Financial statements and Independent Auditors' Report

Macedonian Bank for Development Promotion A.D., Skopje

31 December 2011

Contents

Grant Thornton
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Independent Auditors' Report

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To the Management and Shareholders of

The Macedonian Bank for Development Promotion A.D., Skopje

We have audited the accompanying financial statements of the Macedonian Bank for Development Promotion A.D., Skopje (the "Bank") which comprise of the Statement of financial position as at 31 December 2011, 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 41.

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 2011, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Grant Thornton,

Skopje,

15 March 2012

Statement of comprehensive income

	Notes	2011	2010
		(In Denar thousand) For the year ending 31 December	
Interest income		268,050	163,513
Interest (expense)		(126,862)	(49,050)
Net interest income	5	**141,188**	**114,463**
Fee and commission income		31,259	34,241
Fee and commission (expense)		(23,626)	(13,232)
Net fee and commission income	6	**7,633**	**21,009**
Foreign exchange gains, net	7	81	8,740
Other operating income	8	1,933	3,776
Impairment provision, net	9	10,018	29,256
Personnel expenses	10	(27,868)	(24,905)
Amortization and depreciation	17,18	(5,366)	(6,321)
Other operating expenses	11	(22,368)	(15,966)
Profit before tax		**105,251**	**130,052**
Income tax expense	12	(79)	(103)
Net profit for the year		**105,172**	**129,949**
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**105,172**	**129,949**
Earnings per share			
Basic and diluted earnings per share (in Denars)	13	274	338

Financial statements
31 December 2011

Statement of financial position

	Notes	(In Denar thousand) As at 31 December 2011	2010
Assets			
Cash and cash equivalents	14	1,121,181	1,119,101
Loans and advances to banks	15	8,886,738	5,750,586
Loans and advances to customers	16	55,386	10,447
Intangible assets	17	259	253
Property and equipment	18	106,147	106,604
Other receivables	19	12,238	11,552
Total assets		**10,181,949**	**6,998,543**
Liabilities			
Borrowings	20	8,198,291	5,135,156
Provisions and special reserve	21	7,337	3,385
Other liabilities	22	17,269	6,122
Total liabilities		**8,222,897**	**5,144,663**
Equity and reserves	23		
Share capital		1,193,792	1,193,792
Reserves		660,163	530,214
Retained earnings		105,097	129,874
Total equity and reserves		**1,959,052**	**1,853,880**
Total liabilities, equity and reserves		**10,181,949**	**6,998,543**
Commitments and contingencies	25	259,138	309,856

These financial statements have been approved by the Bank's Supervisory Board on 30 January 2012, and signed on behalf of the Board of Director by:

Mr. Dragan Martinovski
Chief Executive Officer

Mr. Kenan Idrizi
Chief Operating Officer

Statement of changes in equity

(In Denar thousand)

	Share capital	Statutory reserve	Reserves for security and guarantee fund	Retained earnings	Total equity and reserves
At 01 January 2011	**1,193,792**	**377,093**	**153,121**	**129,874**	**1,853,880**
Distribution of retained earnings	-	129,949	-	(129,949)	-
Transactions with owners	-	*129,949*	-	*(129,949)*	-
Profit for the year	-	-	-	105,172	105,172
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	*105,172*	*105,172*
At 31 December 2011	**1,193,792**	**507,042**	**153,121**	**105,097**	**1,959,052**
At 01 January 2010	**1,193,792**	**325,407**	**153,121**	**51,611**	**1,723,931**
Distribution of retained earnings	-	51,686	-	(51,686)	-
Transactions with owners	-	*51,686*	-	*(51,686)*	-
Profit for the year	-	-	-	129,949	129,949
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	*129,949*	*129,949*
At 31 December 2010	**1,193,792**	**377,093**	**153,121**	**129,874**	**1,853,880**

Statement of cash flows

	Notes	(In Denar thousand) Year ended 31 December 2011	2010
Operating activities			
Profit before taxation		105,251	130,052
Adjustment for:			
Amortization and depreciation		5,366	6,321
Impairment provision, net		(10,018)	(29,256)
Impairment losses on commitments and contingencies		3,952	316
Other corrections		-	706
Interest income		(268,050)	(163,513)
Interest expenses		126,862	49,050
(Loss) before changes in operating assets and liabilities		*(36,637)*	*(6,324)*
Changes in operating assets and liabilities			
Loans and advances to banks		(3,133,766)	(2,651,861)
Loans and advances to customers		11,232	(10,131)
Other receivables		(1,980)	1,358
Other liabilities		11,147	(2,087)
(Loss) after changes in operating assets		***(3,150,004)***	***(2,669,045)***
Proceeds from interest		220,725	156,659
Paid interest		(112,411)	(49,050)
Income tax (paid)/recovered		1	(23)
		(3,041,689)	**(2,561,459)**
Investment activities			
Purchase of property and equipment and intangible assets		(4,915)	(128)
		(4,915)	**(128)**
Financial activities			
Proceeds from borrowings, net		3,048,684	3,179,143
		3,048,684	**3,179,143**
Net change in cash and cash equivalents		**2,080**	**617,556**
Cash and cash equivalents, beginning of the year	14	1,119,101	501,545
Cash and cash equivalents, end of the year	**14**	**1,121,181**	**1,119,101**

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 shareholdes 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 2010, 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.

The Bank does not hold any investment in subsidiaries. Also, the Bank shares are not listed on any stock exchange market. The total number of employees of the Bank as at 31 December 2011 and 2010 is 36 persons.

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 financial statements have been prepared on the historical cost basis, except for the available-for- sale financial assets that are measured at fair value.

