STEDILNICA MOZNOSTI DOO SKOPJE

TRANSLATION

Financial Statements
for the year ended 31 December 2007

Content

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Independent auditor's report **TRANSLATION**

To the Management and Board of Directors of Stedilnica Moznosti DOO Skopje

We have audited the accompanying financial statements of Stedilnica Moznosti DOO Skopje, which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flows 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 Laws and Regulations of the Republic of Macedonia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 misstatement.

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 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 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 accompanying financial statements give a true and fair view of the financial position of Stedilnica Moznosti DOO Skopje as of 31 December 2007, and of its financial performance and its cash flows for the year than ended in accordance with Laws and Regulations of the Republic of Macedonia**.**

General Manager	Certified auditor
Ljube Gjorgjievski	Ljube Gjorgjievski

PricewaterhouseCoopers Revizija DOO Skopje

Skopje

16 April 2008

Income statement

	Note	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	4	189,853	130,226
Interest expense	4	(64,509)	(33,337)
Net interest income		**125,344**	**96,889**
Fee and commission income	5	36,791	19,743
Fee and commission expense	5	(3,997)	(2,683)
Net fee and commission income		**32,794**	**17,060**
Foreign exchange differences (net)		5,031	4,296
Other operating income	6	3,025	1,075
Other operating expenses	7	(120,013)	(87,003)
Impairment losses	8	(8,133)	(2,618)
Profit before income tax		**38,048**	**29,699**
Income tax expenses	9	(5,188)	(3,701)
Net profit for the year		**32,860**	**25,998**

Balance sheet

	Note	31 December 2007	2006
ASSETS			
Cash and balances with the NBRM	10	19,447	14,624
Government bills	11	-	89,609
Loans and advances to banks	12	39,000	-
Loans and advances to customers	13	1,474,561	960,966
Interest receivables	14	17,898	12,204
Property and equipment	15	72,655	74,473
Intangible assets	16	1,513	2,015
Other assets	17	2,941	1,953
Total assets		**1,628,015**	**1,155,844**
LIABILITIES			
Deposits	18	209,835	112,087
Borrowings	19	984,711	647,583
Interest and fee liabilities	20	13,894	9,592
Other liabilities	21	43,886	22,954
Total liabilities		**1.252.326**	**792.216**
SHAREHOLDERS' EQUITY			
Share capital	23	300,152	300,152
Retained earnings		32,996	25,998
Statutory reserve		42,541	37,342
Revaluation reserve		-	136
Total equity		**375,689**	**363,628**
Total liabilities and equity		**1,628,015**	**1,155,844**

The notes on pages 7 to 38 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Statutory reserve	Revaluated reserve	Accumulated earnings	Total equity
Balance at 1 January 2006	**300,152**	**32,342**	**136**	**24,221**	**356,851**
Net profit for the year	-	-	-	25,998	25,998
Transfer from accumulated earnings to statutory reserve	-	5,000	-	(5,000)	-
Payments to owners (withdrawals)	-	-	-	(17,779)	(17,779)
Payments to BD members and to management	-	-	-	(1,442)	(1,442)
Balance at 31 December 2006	**300,152**	**37,342**	**136**	**25,998**	**363,628**
Balance at 1 January 2007	**300,152**	**37,342**	**136**	**25,998**	**363,628**
Net profit for the year	-	-	-	32,860	32,860
Transfer from accumulated earnings to statutory reserve	-	5,199	-	(5,199)	-
Transfer from revaluation reserve to accumulated earnings			(136)	136	-
Payments to owners (withdrawals)	-	-	-	(20,799)	(20,799)
Balance at 31 December 2007	**300,152**	**42,541**	**-**	**32,996**	**375,689**

The shared capital of the Saving House is MKD 300,152,000.
The Saving house's statutory reserves represent the Saving house's own capital serving as a loss covering resource, which comes as a result of the risk exposure during the usual activities of the Saving house. According to the law regulations the Saving house should separate15% of the profit for the year as statutory reserve until it reaches amount of one fifth of the shared capital.

Cash flow statement

	Notes	Year ended 31 December 2007	2006
Cash flows from operating activities			
Profit before tax		38,048	29,699
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets		10,217	8,108
Impairment losses		8,133	2,618
Cash flows from operating profits before changes in operating assets and liabilities		**56,398**	**40,425**
(Increase)/Decrease in operating assets			
Balances with NBRM		(2,133)	(1,313)
Loans and advances to customers		(525,254)	(196,350)
Other assets		(2,935)	2,485
Increase/(Decrease) in operating liabilities			
Amounts owed to other depositors		97,748	54,860
Other liabilities		23,522	12,144
Income tax paid		(3,621)	(2,051)
Net cash from operating activities		**(356,275)**	**(89,800)**
Cash flows from investing activities			
Acquisition of property and equipment		(7,993)	(21,757)
Net cash used in investing activities		**(7,993)**	**(21,757)**
Cash flows from financing activities			
Proceeds from borrowed funds		337,128	226,251
Dividends paid		(20,779)	(19,221)
Net cash from financing activities		**316,349**	**207,030**
Net increase in cash and cash equivalents		**(47,919)**	**95,473**
Cash and cash equivalents, beginning of year 1 January 2007		**101,744**	**6,271**
Cash and cash equivalents, end of year 31 December	**24**	**53,825**	**101,744**

1 General Information

Stedilnica Moznosti DOO, Skopje (further referred to as “the Saving House”) presents limited liability legal entity with its head office in the Republic of Macedonia. Parent company and founder of the Saving House is the Moznosti Education and Entrepreneurship Centre Skopje, partner-organization of Opportunity International. The Saving House is regulated by the National Bank of the Republic of Macedonia (“Central Bank”) and conducts its business under license number 02-14/289-2000. The principal activities of the Saving House are as follows:

- Cash deposits in Denars from retail customers;
- Loans to physical persons and legal entities according to current laws and regulations;
- Borrowings from banks;
- Investment of funds in government securities;
- Purchase and sale of short term securities;
- Investments on Money market and securities market;
- Exchange activities;

The address of its registered office is as follows:
Bulevar Jane Sandanski 111.
1000 Skopje
Republic of Macedonia

These financial statements have been approved for issue by the Board of Directors on 13 February 2008.

