 the Bank received a Government grant in the amount of EUR 600,000 for promotion of the Republic of Macedonia. During 2006 the Bank had used MKD 35,884 thousand which are included in other operating income and other operating expenses (see note 11), and the remaining part is included in other liabilities (see note 25) as deferred income.

10. Personnel expenses

In thousands of denars	2007	2006
Wages and salaries	12,970	13,469
Compulsory social security obligations	6,419	6,398
Payments to the members of the Managing Board	642	1,317
Other staff costs	2,399	1,791
	22,430	22,975

Other staff costs comprise of allowances for food, transportation of employees, compensation for annual holiday etc.

11. Other expenses

In thousands of denars	*Note*	2007	2006
Materials and services		8,574	9,500
Representation and marketing costs		753	2,814
Costs for business trips		912	1,758
Training costs		846	830
Insurance premiums		214	320
Impairment provision for off-balance sheet items		352	84
Government grant	*9*	-	35,884
Other		1,126	1,060
		12,777	52,250

Government grant expense represents expenses from the funds for promotion of the Republic of Macedonia (see note *9*).

Notes to the financial statements

12. Income tax expenses

Recognised in the income statement

In thousands of denars		2007	2006
Current tax expense			
Current year		11,204	8,933
		11,204	8,933
Deferred tax expense	***Note***		
Origination and reversal of temporary differences	*20*	-	175
		-	175
Total income tax expense		11,204	9,108

Reconciliation of effective tax rate

In thousands of denars	2007	2007	2006	2006
Profit before income tax	%	92,183	%	58,811
Income tax using the domestic corporation tax rate	12,0	11,062	15,0	8,822
Non-deductible expenses	0,2	142	1,8	1,086
Tax exempt income	-	-	(0,6)	(342)
Tax incentives	-	-	(0,8)	(458)
Total income tax expense in income statement	12,2	11,204	15,4	9,108

13. Cash and cash equivalents

In thousands of denars	2007	2006
Cash on hand	96	100
Balances with NBRM	167,986	103,603
Current accounts with foreign banks	55,913	49,861
Treasury bills	232,449	139,696
	456,444	293,260

At 31 December 2007 cash and cash equivalents included MKD 13,902 thousand (2006: MKD 14,149 thousand) as obligatory reserve requirement in MKD.

Part of balances with NBRM in the amount of MKD 80,965 thousand (2006: MKD 79,805 thousand), represent funds from the Guarantee Fund of the Bank. These funds are not available for the Bank's daily business (see note 26) and are not interest bearing.

Notes to the financial statements

13. Cash and cash equivalents (continued)

Part of the treasury bills in the amount of MKD 164,475 thousand represent funds invested from the Guarantee Fund of the Bank.

14. Placements with other banks

In thousands of denars	**2007**	**2006**
Placements with foreign banks	462,642	437,741
Placements with other banks	462,642	437,741

15. Loans and advances to banks

In thousands of denars	**2007**	**2006**
Loans and advances to banks at amortised cost	2,031,177	1,765,439
	2,031,177	1,765,439

Loans and advances to banks at amortised cost

In thousands of denars	**Gross amount**	**Impairment allowance 2007**	**Carrying Amount**	**Gross amount**	**Impairment allowance 2006**	**Carrying amount**
Support of export arrangement	225,192	(43,078)	182,114	168,229	(43,801)	124,428
Development promotion of small and medium enterprises	858,348	(38,657)	819,691	807,820	(32,872)	774,948
Working capital	19,860	(320)	19,540	30,387	(326)	30,061
German - Macedonian fund	20,201	(317)	19,884	46,766	(2,488)	44,278
German credit line	69,917	(35,579)	34,338	176,334	(65,088)	111,246
Revolving fund of the German credit line	-	-	-	38,452	(419)	38,033
German micro-credit line	756,941	(14,343)	742,598	342,575	(5,261)	337,314
Council of Europe Development Bank	216,925	(3,913)	213,012	308,801	(3,670)	305,131
	2,167,384	(136,207)	2,031,177	1,919,364	(153,925)	1,765,439

Notes to the financial statements

15. Loans and advances to banks (continued)

Allowances for impairment

In thousands of denars	**2007**	**2006**
Specific allowances for impairment		
Balance at 1 January	153,925	161,340
Impairment loss for the year		
Release of impairment	(17,718)	(7,415)
Balance at 31 December	136,207	153,925

16. Loans and advances to customers

In thousands of denars	**2007**	**2006**
Loans and advances to customers	31,349	14,694
Less specific allowance for impairment	(31,349)	(14,694)
	-	-

Allowances for impairment

In thousands of denars	**2007**	**2006**
Specific allowances for impairment		
Balance at 1 January	14,694	5,455
Impairment loss for the year		
Charge for the year	16,655	9,239
Balance at 31 December	31,349	14,694