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 2011 and 2010. 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) Adoption of Improvements to IFRSs 2010

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The only amendment relevant to the Bank relates to IAS 1 Presentation of Financial Statements. The Bank previously presented the reconciliations of each component of other comprehensive income in the statement of changes in equity. The Bank now presents these reconciliations in the notes to the financial statements, as permitted by the amendment. This reduces duplicated disclosures and presents more clearly the overall changes in equity. Prior period comparatives have been restated accordingly.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Bank.

Management anticipates that all of the relevant pronouncements will be adopted in Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Bank's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Bank's financial statements.

IFRS 9 Financial Instruments (IFRS 9)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Bank's Management has yet to assess the impact of this new standard on the Bank's financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Bank's Management have yet to assess the impact of these new and revised standards.

<u>IFRS 10 Consolidated Financial Statements (IFRS 10)</u>

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

<u>IFRS 11 Joint Arrangements (IFRS 11)</u>

IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

<u>IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)</u>

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which a Bank is exposed from its involvement with structured entities.

<u>Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)</u>

IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 Fair Value Measurement (IFRS 13)

IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Bank's Management has yet to assess the impact of this new standard.

Changes in accounting policies and disclosures (continued)
Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)

The IAS 1 Amendments require a Bank to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Bank's Management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)

The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.
- The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Bank's Management has yet to assess the impact of this revised standard on the Bank's financial statements.

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:

	31 December 2011	31 December 2010
1 EUR	61.5050 Denar	61.5050 Denar
1 USD	47.5346 Denar	46.3140 Denar
1 CHF	50. 5964 Denar	49.3026 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. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.6 Fee and commission income

Fee and commission income with exception to the fees for approving of loans is recognized in the profit or loss on an accrual basis when the service has been provided. Fees for approving of loans are deferred and amortised over the duration of period of the loan using the effective interest method.

2.7 Dividend income

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

2.8 Foreign exchange income and expenses

Net foreign exchange income and expenses include realized and unrealized foreign exchange differences that are derived from the reconciliation of transactions made in foreign currency, as well as from asset and liability valuation, which are included in profit or loss in the period when they occur. Commitments and contingencies denominated in foreign currency are translated in Denar, by applying the official exchange rates that are valid on the Statement of financial position date.

2.9 Financial assets

Financial assets are classified in the following categories: loans and receivables, financial assets at fair value through profit and loss, financial assets available-for-sale and financial assets held to maturity. Management classifies its investments at initial recognition.

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 arise when the Bank provides money or services directly to a debtor with no intention of trading the receivable. They are recognized when the cash is advanced.

As at 31 December 2011, loans and receivables of the Bank consist of loans and advances to banks, loans and advances to customers, cash and cash equivalents and other receivables.

Financial assets at fair value through profits and losses

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 of 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. As at 31 December 2011 the Bank has no assets classified under this category.

Financial assets (continued)

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.

As at 31 December 2011 the Bank has no assets classified under 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. As at 31 December 2011 the Bank has no assets classified under 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.

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 amortized 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 of fair value through profit and loss includes interest income.

Financial assets (continued)

Unrealised gains and losses arising from changes in the fair value of financial assets available-for-sale are recognised directly in Statement of comprehensive income, 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.

2.10 Impairment of financial assets

Assets carried at amortized cost

The Bank assesses at reporting 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;
- Days in arrears for payment of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral;
- Initiation of bankruptcy proceedings;
- Activating the collateral.

The Bank assesses the existence of objective evidence for impairment on individual basis for individually significant financial assets.

The amount of impairment 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 based on the loan) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance for impairment and the amount of the impairment loss is recognized in the current Income statement.

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 and are recognized as income in the current period. 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 profit or loss.

2.11 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.

2.12 Property and equipment

Property, plant and equipment are carried at cost less accumulated depreciation. Cost includes all expenses directly attributable to purchase of assets.

Depreciation is charged on a straight - line basis at prescribed rates in order to allocate the acquisition cost of property, building, plant and equipment over their useful lives. The following are approximations of estimated useful life applied to significant items of property, plant and equipment:

Buildings	50 years
Furniture and equipment	4-5 years
Other assets	4-10 years

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.

2.13 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.

2.14 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.

2.15 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.

2.16 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, as 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.

2.17 Current and deffered income 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 taxataion.

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 comperhensive income except when it relates to items charged or credited directly to statement of comperhensive income, in which case the deferred tax is also dealt with in statement of comperhensive 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 2011 and 2010, as there are no temporary differences existing at that date.

2.18 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. Financial liabilities consist of borrowings and other liabilities.

Borrowings

Borrowings are initially recognized at fair value, being their issue proceeds (fair value of consideration received) less transaction costs incurred. Borrowings are subsequently carried at amortized cost. Borrowings are derecognized at the moment of their settlement, cancellation or expiration.

Financial liabilities (continued)

Other liabilities

Other liabilities are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. There are subsequently stated at amortised cost. Other liabilities are derecognized at the moment of their settlement, cancellation or expiration.

2.19 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.

2.20 Assets and liabilities from commission operations

Assets and liabilities managed on behalf of and for the account of the banks and the Government of the Republic of Macedonia are included in the balance sheet on a net basis. Net liabilities in the balance sheet represent the temporary difference between liabilities payments for the account of the banks.

2.21 Lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Bank as a lessee

Finance leases, which transfers to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased vehicles and equipment or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term.

Payments of the operating leasing are recognized as an expense on a straight-line basis over the lease term.

2.22 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.

2.23 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.

2.24 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.

2.25 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.