Directors
The names of the Directors of the Bank serving during the financial year and to the date of this report are as follows:

Manager	Snezana Andova
Finance Manager	Emilija Krajceva

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Basis of presentation

The financial statements of Stedilnica Moznosti DOO, Skopje have been prepared in accordance with Trade Law (Official Gazette No. 28/2004), the requirements of the Law on Banks (Official Gazette No. 67/2007),Decision for the conditions and activities of the Saving Houses(Official Gazette No. 79/2007) and Rule Book for accounting (Official Gazette No. 94/2004 and 11/2005 and Official Gazette No. 40/1997 and 73/1999).

The preparation of financial statements, in compliance with the generally accepted accounting policies, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Additional information is presented in the accounting policies and notes to the financial statements.

2.2 Foreign currencies

Functional and presentation currency

Assets and liabilities denominated in foreign currency are translated into MKD at exchange rates of NBRM valid at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange rate:	**31 December 2007** **MKD**	**31 December 2006** **MKD**
USD	41.66	46.45
EUR	61.20	61.17
CHF	36.86	38.07

2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.4 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments, are recognized within ‘interest income’ and ‘interest expense’ in the income statement using the effective interest method.
Interest and income expenses are collected in accordance with the Macedonian legal laws or the agreement made between debtor and borrower.
Impairment is made when loans become doubtful of collection.

2.5 Fee and commission income

Fees and commissions consist mainly of fees received from enterprises arising from loans and other banking activities. Fees and commissions are generally recognized on an accrual basis in the Income statement when the service has been provided.

2.6 Investments in securities

Investments in securities held to maturity are financial assets with fixed or determined payments and fixed maturity, which the Saving House has intention and possibility to keep till maturity.

2.7 Loans and advances to customers and impairment of bed and doubtful debts

Loans and advances to customers, as a result of direct money approval, are categorized as loans approved by the Saving House and are presented in the Balance sheet net of impairment provision.

Cost to third parties for example court costs that come as a result of loan collateral are treated as transaction costs.

Loans approved to customers by the Saving House are initially recognized at cost, when cash is advanced to the customer.

Impairment provision is based loan portfolio analyses carried out by the management of the Saving house, according to the statutory regulations applicable in Republic of Macedonia, i.e according to the criteria prescribed by the Central Bank in the Methodology for classification of assets and off-balance sheet items of banks at all risk levels.

The Saving house do not have write offs due to the fact that there are no loans that are considered to be uncollectible, and for which are used all legal possibilities.

If the impairment of doubtful receivables is reduced as a result of event after the impairment, the impairment provision relief is reflected as income at that moment.

The structure of the impairment provision of bed and doubtful receivable is at the note 11.

2.8 Tangible and intangible assets

Tangible and intangible assets are initially recognized at cost and subsequently decreased by accumulated depreciation. Investments in progress are recognized at cost including other expenses that increase their value. Depreciation is not calculated while the assets are categorized as investment in progress.

When the investments in progress is activated, all costs are transformed at the relevant categories of tangible and intangible assets, and subsequent depreciation is charged according to subscribed annual rates that are relevant to the appropriate category of assets.
The decrease of tangible and intangible investments comprises of disposal and write-off decreased for the accumulated depreciation of the asset. Capital gains and loss arising as outcome of the abovementioned transactions are recognized in the Income statement.

Depreciation of tangible and amortization on intangible assets is calculated on a straight-line basis at prescribed annual rates, in order to allocate the depreciable amount of the assets over their estimated useful lives.
The depreciation rates are determined so that the value of tangible and intangible assets is proportionally allocated thought the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and equipment	4-10 years

2.9 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with NBRM and government treasury bills.

2.10 Employee benefits

The Saving House, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, food allowances and travel expenses according to the legislation. The Saving House makes these contributions to the Government’s health and retirement funds, according to the legislative. The regular contributions constitute costs for the year in which they are due and as such are included in staff costs. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Savings house uses MCC19- and has long-term responsibility to employees severance wage, according to the legislative.
The Saving house recognizes liability and expense for share in profit and payments for bonuses to employees, members of the managing board and management.

2.11 Taxation

The income tax is paid in accordance with the Law on Profit tax. Monthly payments are made in advance.
Income tax is calculated at a tax rate of 12%. (2006:15%) it is calculated at the determined profit from the Income statement, corrections made for certain items according to the legislative

2.12 Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred.

2.13 Comparatives

Where necessary there is a change of comparative information in order to satisfy the comparability concept regarding the presentation changes in the current years.

3 Financial risk management

The Savings house's activities expose it to a variety of financial risks, so the adequate risk management is basic Savings house's aim. The efforts to maintain adequate balance between accepted risk level and business stability and profitability are permanent. Also, operative risk is monitoring, evaluating and managing on regular basis.