17. Investment securities

In thousands of denars	**2007**	**2006**
Held-to-maturity investment securities	-	158,277
Available-for-sale investment securities	-	-
	-	158,277

Notes to the financial statements

17. Investment securities (continued)

Held-to-maturity investment securities

In thousands of denars	**2007**	**2006**
Government bills	-	158,277
	-	158,277

Available-for-sale investment securities

Unquoted equity securities at cost	-	367
Less specific allowance for impairment	-	(367)
	-	-
Specific allowances for impairment		
Balance at 1 January	367	7
Impairment loss for the year		
Charge for the year	-	360
Write-offs	(367)	-
Balance at 31 December	-	367

As at 31 December 2006 government bills represent investments from the Guarantee fund of the Bank. According to the Amendment of the Law for the establishment of the Macedonian Bank for Development Promotion, in 2006 a Guarantee Fund was formed from which the Bank can place up to 70% of the funds in short-term securities issued by the Government of Republic of Macedonia and NBRM with maturity up to three months.

Notes to the financial statements

18. Property and equipment

In thousands of denars	**Buildings**	**Furniture & equipment**	**Motor vehicles**	**Total**
Cost				
Balance at 1 January 2006	120,033	14,207	5,198	139,438
Acquisitions	551	6,869	-	7,420
Disposals	-	(2,603)	-	(2,603)
Balance at 31 December 2006	120,584	18,473	5,198	144,255
Balance at 1 January 2007	120,584	18,473	5,198	144,255
Acquisitions	-	392	-	392
Balance at 31 December 2007	120,584	18,865	5,198	144,647
Depreciation				
Balance at 1 January 2006	1,990	10,871	3,639	16,500
Depreciation for the period	3,007	1,683	713	5,403
Disposals	-	(2,591)	-	(2,591)
Balance at 31 December 2006	4,997	9,963	4,352	19,312
Balance at 1 January 2007	4,997	9,963	4,352	19,312
Depreciation for the period	3,015	2,504	696	6,215
Balance at 31 December 2007	8,012	12,467	5,048	25,527
Carrying amounts				
Balance at 1 January 2006	118,043	3,336	1,559	122,938
Balance at 31 December 2006	115,587	8,510	846	124,943
Balance at 31 December 2007	112,572	6,398	150	119,120

As at 31 December 2007 the Bank does not have any property pledged as collateral (2006: none).

Notes to the financial statements

19. Intangible assets

In thousands of denars	**Software and licences**
Cost	
Balance at 1 January 2006	1,589
Acquisitions	1,483
Balance at 31 December 2006	3,072
Balance at 1 January 2007	3,072
Acquisitions	1,359
Balance at 31 December 2007	4,431
Amortisation	
Balance at 1 January 2006	1,373
Amortisation for the period	135
Balance at 31 December 2006	1,508
Balance at 1 January 2007	1,508
Amortisation for the period	722
Balance at 31 December 2007	2,230
Carrying amounts	
Balance at 1 January 2006	216
Balance at 31 December 2006	1,564
Balance at 31 December 2007	2,201

Notes to the financial statements

20. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Movements in temporary differences during the year

In thousands of denars	Opening balance 1 Jan 2006	Recognised in profit or loss	Recognised in equity	Closing balance 31 Dec 2006
2006				
Property and equipment	(143)	143	-	-
Interest receivable and other assets	(402)	402	-	-
Accruals and other liabilities	(199)	199	-	-
Other liabilities	569	(569)	-	-
	(175)	175	-	-

21. Other assets

In thousands of denars	2007	2006
Accrued commission	1,766	2,726
Management fee receivables	2,185	2,126
Receivables from sold assets acquired through foreclosure procedures	4,719	5,092
Other	449	1,073
	9,119	11,017

22. Borrowed funds

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

In thousands of denars	2007	2006
Borrowed funds	1,503,575	1,298,469
	1,503,575	1,298,469

Notes to the financial statements

22. Borrowed funds (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				31 Dec 2007		31 Dec 2006	
In thousands of denars	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
German credit line (KfW)	EUR	six-month EURIBOR + 1.85%	2003-2010	352,210	352,210	467,431	467,431
German micro - credit line (KfW) second tranche	EUR	2.00%	2014-2044	378,520	378,520	380,728	380,728
German micro - credit line (KfW) third tranche	EUR	2.00%	2017-2037	406,991	406,991	-	-
Ministry of Finance	MKD	1.00%	2011-2031	149,475	149,475	144,439	144,439
Council of Europe Development Bank	EUR	three-month EURIBOR plus 0.28%	2008-2013	216,379	216,379	305,871	305,871
				1,503,575	1,503,575	1,298,469	1,298,469

Borrowed funds for German micro - credit line (KfW) second tranche and German micro - credit line (KfW) third tranche are secured with the guarantees from the Republic of Macedonia. German credit line (KfW) and borrowing from Ministry of Finance are secured with the guarantees from the Government of the Republic of Macedonia.