3 Financial risk management

The Bank's activities are exposing to 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 risk represents probability of particular activity or event to have a direct adverse impact on profits and / or own resources, or cause difficulty in achieving the objectives of the Bank. The risk is appropriately managed when identified, understood, evaluated, when monitoring is performed and when controlled.

Key elements of the risk management process of the Bank are: clearly defined organizational structure, identifying, measuring, monitoring and control, and proper use of instruments for protection and reduction of certain risks.

Risk Management Committee establishes and implements policies for undertaking and managing certain risk, proposes their review and monitors and evaluates the effectiveness of the overall process of risk management. The Supervisory Board approves policies for undertaking and managing risks and monitors their implementation. Established policies for managing individual risks, enabling identification, measurement, monitoring and control of risk to which they refer, provide reasonable assurance that the operations are directed to achieving the objectives of the Bank in accordance with applicable rules and regulations, and with the approved exposure limits by the Supervisory Board. Limits to exposures to individual risks are subject to reviewed, at least once per year, depending on internal and external conditions in which the Bank operates. Additionally, the Board of Directors establishes and implements procedures for identification, measurement, monitoring and internal controls of the process of managing risks. Considering that the process of risk management is important for each employee of the Bank trainings are conducted in order to create constructive environment where all employees will understand their duties and responsibilities.

Internal Audit Department conducts regular and periodic evaluations of the implementations of the internal controls, policies and procedures for undertaking and managing individual risks.

The process of risk management is in accordance with the Strategy for the Bank to undertake and manage risks.

Bank is exposed to the following risks:

- Credit risk;
- Liquidity risk;
- Market risks (interest rate risk, currency risk);
- Operating risk;
- Strategic risk

For all these risks the Bank establishes specific policies for managing individual types of risks and procedures for identification, assessment, monitoring and control of the individual risk.

3.1 Credit risk

Management of credit risk is part of the integrated process for management with all financial risks on which the Bank is exposed. Managing with the credit risk is a process that allows governing bodies to identify credit risk and thereby choose which exposures to reduce and which to increase and in what way.

Prior approving the exposure to credit risk, the Bank identifies all significant factors that may affect the riskiness of the client, or Bank's exposure to the client. Bank shall classify each active balance/off-balance sheet item by the degree of credit risk that it is exposed to on an individual basis based on the creditworthiness of the client, the orderliness in settlement of obligations and the quality of collateral. The results of the performed analysis of the abovementioned criteria results in classification of exposure to credit risk in one of the following risk categories A, B, C, D, E.

The Bank recognizes impairment, i.e. allocate special reserve within the following limits:

- from 0% to 10% of the credit risk exposure classified in A risk category;
- over 10% to 25% of the credit risk exposure classified in B risk category;
- over 25% to 50% of the credit risk exposure classified in C risk category;
- over 50% to 75% of the credit risk exposure classified in D risk category;
- over 75% to 100% of the credit risk exposure classified in E risk category.

In measuring the credit risk, the basic indicators that the Bank uses are information for the exposure on the likelihood that the debtor will enter bankruptcy or other financial reorganization, the probability of deterioration in the solvency or other significant financial difficulties of the debtor, the breach of agreement by the debtor etc. Instruments for protection and reduction of credit risk used by the Bank are the system of exposure limits, quality of collateral, system of early warning, appropriate valuation of the credit risk components, use of relevant information, defining market risks etc.

Clearly defined organisational structure is an important element of the process of managing with credit risk that provides exposures to credit risk within the limits set by the Supervisory Board.

The Supervisory Board approves the exposure to individual from over 10% of own funds of the Bank, and exposure to individual bank from over 25% of own funds of the Bank. Exposures to credit risk under these limits are approved by the Credit Committee and Insurance Committee.

Credit and Guarantee Division, Credit Insurance Division and Division for Treasury and Liquidity monitor all credit exposures in terms of established limits.

The Board of Directors is responsible for internal control in terms of exposure to credit risk due to that internal acts are established with set risk limits that intend to assist in the risk control and risk management. Namely, the process of control aims to minimize the impact of risk on capital and profit in accordance with the strategic objectives of the Bank.

Credit risk (continued)

Impairment and provisioning policies

The provision for impairment at year-end is derived from each of the Bank's internal rating grades as explained in Credit risk measurement paragraph above. The table below shows the percentage of the Bank's loans and advances to banks and customers and the associated provision for impairment for each of the Bank's internal rating categories:

		2011		2010
	Loans and advances to banks and customers (%)	Provision for impairment (%)	Loans and advances to banks and customers (%)	Provision for impairment (%)
Risk category A	-	-	-	-
Risk category B	-	-	-	-
Risk category V	-	-	-	-
Risk category G	-	-	-	-
Risk category D	129,105	(129,105)	140,319	(140,319)
	100.00	**100.00**	**100.00**	**100.00**

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.