The most important types of risk are credit risk, liquidity risk, market risk and operative risk. Market risk includes interest rate risk and currency risk.

Risk management framework

Board of Directors has overall responsibility for the establishment and oversight of the Savings house's risk management framework. The Board of Directors has established the Management Board, Credit Committee, and Liquidity Committee, which are responsible for monitoring and developing risk management policies in specific areas.

Regarding the organizational structure of the Savings house, the Risk and bad loan Management Department is responsible for monitoring and reporting of global risk exposure, while the organizational units of the Savings house which creates risk exposure are responsible for operative risk management. Internal audit is responsible for the independent review of risk management.

According to the Savings house's risk management policies which includes set of appropriate risk limits and controls, identifying, monitoring and risk's analysis are made on regular basis.

3.1 Credit risk

The Savings house takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk is the most important risk of the Savings house's business, so the Savings house carefully manages its exposure to credit risk. Principally, credit exposure arises in the lending activities.

3.1.1 Credit risk management

1. Board of Directors is responsible for creating and implementing Credit Policy and Procedures for monitoring the policy implementation and procedures for loan assessment and management. The loan exposure that exceeds 30.000 euros is approved by the Credit committee, appointed by the Board of Directors of the Savings house. The maximum amount that the Savings house approves is 200.000 EUR in denominated in MKD to one client (related parties included), which is within the frames of exposure of 10% from the own funds according the Decision for operating terms and manners of savings houses.
2. Credit Committee for clients' requests approvals is responsible for approval of all requests from clients, that refer to changes in terms of loans' payments (change in the interest, extended payment term, restructuring remaining debt, other)

3. Savings house's Credit committee is responsible of credit exposure approvals, according decision of the Board of Directors for forming operative Credit Committees, that ensure functionality, flexibility and time efficiency in the process of decision making.
4**.** Decision-making authorities of the Board of Directors are defined by law and by-law regulations of Central Savings house according to which the Board of Directors makes decisions for write-offs of Savings house's claims.

3.1.2 Credit risk assessment

(a) Loans

In assessing credit risk of loans and advances to customers and to Savings houses at a counterparty level, the Savings house uses three components: (I) the 'probability of default' by the client or counterparty on its contractual obligation (expected cash flows); (ii) the likely recovery ratio on the defaulted obligations, the 'loss given default'; (iii) the amount and quality of the collateral for the exposure.

(i) The Savings house assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. In the process of loan application as well as the process of loan approval more analysis are made to determine credit risk evaluation. That means analysis of the basic parameters of the customer, analysis of the official financial reports, analysis of the cash flow, assumptions for future cash flow and activities, attractiveness and collateral quality.
At this phase of the evaluation of the credit risk the subject of analysis of the application form is:

- analysis of the credit exposure towards the client, in basis of credibility, by which the Saving house evaluates that cash inflows are sufficient for payment of due commitments, regardless the financial weaknesses, not indicating signs for further bed conditions of the customer.
- analysis of the cash flows of the customer that will provide fulfillment of the commitments at the due term.
- analysis of available information, that is needed documentation for loan files.
- analysis of the customer liquidity and solvency

(ii) Loss given default or loss severity represent the Savings house's expectations of the extent of loss on a clime should default occur. It is expressed as percentage loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigations. They are ranked in 5 risk categories.

Savings house internal rating grade

Savings house’s rating grade A includes:

- Claims from National Bank of the Republic of Macedonia and the Republic of Macedonia
- Credit exposure towards customer who settles its obligation towards the Savings house at maturity or up to 15 days overdue
- Credit exposure being fully secured by first class security instruments, as defined in NBRM Decision on classification of claims of banks, up to realization of the instrument, provided that the realization is not in term longer than 30 days after the claim's maturity.

Savings house’s rating grade B includes:

- Credit exposure towards customer who repays its due obligations up to 45 days

Savings house’s rating grade C (Sub-standard) includes:

- Credit exposure towards customer who repays its due obligations up to 46-90 days

Savings house’s rating grade D+E (Suspicious (doubtful) loss) includes:

- Credit exposure towards customer who is illiquid or insolvent and credit exposure towards customer in bankruptcy or liquidation;
- Credit exposure towards a customer for whom a proposal is submitted to the authorized court and at the same time it is not being secured with a qualitative security instrument
- Credit exposure towards customer who usually fulfils its obligations with a delay from 91 up to 365 days, or towards customer who usually fulfils its obligations with delay longer than 365 days or does not fulfill them at all.

3) Amount and quality of the collateral depends on the terms, type (non movables, movables (inventories, receivables) and the possibility for its enforcement. The Savings hose compulsory determines the market value of the property that is on lease (movables or non movables), with authorized valuator.

(b) Debt securities and other bills

The Savings house is striving to maintain acceptable level of credit risk exposure regarding debt securities, so investment activities are dominantly in government short term debt securities.

3.1.3 Risk limit control and mitigation policies

The Bank manages and controls concentration of credit risk to individual and group basis, and to industries and countries.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

As measures for specific control and mitigation of credit risk prescribed in Bank's act that regulates credit activities and procedures are obtaining collateral and credit-related contingencies.

(a) Collateral

Collateral always is considered as a secondary factor in granting a credit facility. Security by itself, in lack of ability to generate cash flow, is insufficient to justify the granting of credit facilities. The principal collateral types for loans and advances are:

(1) For corporate entities

- Deposits
- Non movables
- Movables (equipment, motor vehicles)
- Inventory
- Receivables
- Guarantees (bank guarantees, guarantees from legal entities)
- Individual guarantors
- Bill of exchange

(2) For individual entities

- Deposits
- Movable property (equipment, motor vehicles)

- Non movable property
- Guarantees (guarantees from legal entities)
- Individual guarantors
- Bill of exchange

Loans to individual entities are generally secured.