23. Impairment provisions related to off balance sheet items

In thousands of denars	***Note***	**2007**	**2006**
Balance at 1 January		3,763	3,679
Provisions made during the year	*11*	352	84
Balance at 31 December	*27*	4,115	3,763

24. Net liabilities from managed funds

In thousands of denars	**2006**	**2005**
Receivables from managed funds	646,579	590,383
Liabilities from managed funds	(646,579)	(590,383)
	-	-

Notes to the financial statements

24. Net liabilities from managed funds (continued)

The Bank is authorized to act as an agent bank of the Government of the Republic of Macedonia, disbursing the credits from the Italian credit line to the final borrowers through selected commercial banks from the Republic of Macedonia.

25. Other liabilities

In thousands of denars	**2007**	**2006**
Advances received	-	3,589
Suppliers payable	707	1,303
Government grant (Deferred income)	815	815
Fee and commission	25	32
Other	3,265	522
	4,812	6,261

26. Capital and reserves

Share capital	**Ordinary shares**	
In number of shares	**2007**	**2006**
Issued and fully paid at 1 January	300,000	300,000
Issued and fully paid at 31 December	300,000	300,000

At 31 December 2007, the authorised share capital comprised 300,000 (2006: 300,000) ordinary shares. Ordinary shares have a par value of MKD 3,108. The State as sole shareholder is entitled to receive dividends as declared from time to time and is entitled to one vote per share at the meetings of the shareholders of the Bank. According to the Law for establishing the Macedonian Bank for Development Promotion, dividends that relate to the State are distributed to the Bank's reserves. All shares rank equally with regard to the Bank's residual assets. All share capital is State owned.

Reserves

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

Reserves for Security

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

Notes to the financial statements

26. Capital and reserves (continued)

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

Guarantee fund

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

27. Contingencies

The Bank has contingent liabilities arising from issued letters of guarantees for short-term export arrangements. The Bank obtains letters of guarantees from foreign insurance institutions in the amount of 70% to 90% (2006: 70% to 90%) of the guaranteed amount.

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

In thousands of denars	***Note***	**2007**	**2006**
Payment guarantees		92,827	62,203
Commitments to lend		29,499	36,704
Impairment provisions related to off-balance sheet items	*23*	(4,115)	(3,763)
		118,211	95,144

Notes to the financial statements

28. Related parties

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

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

Transactions with government institutions

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

(i) *Investment securities from related parties*

	Government institutions	
In thousands of denars	**2007**	**2006**
Investment securities at 1 January	158,277	91,364
Investment securities purchased during the year	(158,277)	66,913
Investment securities outstanding at 31 December	-	158,277
Interest income earned	6,188	10,187

(ii) *Borrowed funds from related parties*

	Government institutions	
In thousands of denars	**2007**	**2006**
Borrowed funds at 1 January	144,003	140,832
Proceeds from borrowings during the year	1,702	3,171
Borrowed funds at 31 December	145,705	144,003
Interest expense on borrowed funds	1,386	1,367

Notes to the financial statements

28 Related parties (continued)

(iii) Other transactions with related parties

In thousands of denars	**Government institutions** **2007**	**2006**
Fee end commission income from trust activities	6,880	12,746
Other income – government grant	-	35,884
Other expense – government grant	-	35,884
Other liabilities – deferred income from government grant	815	815

(iv) Key management personnel compensation

In thousands of denars	**2007**	**2006**
Short-term employee benefits	9,824	11,164
	9,824	11,164

29. Subsequent events

As of 1 January 2008 the tax rates for the Income Tax as well as for the Personnel Income Tax is 10% in accordance with the amendments to the Income Tax Law and Personnel Income Tax Law published on 30 December 2006 (2006: Income tax and Personal Income tax using 12%).

In January 2008 the Bank received MKD 330,000 thousand from the Government of the Republic of Macedonia for the realisation of the Project self-employment. The Bank, acting as an agent of the Government of the Republic of Macedonia, will disburse these funds to final borrowers, unemployed individuals for commencement of its own business, through the commercial banks from Republic of Macedonia.

In March 2008 USD 500,000 were withdrawn from the International Bank for Reconstruction and Development (“IBRD”) for implementation of the part of the Sustainable Energy Project. In February 2007 the Bank has concluded a Grant Agreement with IBRD in the amount of USD 1,200,000 for issuance of letters of guarantee; and USD 2,500,000 for loans, for implementation of part of the Sustainable Energy Project concluded between IBRD and the Republic of Macedonia. The project is expected to be completed by 30 September 2010. The funds are withdrawn upon the issuance of guarantees and approval of loans.