Maximum exposure to credit risk before collateral held

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

Credit risk (continued)

Analysis of maximum exposure to credit risk

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Individually impaired												
Risk category A	-	-	-	-	-	-	1,337	-	63,555	10,501	64,892	10,501
Risk category B	-	-	-	-	-	-	144	-	11,425	10,411	11,569	10,411
Risk category V	-	-	-	-	-	-	39	-	547	866	586	866
Risk category G	-	-	-	-	-	-	5	-	1,364	223	1,369	223
Risk category D	77,828	77,828	51,277	62,491	-	-	2,231	1,086	3,814	559	135,150	141,964
Net carrying value before provision for impairment	77,828	77,828	51,277	62,491	-	-	3,756	1,086	80,705	22,560	213,566	163,965
(Provision for impairment)	(77,828)	(77,828)	(51,277)	(62,491)	-	-	(2,299)	(1,086)	(7,337)	(3,385)	(138,741)	(144,790)
Net carrying value less provision for impairment	**-**	**-**	**-**	**-**	**-**	**-**	**1,457**	-	**73,368**	**19,175**	**74,825**	**19,175**
Not past due, nor impaired												
Risk category A	8,886,738	5,750,586	-	10,447	1,105,869	1,117,147	9,508	9,689	185,770	290,681	10,187,885	7,178,550
Net carrying value	**8,886,738**	**5,750,586**	**-**	**10,447**	**1,105,869**	**1,117,147**	**9,508**	**9,689**	**185,770**	**290,681**	**10,187,885**	**7,178,550**
Past due, but not impaired												
Risk category A	-	-	55,386	-	-	-	148	701	-	-	55,534	701
Net carrying value	**-**	**-**	**55,386**	**-**	**-**	**-**	**148**	**701**	**-**	**-**	**55,534**	**701**
Total net carrying value	**8,886,738**	**5,750,586**	**55,386**	**10,447**	**1,105,869**	**1,117,147**	**11,113**	**10,390**	**259,138**	**309,856**	**10,318,244**	**7,198,426**

Value of collateral (fair value) estimated for the purposes of protection against credit risk

In Denar thousand	Loans and advances to banks	
	2011	2010
Other types of collateral	8,894,565	5,800,405
	8,894,565	**5,800,405**

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 2011 and 2010.

In Denar thousand	Loans and advances to banks		Loans and advances to customers		Cash and cash equivalents		Other receivables		Commitments and contingencies		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Republic of Macedonia	8,886,738	5,750,586	55,386	10,447	658,986	423,458	4,139	7,107	18,663	7,118	9,623,912	6,198,716
EU members	-	-	-	-	446,883	693,689	6,974	3,277	227,551	285,314	681,408	982,280
Other European countries	-	-	-	-	-	-	-	6	12,044	14,979	12,044	14,985
Other countries	-	-	-	-	-	-	-	-	880	2,445	880	2,445
	8,886,738	**5,750,586**	**55,386**	**10,447**	**1,105,869**	**1,117,147**	**11,113**	**10,390**	**259,138**	**309,856**	**10,318,244**	**7,198,426**

Credit risk (continued)

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 2011 and 2010.

In Denar thousand	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 equivalents		Other receivables		Off-balance sheet exposure		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Non residents	-	-	-	-	-	-	-	-	446,883	693,689	6,974	3,233	240,475	279,282	694,332	976,204
Agriculture, forestry and fishery	-	-	-	-	-	-	-	-	-	-	-	-	11	-	11	-
Textile industry and production of clothing and footwear	-	-	-	-	-	-	-	-	-	-	-	-	418	-	418	-
Other manufacturing	-	-	-	-	-	-	-	-	-	-	363	230	301	12,652	664	12,882
Construction	-	-	-	-	-	-	-	-	-	-	-	2	3	-	3	2
Wholesale and retail trade, repair of motor vehicles and motorcycles	-	-	-	-	-	-	-	-	-	-	264	-	17,893	-	18,157	-
Transport and storage	-	-	-	-	-	-	-	-	-	-	-	3	37	35	37	38
Accommodation and food service activities	-	-	-	-	-	-	-	-	-	-	-	355	-	14,387	-	14,742
Financial activities and insurance activities	8,886,738	5,750,586	-	10,447	-	-	-	-	658,986	423,458	17	1,191	-	-	9,545,741	6,185,682
Activities related to real estate	-	-	-	-	-	-	-	-	-	-	102	-	-	3,500	102	3,500
Public administration and defence, compulsory social security	-	-	55,386	-	-	-	-	-	-	-	353	1,875	-	-	55,739	1,875
Other service activities	-	-	-	-	-	-	-	-	-	-	4	-	-	-	4	-
Individuals	-	-	-	-	-	-	-	-	-	-	3,036	3,501	-	-	3,036	3,501
Total	**8,886,738**	**5,750,586**	**55,386**	**10,447**	**-**	**-**	**-**	**-**	**1,105,869**	**1,117,147**	**11,113**	**10,390**	**259,138**	**309,856**	**10,318,244**	**7,198,426**

3.2 Liquidity risk

Liquidity risk represents the risk for the Bank of becoming incapable to provide sufficient funds for settlement of its liabilities when such liabilities fall due, or to provide such funds at much higher costs. Liquidity risk arises from the inability of the Bank to timely and quickly converts assets into cash with minimal costs and the inability to properly manage unexpected changes in the sources of funds.

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 tables below analyse 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).

In Denar thousand	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
31 December 2011						
Liabilities						
Borrowings	314,622	-	917,832	4,813,728	2,152,109	8,198,291
Other liabilities	14,268	-	-	-	-	14,268
	328,890	**-**	**917,832**	**4,813,728**	**2,152,109**	**8,212,559**
31 December 2010						
Liabilities						
Borrowings	68,122	-	481,749	3,584,019	1,001,266	5,135,156
Other liabilities	4,014	-	-	-	-	4,014
	72,136	**-**	**481,749**	**3,584,019**	**1,001,266**	**5,139,170**

3.3 Market risks

Market risk is the risk that changes in market prices, such as changes in interest rates, changes in equity prices, exchange rates and/or market prices of securities will affect the Bank's profit or the value of own financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits by optimizing the yield.

Interest rate risk

Interest rate risk presents a risk of loss arising from adverse changes in interest rates. This risk is the most significant market risk.