3.1.4 Impairment and provisioning policies

The Savings house establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss component that relates individually significant exposures. According to the Savings house's policy, there are five internal rating grades. The majority of the impairment provision comes from the bottom two grading. The table below shows the structure of Savings house's loans and advances portfolio regarding internal rating system and the associated impairment provision for each internal rating grade:

	2007		2006	
	Loans %	**Impairment%**	**Loans %**	**Impairment%**
Pass/acceptable for financing (A)	92.55	1.98	89.77	1.96
Watch (careful) (B)	4.65	10.00	6.14	10.00
Sub-standard (C)	0.98	25.00	1.36	25.00
Suspicious (doubtful)+Loss (D) + (E)	1.83	74.50	2.73	75.88
Total	**100**	**3.91**	**100**	**4.79**

3.1.5 Maximum exposure to credit risk before collateral held or other credit enhancement

	2007	**2006**
Loans and advances to banks	39,000	-
Loans to customers		
Loans to individuals		
-loans to individuals(mortgage loans, consumer loans)	425,577	401,976
-loans to individuals(business loans)	671,023	241,413
Loans to corporate entities	377,961	317,577
Government bonds	-	89,609
Other assets	2,941	1,953
Total	**1,516,502**	**1,052,528**

The above table presents a worse case scenario of credit risk exposure to the Saving House as at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet items, the exposure set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 3% of the total maximum exposure is derived from loans and advances to banks (2006: 0%) and Loans to customers 97% (2006: 91%);
Management is confident that in its ability to continue to control and sustain minimum exposure to credit risk to the Bank resulting from loans and advances

portfolio (category A)

3.1.6 Loan and advances

Loans and advances are summarized as follows:

	31 December 2007		31 December 2006	
	Loans and advances to customers	**Loans and advances to banks**	**Loans and advances to customers**	**Loans and advances to banks**
Neither past due nor impaired	1,491,492	39,000	967,925	-
Past due but not impaired	15,001	-	13,740	-
Impaired	28,028	39,000	27,602	-
Gross	**1,534,521**	**-**	**1,009,267**	
Less: allowance for impairment	(59,960)	-	(48,301)	-
Net	**1,474,561**	**39,000**	**960,966**	**-**

(a) Loans and advances neither past due or impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Bank's internal rating system.

31 December

	Degree of investment (A) 2007	**Degree of investment (A) 2006**
Loans and advances to banks	39,000	-
Loans to customers		
Loans to individuals:		
- loans to individuals(mortgage loans, consumer loans)	429,853	407,447
-loans to individuals(business loans)	680,688	242,424
Loans to corporate entities	380,951	318,054
Total	**1,530,492**	**967,925**

The quality of the loan portfolio to other banks and due loans but not impaired is evaluated according to the internal system of the Saving house.

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class of customer that were past due but not impaired were as follows:

	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to individuals	-	9,087	-	9,087
-loans to individuals (mortgage loans, consumer loans)		4,570		4,570
-loans to individuals(business loans)		4,517		4,517
Loans to corporate entities	-	5,914	-	5,914
Total		**15,001**		**15,001**
Value of collateral		**36,041**		**36,041**

31 December 2006

	Up to 30 days	Up to 90 days	Over 90 days	Total
Loans to individuals	-	7,284	-	7,284
-loans to individuals (mortgage loans, consumer loans)		3,326		3,326
-loans to individuals(business loans)		3,958		3,958
Loans to corporate entities	-	6,456	-	6,456
Total		**13,740**		**13,740**
Value of collateral		**20,564**		**20,564**

(c) Loans and advances individually impaired

The breakdown of individually impaired loans and advances to customers by class and the fair value of related collateral held by the Bank as security, are as follows:

	2007	2006
Loans to individuals		
- loans to individuals (housing, student, consumer)	7,591	6,567
-loans to individuals (business loans)	7,143	6,481
Loans to corporate entities	13,294	14,554
Total	**28,028**	**27,602**
	33,906	**53,558**

(2) As at 31 December 2007 and 2006 the Saving House doesn’t have impaired loans and advances to banks. The Saving House doesn’t have nor keep collateral for loans and advances to banks.

(d) Loans and advances renegotiated

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower’s financial position and when the Bank has made concession that it would not otherwise consider. Once the loan is restructured it remains in the same rating grade at least two quarters independent of satisfactory performance after restructuring, except when the quality of the loan was improved and the loan was transferred in a less risky category. The renegotiated loans as at

31 December 2007 and 31 December 2006 are as follows:

31 December 2007	**Carrying amount**
Re-structured loans	4,824

31 December 2006	**Carrying amount**
Re-structured loans	5,277

3.1.7 Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities, treasury bills and other eligible bills regarding issuer as at 31 December 2007:

Issuer	**Trading securities**	
	2007	**2006**
Republic of Macedonia	0	89.609

3.1.8 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

According to the law regulation and the policy of the Saving House, all activities are placed on the territory of the Republic of Macedonia

(b) Industry sector

The following table breaks down the Bank's credit exposure at their carrying amount, categorized by industry sector of our counterparties.

	Total	Financial services	Industry	Commerce	Retail customers	Agriculture	Other	Services
Assets								
Loans and advances to banks	39,000	39,000	-	-	-	-	-	-
Loans and advances to customers								
Loans to individuals	1,134,361	-	31,518	104,613	442,012	440,174	9,283	106,761
Loans to corporate entities	400,159	-	86,565	161,359	-	15,150	19,396	115,048
Other assets	2,941	-	-	-	-	-	2,941	-
Total assets as at 31 December 2007	**1,576,462**	**39,000**	**118,083**	**265,972**	**442,012**	**455,324**	**34,261**	**221,809**
Less: Impairment	(59,960)	-	(7,166)	(13,277)	(16,435)	(13,359)	(1,154)	(8,619)
Net portfolio as at 31 December 2007	**1,516,502**	**39,000**	**110,967**	**252,695**	**425,577**	**441,965**	**26,978**	**213,190**
Total assets as at 31 December 2006	**1,100,829**	**89,609**	**82,122**	**160,924**	**417,339**	**197,011**	**24,429**	**129,395**
Less: Impairment	**48,301**	**-**	**6,897**	**9,935**	**15,363**	**8,455**	**1,024**	**6,627**
Net portfolio as at 31 December 2006	**1,052,528**	**89,609**	**75,225**	**150,989**	**401,976**	**188,556**	**23,405**	**122,768**

3.2 Market risk

The Savings house takes on exposure to market risk. Market risk arises from open positions in interest rate, and currency, all of which are exposed to general and specific market movements. The Savings house estimates the market risk of positions held and the maximum losses expected based upon a number of assumptions for various changes in market conditions.

A Market risk measurement

Regarding market risk managing and measuring, the Savings house's management on a regular basis through adequate analysis and reporting process, is monitoring:

- interest rate changes regarding market movements and internal decisions, and the influence on interest bearing assets and liabilities and the interest rate margin;
- changes of foreign currency rates regarding foreign currency assets and liabilities and maintain adequate structure regarding foreign exchange risk exposure;

The aim of the Savings house is maximizing the stability and profitability, by applying the optimum combination of foreign currency and interest rate structure of the assets and liabilities.

B Foreign currency risk

The Savings house is exposed to the effects of foreign currency fluctuation that influence the Savings house' Income statement and cash flow.

Foreign currency risk managements comprises of:
- Analysing of the effects of managing with the foreign currency risk on Savings house' results;
- Establishing of internal limits for foreign currency risk position by different currency – related to Savings house' own funds.
- Analysing of reports for Savings house' foreign currency risk exposure and monitoring of the undertaken activities for managing.
- Monitoring of economic and other circumstances in witch the Savings house operates, as well as monitoring of the circumstances of the environment.

Exposure of the Savings house to foreign currency risk
Total assets and liabilities expressed in thousands euros MKD analyzed as denar and foreign currency balance is at the table below:

As at 31 December 2007	**EUR**	**USD**	**MKD**	**Other**	**Total**
Assets					
Cash and balances with the NBRM	2,165	125	16,944	213	19,447
Loans and advances to banks	-	-	39,000	-	39,000
Loans and advances to customers	1,474,330	-	231	-	1,474,561
Interest receivables	17,898	-	-	-	17,898
Other assets	-	-	2,941	-	2,941
Total assets as to 31 December 2007	**1,494,393**	**125**	**59,116**	**213**	**1,553,847**
Liabilities					
Deposits	-	-	209,835	-	209,835
Borrowings	898,659	27,077	-	58,975	984,711
Other liabilities	36,410	729	20,583	58	57,780
Total liabilities as to 31 December 2007	**935,069**	**27,806**	**230,418**	**59,033**	**1,252,326**
Net balance sheet position	**559,324**	**(27,681)**	**(171,302)**	**(58,820)**	**301,521**
As at 31 December 2006					
Total assets	**972,895**	**338**	**106,010**	**113**	**1,079,356**
Total liabilities	**635,783**	**35,769**	**120,664**	**-**	**792,216**
Net balance sheet position	**337,112**	**(35,431)**	**(14,654)**	**113**	**287,140**

The sensitive analysis of the change in the exchange rates is as a result of changes of certain currencies on basis of statistic data that indicate to the stability of the rate of the Euro against the Denar and the unchanged rate of the Denar.
At 31 December 2007, had the exchange rate between the MKD and EUR increased or decreased by 0.5%; between MKD and USD increased or decreased by 3%; between MKD and CHF increased or decreased by 1%; the potential effect on the Income statement for 2007 will be negative for 3,401,000 MKD, that is positive (2006: 936,000 MKD negative, that is positive).

3.4 Interest rate risk

The Savings house's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or re price at different times or in differing amounts. In the case of floating rate assets and liabilities, the Savings house is also exposed to basis risk, which is the difference in reprising characteristics of the various floating rate indices, such as the savings rate, and three or six months EURIBOR/LIBOR and different types of interest. Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Savings house's business strategies.