The Bank is exposed to the risk of fluctuations of interest rates as a result of that the interest bearing assets and interest bearing liabilities mature or their interest rate changes at different times or in different amounts. In the case of assets and liabilities with variable interest rates, the Bank is also exposed to basis risk, which arises from the difference in changing the variable interest rates.

Interest rate risk (continued)

Managing this risk, which has a direct impact on revenues and the economic value of the banking activities of the Bank, is part of an integrated system of risk management in the Bank. The Macedonian Bank for Development Promotion establishes system of risk management from changes in interest rates in accordance with the scope and type of activities performed and the degree of risk exposure from changing interest rates.

To measure this risk the Bank applies the technique of gap analysis – maturity structure of interest sensitivity assets and liabilities in certain time periods. In function of monitoring and control, the Bank establishes limits for exposure to risk from changing interest rates, and adequate management with this risk directed to achieving the goals and objectives of the Bank.

Activities for risk management are aimed at optimizing net interest income, with market interest rates that are consistent with the business strategies of the Bank.

The table below analyses the Bank's interest rate gap position as at 31 December 2011 and 31 December 2010. The assets and liabilities are grouped according to the remaining period until the next change in interest rates.

Market risks (continued)
Interest rate risk (continued)

Analysis of interest rate gap position (excluding portfolio held for trading and derivatives, if any)

In Denar thousand	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing	**Total**
As at 31 December 2011							
Assets							
Cash and cash equivalents	1,104,609	-	-	-	-	16,572	1,121,181
Loans and advances to banks	891,152	7,855	1,854,155	5,654,569	456,282	22,725	8,886,738
Loans and advances toi customers	-	-	-	-	-	55,386	55,386
Other receivables	40	80	372	2,284	260	8,533	11,569
	1,995,801	**7,935**	**1,854,527**	**5,656,853**	**456,542**	**103,216**	**10,074,874**
Liabilities							
Borrowings	3,851,501	-	375,542	2,411,471	1,522,301	37,476	8,198,291
Other liabilities	-	-	-	-	-	17,269	17,269
	3,851,501	**-**	**375,542**	**2,411,471**	**1,522,301**	**54,745**	**8,215,560**
Net interest rate gap position	**(1,855,700)**	**7,935**	**1,478,985**	**3,245,382**	**(1,065,759)**	**48,471**	**1,859,314**
As at 31 December 2010							
Assets							
Cash and cash equivalents	1,116,363	-	-	-	-	2,738	1,119,101
Loans and advances to banks	586,000	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	881	7,302	10,803
	1,702,401	**38,960**	**971,804**	**4,079,601**	**57,345**	**40,826**	**6,890,937**
Liabilities							
Borrowings	2,029,545	-	82,031	1,999,291	1,001,264	23,025	5,135,156
Other liabilities	-	-	-	-	-	6,122	6,122
	2,029,545	**-**	**82,031**	**1,999,291**	**1,001,264**	**29,147**	**5,141,278**
Net interest rate gap position	**(327,144)**	**38,960**	**889,773**	**2,080,310**	**(943,919)**	**11,679**	**1,749,659**

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 2011, 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 2011 would respectively decrease/increase by approximately Denar 36,217 thousands (2010: Denar 34,760 thousands).

Foreign currency risk

The measurement of the currency risk is performed in 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 2011 and 2010 (in Denar thousands).

In Denar thousand	MKD	EUR	USD	Total
As at 31 December 2011				
Assets				
Cash and cash equivalents	674,298	446,883	-	1,121,181
Loans and advances to banks	1,007,048	7,879,690		8,886,738
Loans and advances to customers	55,386	-	-	55,386
Other receivables	4,083	7,459	27	11,569
Total Assets	**1,740,815**	**8,334,032**	**27**	**10,074,874**
Liabilities				
Borrowings	155,132	8,043,159	-	8,198,291
Other payables	9,240	8,029	-	17,269
Total Liabilities	**164,372**	**8,051,188**	**-**	**8,215,560**
Net foreign currency position	**1,576,443**	**282,844**	**27**	**1,859,314**
As at 31 December 2011				
Total Assets	430,115	6,460,822	-	6,890,937
Total Liabilities	157,034	4,984,244	-	5,141,278
Net foreign currency position	**273,081**	**1,476,578**	**-**	**1,749,659**

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 2011	Change in 2010	2011	Profit or loss 2010
EUR	1%	1%	2,828	14,766
USD	5%	-	1	-

3.4 Segment reporting

Operating segments

The Bank has one reportable segment, which is the Bank's strategic business unit. The strategic business unit offers different products and services, which are managed separately based on the Bank's management and internal reporting structure. For the strategic business unit, the Managing Board reviews internal management reports.

Geographic segments

in Denar thousand

	Republic of Macedonia	EU member countries	Total
2011			
Total income	**301,323**	**(150,488)**	**150,835**
Total assets	**9,735,297**	**446,652**	**10,181,949**
2010			
Total income	**210,270**	**(62,282)**	**147,988**
Total assets	**6,299,952**	**698,591**	**6,998,543**

3.5 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.

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 2011 and 2010, 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:

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

	Loans and receivables	Other at amortized cost	Carrying value	Fair value
31 December 2011				
Assets				
Cash and cash equivalents	1,121,181	-	1,121,181	1,121,181
Loans and advances to banks	8,886,738	-	8,886,738	8,886,738
Loans and advances to customers	55,386	-	55,386	55,386
Other receivables	11,113	-	11,113	11,113
	10,074,418	**-**	**10,074,418**	**10,074,418**
Liabilities				
Borrowings	-	8,198,291	8,198,291	8,198,291
Other liabilities	-	14,268	14,268	14,268
	-	**8,212,559**	**8,212,559**	**8,212,559**
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	10,390	-	10,390	10,390
	6,890,524	**-**	**6,890,524**	**6,890,524**
Liabilities				
Borrowings	-	5,135,156	5,135,156	5,135,156
Other liabilities	-	4,014	4,014	4,014
	-	**5,139,170**	**5,139,170**	**5,139,170**

Cash and cash equivalents

The carrying value of cash and cash equivalents approximates their fair value, considering that they include cash, bank accounts and bank deposits with short - term maturity.

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 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.

Borrowings

Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

Other liabilities

Carrying value of other liabilities approximates their fair value with relation to their short-term maturity.

3.6 Capital management

The Bank's objective regarding capital management is to compy with the capital requirements of the National Bank of the Republic of Macedonia and to sustain stable and quality capital base which will support the Bank's development.

As at 31 December 2011 the Banks' own funds are Denar 1,700,802 thousand (2010: Denar 1,570,813 thousand), while capital adequacy calclulated in accordance with the NBRM regulation is 17% (2010: 20%).

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 2011 Management assesses that the useful lives represent the expected utility of the assets to the Bank. The carrying amounts are analized in Note 17 and 18. Actual results, however, may vary due to technical obsolescence.

5 Net interest income

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

	2011	2010
Interest income		
Loans and advances to banks	129,565	106,173
Loans and advances to customers	105,570	28,536
Cash and cash equivalents	29,470	21,769
Collected bad and doubtful interest	3,445	4,746
Securities	-	2,289
	268,050	**163,513**
Interest expense		
Borrowings	126,862	49,050
	126,862	**49,050**
Net interest income	**141,188**	**114,463**

6 Net fee and commission income

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

	2011	2010
Fee and commission income		
Letters of credit and guarantees	25,612	19,019
Asset management	4,634	15,019
Loans and advances	1,013	203
	31,259	**34,241**
Fee and commission expenses		
Letters of credit and guarantees	22,905	12,780
Payment operations		
- Domestic	504	258
- International	217	194
	23,626	**13,232**
Net fee and commission income	**7,633**	**21,009**

The Bank is authorized to act as an agent of the Government of the Republic of Macedonia, placing the loans of the Italian credit line for small and medium enterprises, funds from the Republic of Macedonia for the Project for Self – employment, the funds from International Bank for Reconstruction and Development for the Sustainable Energy Project and the Open Credit Fund to the final borrowers through intermediary banks from the Republic of Macedonia.

Income from fees for insurance receivables is based on concluded insurance policies of receivables. Expenses from fees from insured receivables are based on incurred insured event in accordance with the insurance policy.

7 Foreign exchange gains, net

	2011	2010
Foreign exchange gains	321,503	325,383
Foreign exchange (losses)	(321,422)	(316,643)
	81	**8,740**

8 Other operating income

	2011	2010
Income from foreign operations	840	1,884
Other income	1,093	1,892
	1,933	**3,776**

9 Ipairment provision, net

	2011	2010
Charge / (recovery) for:		
Loans and advances to banks (Note 15)	-	(36,137)
Loans and advances to customers (Note 16)	(11,231)	5,933
Other receivables (Note 19)	1,213	948
	(10,018)	**(29,256)**

10 Personnel expenses

	2011	2010
Net salaries	18,316	16,436
Social and health contributions	8,921	7,991
Other mandatory contributions	631	478
	27,868	**24,905**

11 Other operating expenses

	2011	2010
Materials and services	10,909	11,035
Impairment losses on commitments (note 21)	3,952	316
Expenses from foreign currency operations	1,682	553
Expenses from membership	851	336
Insurance premiums on property and employees	451	479
Administrative and marketing expenses	205	891
Other taxes and contributions	143	138
Litigation expenses	22	42
Other	4,153	2,176
	22,368	**15,966**

12 Income tax

	2011	2010
Current tax	79	103
Deferred tax	-	-
	79	**103**

The reconciliation of the total income tax in the Statement of comprehensive income for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Non – deductible expenses for tax purposes	791	1,031
Tax basis	**791**	**1,031**
Tax at rate of 10% (2010: 10%)	79	103
	79	**103**

13 Earnings per share

The basic and diluted 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.

	2011	2010
Net-profit attributable to shareholders	105,172	129,949
Net-profit attributable to holders of ordinary shares	105,172	129,949
Weighted average number of shares	384,103	384,103
Basic and diluted earnings per share (in Denars)	**274**	**338**

14 Cash and cash equivalents

	2011	2010
Treasury bills traded on the secondary market	657,954	422,703
Current accounts and deposits with foreign banks	446,652	598,326
Account and balances with the NBRM	15,247	1,922
Cash in hand	65	32
Current accounts and deposits with domestic banks	3	1
Government bills traded on the secondary market	-	-
Term deposits with a maturity period less or equal to three months	-	95,333
Interest receivable	1,260	784
	1,121,181	**1,119,101**

Treasury bills issued by the NBRM mature within of 28 days (2010: 28 days) and earn interest at rates of 4% p. a. (2010: 4% p.a.).