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

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the NBRM	-	-	-	-	53,271	5,176	58,447
Loans and advances	48,465	89,151	394,821	843,932	98,192	-	1,474,561
Interest receivables	-	-	-	-	17,898	-	17,898
Other assets	-	-	-	-	-	2,941	2,941
Total assets	**48,465**	**89,151**	**394,821**	**843,932**	**169,361**	**8,117**	**1,553,847**
Liabilities							
Deposits	48,383	32,566	105,448	23,438	-	-	209,835
Borrowings	82,656	166,752	-	694,170	41,133	-	984,711
Other liabilities	-	-	-	-	13,706	44,074	57,780
Total liabilities	**131,039**	**199,318**	**105,448**	**717,608**	**54,839**	**44,074**	**1,252,326**
Total interest re - pricing gap	**(82,574)**	**(110,167)**	**289,373**	**126,324**	**114,523**	**(35,957)**	**301,522**
As at 31 December 2006							
Total assets	**39,914**	**72,300**	**307,310**	**464,917**	**187,906**	**7,010**	**1,079,356**
Total liabilities	**17,093**	**98,447**	**55,351**	**266,906**	**335,578**	**18,842**	**792,216**
Total interest re- pricing gap	**22,821**	**(26,147)**	**251,959**	**198,011**	**(147,672)**	**(11,832)**	**287,140**

The interest rate sensitivity analysis has been determined based on the exposure to interest rate risk at the reporting date. At 31 December 2007, if interest rates had been 100 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 2007 would respectively increase/decrease by approximately MKD 3,400,000 (2006: MKD 3,026,000). There is no impact of interest rate change to equity.

3.5 Liquidity risk

Liquidity risk is the risk that the Savings house is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of liquidity risk may be the failure to meet obligations to repay savings depositors and fulfill commitments to lend.

3.5.1 Liquidity risk management process

Liquidity risk management policy of the Savings house defines the method of managing the Savings house's liquidity.

Perception and monitoring of Savings house's liquidity is a postulate of its stability and successful working. Implementation of the liquidity risk management policy is done by using defined risk management process which includes planning and managing with cash flows, maintaining adequate structure of assets and liabilities, financial instruments for liquidity risk management, adequate diversification of deposits and other liabilities by maturity and client, procedures for identification and monitoring the deposit's stability, monitoring the maturity of assets and liabilities, monitoring the off-balance sheet items, monitoring liquidity ratios, liquidity stress testing and continuity plan in irregular conditions reporting to Savings house's bodies and adequate management information system and responsibilities of Savings house's organizational units in liquidity risk management process.

The aim of the Savings house is maximizing the profitability, by applying the optimum combination of maturity and foreign currency structure of the assets and liabilities.

The table below analyses assets and liabilities of the Savings house into relevant maturity buckets based on the remaining period at balance sheet date to the contractual maturity date for liabilities and expected maturity for assets

Maturities of assets and liabilities

As at 31 December 2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits	48,383	32,566	105,448	23,438	-	209,835
Borrowings	55,059	45,792	194,720	832,727	10,985	1,139,283
Other liabilities	42,834	6,675	7,393	846	32	57,780
Total liabilities	**146,276**	**85,033**	**307,561**	**857,011**	**11,017**	**1,406,898**
Total assets	**120,956**	**89,577**	**395,957**	**843,935**	**177,590**	**1,628,015**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits	26,342	16,278	55,351	14,116	-	112,087
Borrowings	37,100	48,572	166,444	599,500	6,269	857,885
Other liabilities	25,875	650	5,764	256	-	32,546
Total liabilities	**89,317**	**65,500**	**227,559**	**613.872**	**6,269**	**1,002,518**
Total assets	**80,076**	**146,623**	**310,244**	**464,917**	**153,984**	**1,155,844**

3.6 Financial Instruments

Fair value

The carrying amounts reflected in the accompanying balance sheets for cash and cash equivalents, securities, loan receivables, deposits from customers and credit liabilities. The financial instruments are grouped as assets, liabilities in accordance with the appropriate risk. The accounting value of cash and cash equivalents, securities, loans to clients as well as deposits and loan receivables in the balance sheet is approximate to their respective objective value.

3.7 Capital management

The Savings house's objectives regarding capital managements are:

- To comply with the capital requirements by the regulative of NBRM;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are regularly monitored by the Savings house's management, using techniques prescribed by national regulatory authority (National Bank of Republic of Macedonia). The required information is submitted to regulatory authority on a quarterly basis.

The regulatory authority requires that each Savings house has to maintain capital adequacy ratio above 8%.

As a result of changes in the local legislative which have occurred in 2007, there is difference approach in regulatory capital calculations in 2007 regarding 2006.

The Savings house's regulatory capital is divided in two groups:

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

According to national regulations, the risk-weighted assets (on-balance and off-balance) are measured by means of a hierarchy of four risk weights(0%, 20%,50%,100%) classified according to nature of assets, taking into consideration the collateral or guarantees.

Calculation of capital adequacy ratio comes when the Saving house's own funds are divided with total credit risk-weighted assets (both on-balance sheet and off-balance sheet).

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

Tier 1 capital	**2007**
Ordinary and non-cumulative non-voting shares and share premium	300,153
Statutory reserves and retained earnings or loss	42,677
Items as result of consolidation	-
Deductions from Tier 1 capital	1,810
Total qualifying Tier 1 capital	*341,020*
Tier 2 capital	
Cumulative non-voting shares and share premium	-
Hybrid capital liabilities	-
Subordinated liabilities	-
Total qualifying Tier 2 capital	-
Deductions from regulatory capital	-
Total regulatory capital	**341,020**
Credit risk-weighted assets	
On-balance sheet	1,522,994
Off-balance sheet	-
Total credit risk-weighted assets	**1,522,994**
FX risk-weighted assets	**-**
Capital adequacy ratio	**22,4%**

Tier 1 capital	**2006**
1.Issued ordinary shares or directly deposited funds	300,152
2. Reserves	37,342
3. Retained earnings	-
4. Half year earnings discounted for 50%	-
5. Less uncovered loss form previous years	-
6. Less current loss	-
7. Less goodwill	-
Total Tier 1 capital	**337,494**
Tier 2 capital	
8. Issued preference shares	-
9. Revaluation reserve	136
10. Hybrid capital liabilities	-
11. Subordinated liabilities	-
Total Tier 2 capital	*136*
12. Less investments in associates	-
13. Less no allocated provision for impairment	-
Total regulatory capital	**337,630**
Risk-weighted assets	
On-balance sheet	
Off-balance sheet	1,051,724
Less items 5, 6, 7, 12 and 13	-
	-
Total risk-weighted assets	**1,051,724**
Aggregate open FX position	**-**
Capital adequacy ratio	**32,0%**

4. Net interest income

	2007	2006
Interest and similar income		
Loans and advances:		
- to corporate entities	54,451	47,029
- to individuals	134,391	81,855
Government and state institutions	574	817
Banks	437	525
	189,853	**130,226**
Interest expense and similar charges		
Banks	52,812	27,572
Individuals	11,675	5,765
Other	22	-
	64,509	**33,337**

5 Net fee and commission income

	2007	2006
Fee and commission income		
Corporate entities	9,210	6,169
Individuals	27,581	13,574
	36,791	**19,743**
Fee and commission expense		
Banks and financial institutions	3,997	2,683
	3,997	**2,683**

6 Other operating income

	2007	2006
Other	3,025	1,075
	3,025	**1,075**

7 Other operating expenses

	2007	2006
Salaries and wages	61,319	45,179
Materials and services	31,615	19,766
Depreciation of property and equipment and amortisation of intangible assets	10,308	8,108
Administration and marketing costs	5,612	4,091
Rent	5,625	4,651
Insurance premiums	3,018	1,900
Other	2,516	3,308
	120,013	**87,003**

8 Impairment charge for credit losses

	2007	2006
Loans and advances to customers	11,895	6,448
Other assets (Note)	(3,762)	(3,830)
	8,133	**2,618**

9 Income tax expense

	2007	2006
Profit before tax	**38,049**	**29,699**
Tax calculated at a tax of 12% (2006: 15%)	4,566	4,455
Increase for:		
- expenses non tax deductible according to local regulations	865	1,398
Decrease for:		
- investments in property and equipment	-	(2,152)
- collected written-off receivables	(243)	-
	5,188	**3,701**

The Public revenue office has the authority to make tax control gor the year that ends 31 December 2007. The tax authorities may at any time inspect the books and records up to 5 to 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Saving house's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

10 Cash and bank balances with the National Bank of Republic of Macedonia

	2007	**2006**
Cash in hand	5,176	4,996
Local currency accounts with banks	7,949	6,564
Foreign currency exchange account with banks	1,700	514
Other short term highly liquid investments	-	61
Included in cash and cash equivalents (Note 24)	**14,825**	**12,135**
Balances with NBRM	4,622	2,489
	19,447	**14,624**

The Saving house is obliged to provide mandatory reserve at the National Bank of the Republic of Macedonia in MKD.

The Bank has to set aside mandatory reserve in MKD at a rate of 2,5 % on the average daily balance of the total MKD deposits during the preceding month. National Bank of Republic of Macedonia pays 2% (2006: 2%) interest on the mandatory reserve's amount in MKD.

11 Government bills

	2007	2006
Government bills	-	89,609
Included in cash and cash equivalents (Note 24)	-	89,609
	-	**89,609**

Government bills are with maturity due of 90 days and interest rate between 6,09% and 6,5%. The income is included in interest income position.

12 Loans and advances to banks

	2007	2006
Placements with domestic banks	39,000	-
Included in cash and cash equivalents (Note 24)	**39,000**	-
Current	39,000	-

13 Loans and advances to customers

	2007	2006
Individuals (retail customers)	1,134,361	670,216
Corporate entities	400,160	339,051
Less: allowance for impairment	(59,960)	(48,301)
	1,474,561	**960,966**
Current	532,437	444,046
Non-current	942,124	516,920

Movement in provisions for impairment for 2007 are as follows:

	Loans to individuals	Loans to corporate entities	2007
Balance at 1 January 2007	26,827	21,474	48,301
Provision for loan impairment	11,171	724	11,895
Write-off	(236)	-	(236)
Balance at 31 December	**37,762**	**22,198**	**59,960**

Movement in provisions for impairment for 2006 are as follows:

	Loans to individuals	Loans to corporate entities	2006
Balance at 1 January 2007	21,347	20,506	41,853
Provision for loan impairment	5,480	968	6,448
Balance at 31 December	**26,827**	**21,474**	**48,301**

14. Interest receivables

	2007	2006
Interest receivable	5,638	5,252
Accrued interest	17,015	10,953
	22,653	16,205
Less: imparement provision	(4,755)	(4,001)
Balance at 31 December	**17,898**	**12,204**

	2007	2006
Balance at 1 January 2007	4,001	2,988
Net charge to income statement	(3,762)	(3,830)
Accrued interest	4,516	4,843
Balance at 31 December	**4,755**	**4,001**