15 Loans and advances to banks

	Short-term	Long-term	2011 Total	Short-term	Long-term	2010 Total
Loans to banks	147,828	8,794,013	8,941,841	167,335	5,640,740	5,808,075
Interest	22,725	-	22,725	20,339	-	20,339
Current maturity	2,643,766	(2,643,766)	-	1,303,498	(1,303,498)	-
	2,814,319	**6,150,247**	**8,964,566**	**1,491,172**	**4,337,242**	**5,828,414**
Less: provision for impairment			(77,828)			(77,828)
			8,886,738			**5,750,586**

	2011	2010
Movement of impairment provision		
At 01 January	77,828	113,042
Additional impairment provision (Note 9)	-	1,874
(Release) of impairment provision (Note 9)	-	(38,011)
Foreign exhange differences	-	923
At 31 December	**77,828**	**77,828**

As at 31 December 2011, nonperforming loans included in loans and advances to banks amounted to Denar 77,828 thousand (2010: Denar 77,828 thousand). Unrecognized interest and other related expenses to these loans amounted to Denar 20,198 thousand (2010: Denar 20,198 thousand).

16 Loans and advances to customers

Structure of loans and advances to customers by type of debtor

	Short-term	Long-term	2011 Total	Short-term	Long-term	2010 Total
Non-financial institutions						
Principal	50,833	-	50,833	62,048	-	62,048
Interest	443	-	443	443	-	443
	51,276		*51,276*	*62,491*	**-**	*62,491*
State						
Principal	55,386	-	55,386	10,447	-	10,447
	55,386		*55,386*	*10,447*	**-**	*10,447*
	106,662	-	**106,662**	**72,938**	**-**	**72,938**
Less: provision for impairment			(51,276)			(62,491)
			55,386			**10,447**

As at 31 December 2011, nonperforming loans included in loans and advances to customers amounted to Denar 50,833 thousand (2010: Denar 62,048 thousand). Unrecognized interest and other related expenses to these loans amounted to Denar 10,047 thousand (2010: Denar 27,781 thousand).

	2011	2010
Movements of provision for impairment		
At 01 January	62,491	56,500
Additional impairment provision (Note 9)	269	5,933
(Release) of impairment provision (Note 9)	(11,500)	-
Foreign exchange differences	16	58
At 31 December	**51,276**	**62,491**

Structure of loans and advances to customers by type of collateral

	2011	2010
Net carrying value of loans and advances		
First class collaterals		
- state guarantees	55,386	10,447
	55,386	**10,447**

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 2010	4,145	702	4,847
31 December 2010/01 January 2011	**4,145**	**702**	**4,847**
Additions during the year	177	-	177
31 December 2011	**4,322**	**702**	**5,024**
Accumulated amortization			
At 01 January 2010	**3,332**	**505**	**3,837**
Amortization for the year	628	129	757
31 December 2010/01 January 2011	**3,960**	**634**	**4,594**
Amortization for the year	131	40	171
31 December 2011	**4,091**	**674**	**4,765**
Net carrying value			
At 01 January 2011	185	68	253
At 31 December 2011	**231**	**28**	**259**

18 Property and equipment

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

	Buildings	Vehicles	Office equipment	Total
Cost				
At 01 January 2010	120,584	6,428	21,951	148,963
Additions during the year	-	-	128	128
31 December 2010/01 January 2011	**120,584**	**6,428**	**22,079**	**149,091**
Additions during the year	-	2,101	2,637	4,738
31 December 2011	**120,584**	**8,529**	**24,716**	**153,829**
Accumulated depreciation				
At 01 January 2010	14,041	5,417	17,465	36,923
Depreciation for the year	3,014	307	2,243	5,564
31 December 2010/01 January 2011	**17,055**	**5,724**	**19,708**	**42,487**
Depreciation for the year	3,015	715	1,465	5,195
31 December 2011	**20,070**	**6,439**	**21,173**	**47,682**
Net carrying value				
At 01 January 2011	**103,529**	**704**	**2,371**	**106,604**
At 31 December 2011	**100,514**	**2,090**	**3,543**	**106,147**

At 31 December 2011 and 2010, all property and equipment are owned by the Bank. The Bank has no mortgages or other encumbrances over its property and equipment.

19 Other receivables

	2011	2010
Fees and commission receivables	10,376	7,975
Receivables from customers	3,036	3,501
Current income tax receivables	669	749
Prepaid expenses	456	413
	14,537	*12,638*
Less: provision for impairment	(2,299)	(1,086)
	12,238	**11,552**

	2011	2010
Movements of provision for impairment		
At 01 January	1,086	53
Additional impairment provision (Note 9)	1,450	1,561
(Release) of impairment provision (Note 9)	(237)	(613)
Effect of exchange rate differences	-	85
At 31 December	**2,299**	**1,086**

20 Borrowings

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

		2011		2010
	Short-term	Long-term	Short-term	Long-term
Banks				
Principal	-	8,017,870	-	4,969,186
Interest payable	25,289	-	12,246	-
	25,289	**8,017,870**	**12,246**	**4,969,186**
State				
Principal	-	142,945	-	142,945
Interest payable	12,187	-	10,779	-
	12,187	**142,945**	**10,779**	**142,945**
Current maturity	1,194,978	(1,194,978)	526,846	(526,846)
	1,232,454	**6,965,837**	**549,871**	**4,585,285**

Borrowings by creditors

		2011		2010
	Short-term	Long-term	Short-term	Long-term
Domestic sources:				
Republic of Macedonia	12,187	142,945	10,779	142,945
	12,187	**142,945**	**10,779**	**142,945**
Foreign sources:				
EIB	24,988	7,087,006	11,938	3,998,928
KFW	-	852,076	-	852,076
CEB	301	78,788	308	118,182
	25,289	**8,017,870**	**12,246**	**4,969,186**
Current maturity	1,194,978	(1,194,978)	*526,846*	*(526,846)*
	1,232,454	**6,965,837**	**549,871**	**4,585,285**

As at 31 December 2011 most of the borrowings relating to borrowed funds from the European Investment Bank (EIB) Credit line in the amount of Denar 7,087,006 thousand (2010: Denar 3,998,928 thousand) concluded on 26 June 2009. The purpose of this Credit line is support to small and medium enterprises in the total amount of EUR 100 million. On 2 November 2011 MBDP signed a new contract with the EIB in the amount of EUR 50,000,000 to support small and medium enterprises – II phase. The loan can be withdrawed in 12 instalments and the minimum amount may be EUR 3 million. The total number of withdrawed instalments is three. The repayment period is from 4 to 8 years from the date of disbursement of the instalment. The interest rate is determined for each instalment of the loan, the date of the submission of the request for withdrawal of funds.