15 Property and equipment

	Buildings	Furniture & Equipment	Assets in course of construction	Leasehold improvements	Total
At 1 January 2006					
Cost	3,829	4,899	22,124	38,857	69,709
Accumulated depreciation	(714)	(256)	(8,598)	-	(9,568)
Net book amount	**3,115**	**4,643**	**13,526**	**38,857**	**60,141**
Year ended December 2006					
Opening net book amount	3,115	4,643	13,526	38,857	60,141
Additions	1,843	64	11,280	7,872	21,059
Transfers	-	42,602	-	(42,602)	-
Depreciation charge	(884)	(1,010)	(4,833)	-	(6,727)
Closing net book amount	**4,074**	**46,299**	**19,972**	**4,127**	**74,473**
At 31 December 2006					
Cost	5,672	47,565	33,404	4,127	90,768
Accumulated depreciation	(1,598)	(1,266)	(13,431)	-	(16,295)
Net book amount	**4,074**	**46,299**	**19,973**	**4,127**	**74,473**
Year ended December 2007					
Opening net book amount	4,074	46,299	19,973	4,127	74,473
Additions	-	-	6,443	737	7,180
Transfers	-	-	3,543	(3,543)	-
Disposals and write off	-	-	(93)	-	(93)
Depreciation charge	(1,135)	(1,188)	(6,582)	-	(8,905)
Closing net book amount	**2,939**	**45,111**	**23,284**	**1,321**	**72,655**
At 31 December 2007					
Cost	5,672	47,565	43,297	1,321	97,855
Accumulated depreciation	(2,733)	(2,454)	(20,013)	-	(25,200)
Net book amount	**2,939**	**45,111**	**23,284**	**1,321**	**72,655**

As at 31 December 2007, the Saving House has put under mortgage buildings with net carrying value of MKD 40,924,000 (2006:41,779,000) as a collateral for revolving loan from NLB Tutunska Banka A.D Skopje (Note 19).

16 Intangible assets

	2007	2006
Cost		
Balance at 1 January	4,818	4,120
Additions	811	699
Balance at 31 December	**5,629**	**4,819**
Accumulated amortisation		
Balance at 1 January	(2,804)	(1,424)
Charge for the year	(1,312)	(1,380)
Balance at 31 December	**(4,116)**	**(2,804)**
Net book value at 31 December	**1,513**	**2,015**

17 Other assets

	2007	2006
Pre-payments	1,649	718
Inventory of office materials	610	418
Receivables for advance payments for payroll' tax and contributions	6	430
Other assets	676	387
	2,941	**1,953**
Current	2,938	1,899
Non-current	3	54

18 Other deposits

	2007	2006
Individuals		
- Demand deposits	20,900	14,308
- Time deposits	188,935	97,779
	209,835	**112,087**
Current	186,397	93,874
Non-current	23,438	18,213

19. Borrowings

	2007	2006
Taiwan Credit line	27,077	34,838
Macedonian Bank for Development Promotion	75,033	58,788
Macedonian entereprise development foundation	190,110	197,591
Ministry of Finance –IFAD	81,725	79,952
HABITAT	14,056	9,492
Humanitarian association Moznosti	24,525	8,094
NLB Tutunska Banka A.D Skopje	174,375	14,131
Symbiotics	244,806	244,697
DWM	153,004	-
	984,711	**647,583**
Current	219,621	174,817
Non-current	765,090	472,766

As at 31.12.2007, the Saving House has put under mortgage buildings with net carrying value of MKD 40,924,000 (2006:41,779,000) as a collateral for revolving loan from NLB Tutunska Banka A.D Skopje in amount of EUR 1,000,000 with due to 5 years and approved on 31 July 2006.

20. Interest and fee liabilities

	2007	2006
Accrued interest due and payable	187	168
Accrued interest	13,707	9,394
Fee and commission	-	30
	13,894	**9,592**
Current	13,894	9,592

21 Other liabilities

	2007	2006
Prepayment of liabilities	27,412	16,203
Suppliers payables	6,011	2,828
Wages and salaries	4,744	2,074
Accruals	2,929	1,773
Other liabilities	2,790	76
	43,886	**22,954**
Current	43,886	22,954

22. Related party transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and borrowings. These transactions were carried out on commercial terms and at market rates. The Bank has transactions with Companies which executive Directors are members of the Board of Directors of the Bank. The volumes of related party transactions, outstanding balances at the year-end, are as follows:

	Members of the Board of Directors		Companies with members in the Board of Directors		Associated companies	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Income statement						
Interest income	548	140	149	72	-	-
Interest expense	-	-	-	-	221	278
Balance Sheet						
Loans						
Loans outstanding at 1 January	509	791	1,307	-	8,094	9,972
Loans issued during the year	3,487	1,591	-	1,591	18,357	-
Loan repayments during the year	473	1,873	1,131	284	1,927	1,878
Loans to members of the Board assigned in the current year	715	-	-	-	-	-
Loans outstanding at 31 December	**4,238**	**509**	**176**	**1,307**	**24,524**	**8,094**
Other assets	-	-	-	-	34	-
Deposits						
Balance at 1 January	1,625	1,177	-	-	-	-
Deposits received during the year	11,795	6,673	-	-	-	-
Deposits repaid during the year	(10,849)	(6,519)	-	-	-	-
Interest not due	16	44	-	-	-	-
Balance at 31 December	**2,587**	**1,375**	**-**	**-**	**-**	**-**
Borrowings						
Balance at 1 January	-	-	-	-	8,094	9,972
Loans issued during the year	-	-	-	-	18,357	-
Loans repayments during the year	-	-	-	-	(1,927)	(1,878)
Balance at 31 December	**-**	**-**	**-**	**-**	**24,524**	**8,094**

23. Share capital

As at 31.12.2007 share capital of the Saving house is MKD 300,152,000 (2006: 300,152,000).

24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition as follows:

	2007	**2006**
Cash and balances with the NBRM (Note 10)	14,825	12,135
Treasury bills (Note 11)	-	89,609
Loans and advances to bank (Note 12)	39,000	-
	53,825	**101,744**

25. Post balance sheet events

After the balance sheet day, no material events that need additional disclosure in the financial statements occurred.