21 Provisions and special reserve

	Commitments and contingencies
Balance at 01 January 2010	3,069
Additional impairment provision (Note 11)	3,593
(Release) of impairment provision (Note 11)	(3,277)
Balance at 31 December 2010 (Note 25)	**3,385**
Balance at 01 January 2011	3,385
Additional impairment provision (Note 11)	18,109
(Release) of impairment provision (Note 11)	(14,157)
Balance at 31 December 2011 (Note 25)	**7,337**

Special reserve for off-balance credit exposures of the Bank arise from insured receivables on short-term period and issued financial guarantees for loans for commercial banks.

22 Other liabilities

	2011	2010
Liabilities for transfer of funds paid by customer for credit line	9,004	-
Fees and commission liabilities	4,292	2,686
Deferred interest income	3,001	2,091
Liabilities toward suppliers	253	627
Accrued expenses	-	17
Other	719	701
	17,269	**6,122**

At 31 December 2011, the Bank has liabilities to transfer funds paid by customer for a credit line amounting to Denar 9,004 thousand, which arise from proceeds of funds from customer to accounts of the Bank intended for payment on the account of the Ministry of Finance for credit line GMF1.

23 Equity

Share capital

As at 31 December 2011 and 2010, total share capital oaf 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.

The Republic of Macedonia as sole shareholder 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, net profit for the year is distributed to the Bank's reserves.

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 Shareholder 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.

24 Activities on behalf of third parties

	Assets	Liabilities	2011 Net-position	Assets	Liabilities	2010 Net-position
Asset administration on behalf and chargable to third parties						
Loans in Denar	751,689	751,689	-	762,970	762,970	-
Loans in foreign currencies	507,665	507,665	-	517,459	517,459	-
Total	**1,259,354**	**1,259,354**	**-**	**1,280,429**	**1,280,429**	

The Bank is authorized to act as an agent of the Government of the Republic of Macedonia, placing the loans of European Investment Bank (EIB), the Italian credit line, funds from the Republic of Macedonia for the Project for Self – employment, the funds from International bank for Reconstruction and Development for the Sustainable Energy Project and the Renewable Credit Fund, to the final borrowers through intermediary banks from the Republic of Macedonia.

25 Commitments and contingencies

	2011	2010
Payment guarantees in Denar	418	418
Other off statement of financial position items	266,057	312,823
	266,475	**313,241**
Provision for impairment (Note 21)	(7,337)	(3,385)
	259,138	**309,856**

Litigations

At 31 December 2011, no legal proceedings are raised against the Bank.

Guarantees (insurance) for payment of receivables

The Bank has contingent liabilities in respect of issued insurance policies of receivables. Despite the possibility of insurance against commercial and political risks, the insurers during 2011 are generally insured against commercial risks, i.e.: bankruptcy and continued customers non payment. In case of any of the mentioned risks the Bank shall pay the insurer's damage. These contingent liabilities have off balance credit risk and for them the Bank allocates a separate reserve.

In the balance sheet are recognized receivables from and liabilities to reinsurers, receivables from insurers based on fees, and receivables from insurers / customers in the event of executed recourse of paid damages, and liabilities to insurers based on paid damages. In the balance sheet are also recognised appropriate corrections to receivables from insurers and reinsurers.

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 2011 and 2010. 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 2011 and 2010.

27 Related party transactions

According to the Law on Banks, 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 or that enable a significant influence on the Bank's managing), affiliates and entities, as well as the responsible persons of these shareholders - legal entities, Bank's subsidiaries and other persons related to the Bank.

It is the opinion of the Bank's management that these transactions are carried out on normal market terms and conditions and during the normal course of business activities.

Sole owner of the Bank is the Government of the Republic of Macedonia. The Bank shall not lend or issue guarantees to the Republic of Macedonia, public enterprises and the institutions users of the Budget funds.

As at 31 December 2011 and 2010 the balances and volume of transactions with related parties are as follows:

Related party transactions (continued)

	Sole shareholder		Key management personnel		Total	
	2011	2010	2010	2010	2011	2010
Assets						
Loans and other receivables	55,739	10,653	-	-	55,739	10,653
Investment securities	-	-	-	-	-	-
	55,739	**10,653**	**-**	**-**	**55,739**	**10,653**
Liabilities						
Borrowings	155,132	153,724	-	-	155,132	153,724
	155,132	**153,724**	**-**	**-**	**155,132**	**153,724**
Income						
Interest income	111,475	47,585	-	-	111,475	47,585
Fee and commission income	11,972	4,588	-	-	11,972	4,588
	123,447	**52,173**	**-**	**-**	**123,447**	**52,173**
Expenses						
Interest expenses	9,678	40,261	-	-	9,678	40,261
Short term employee benefits	-	-	15,316	14,779	15,316	14,779
	9,678	**40,261**	**15,316**	**14,779**	**24,994**	**55,040**

28 Events after the reporting period

After 31 December 2011 - 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.

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