STOPANSKA BANKA AD, SKOPJE

Financial Statements and Independent Auditors' Report for the year ended December 31, 2008

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Management of Stopanska Banka AD, Skopje (the "Bank") is responsible for ensuring that the financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS"), which give a true and fair view of the state of affairs and results of the Bank for the year.

After making enquiries, the Management of the Bank has a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management of the Bank continues to adopt the going concern basis in preparing the financial statements.
In preparing those financial statements, the responsibilities of the Management of the Bank, include ensuring that:

- Suitable accounting policies are selected and then applied consistently;
- Judgments and estimates are reasonable and prudent;
- Applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management of the Bank is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and must also ensure that the financial statements comply with IFRS. Management of the Bank is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Stopanska Banka AD, Skopje:

Mr. Gligor Bishev	Mr. Konstantinos Bratos
First General Manager	Acting member of the Board of Directors

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS
OF STOPANSKA BANKA AD, SKOPJE

We have audited the accompanying financial statements (page 3 to 74) of Stopanska Banka AD, Skopje (hereinafter referred to as the "Bank"), which comprise the balance sheet as of December 31, 2008 and the related income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 financial statements present fairly, in all material respects the financial position of Stopanska Banka AD, Skopje as of December 31, 2008, and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte DOO
Skopje, Macedonia
February 20, 2009

INCOME STATEMENT
Year ended December 31, 2008
(In thousands of Denars)

	Notes	2008	2007
Interest income	5	4,470,096	3,362,413
Interest expense	5	(1,897,036)	(1,194,464)
Net interest income		2,573,060	2,167,949
Fee and commission income	6	1,028,075	969,173
Fee and commission expense	6	(67,313)	(50,886)
Net fee and commission income		960,762	918,287
Dividend income	7	15,423	7,892
Foreign exchange gains, net	8	200,701	111,976
Trading (expense)/income, net	9	(22,319)	614
Other operating income	10	272,663	121,176
Impairment losses	11	(699,629)	(458,032)
Personnel expenses	12	(660,601)	(604,949)
Depreciation and amortization	13	(170,830)	(227,386)
Other operating expenses	14	(954,268)	(835,046)
Profit before tax		1,514,962	1,202,481
Income tax	15	(165,475)	(11,587)
Net profit for the year		1,349,487	1,190,894

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

The financial statements were approved by the management of the Bank on January 24, 2009 and shall be proposed for approval to the Bank's Supervisory Board.

Signed on behalf of Stopanska Banka AD, Skopje:

Mr. Gligor Bishev
First General Manager

Mr. Konstantinos Bratos
Acting member of the Board of Directors

BALANCE SHEET
At December 31, 2008
(In thousands of Denars)

	Notes	2008	2007
ASSETS			
Cash and cash equivalents	16	6,829,754	4,722,680
Treasury and other eligible bills	17	2,538,177	5,232,175
Held-for-trading financial assets	18	258,350	253,301
Available-for-sale financial assets	19	123,834	123,123
Held-to-maturity financial assets	20	3,605,052	3,838,602
Placement with, and loans to banks	21	2,136,445	5,443,514
Loans to customers	22	41,859,337	32,917,403
Other receivables	23	872,533	1,021,369
Investment property	24	86,427	110,334
Intangible assets, net	25	180,466	109,857
Property and equipment, net	26	1,123,902	1,134,954
Deferred tax assets	15	1,630	1,789
Total assets		59,615,907	54,909,101
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and financial institutions	27	1,529,526	3,750,252
Deposits from customers	28	47,263,584	43,280,889
Loans payable	29	285,724	311,756
Subordinated debt	30	2,783,597	1,224,606
Preference shares	31	90,978	90,978
Other liabilities	32	564,974	584,254
Income tax payable		49,054	2,747
Deferred tax liabilities	15	3,335	1,307
Provisions	33	109,236	94,904
Total liabilities		52,680,008	49,341,693
EQUITY			
Share capital	34	3,511,242	3,511,242
Reserves	34	438,050	252,977
Retained earnings		2,986,607	1,803,189
Total equity		6,935,899	5,567,408
Total liabilities and equity		59,615,907	54,909,101
Commitments and contingencies	36	11,951,513	10,562,658

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

STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2008
(In thousands of Denars)

	Share capital	Revaluation reserve	Statutory reserve	Special fund	Retained earnings	Total
Balance, January 1, 2007	3,511,242	22,610	123,862	1,083	777,940	4,436,737
Transfer to statutory reserve	-	-	116,269	-	(116,269)	-
Dividends	-	-	-	-	(71,986)	(71,986)
Transfer of revaluation reserve to retained earnings	-	(22,610)	-	-	22,610	-
Reserve from reassessment of equity securities, net of deferred tax	-	11,763	-	-	-	11,763
Profit for the year	-	-	-	-	1,190,894	1,190,894
Balance, December 31, 2007	3,511,242	11,763	240,131	1,083	1,803,189	5,567,408
Balance, January 1, 2008	3,511,242	11,763	240,131	1,083	1,803,189	5,567,408
Transfer to statutory reserve	-	-	166,069	-	(166,069)	-
Reserve from reassessment of equity securities, net of deferred tax	-	19,004	-	-	-	19,004
Profit for the year	-	-	-	-	1,349,487	1,349,487
	3,511,242	30,767	406,200	1,083	2,986,607	6,935,899

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

STATEMENT OF CASH FLOWS
Year ended December 31, 2008
(In thousands of Denars)

	2008	2007
Profit before taxation	1,514,962	1,202,481
Adjustments for:		
Depreciation of property and equipment	111,278	149,700
Depreciation of investment property	3,075	3,919
Amortization of intangible assets	56,477	73,767
Gain on sale of property and equipment	(34,936)	(15,324)
Gain on sale of foreclosure assets	(47,262)	(26,189)
Interest income	(4,470,096)	(3,362,413)
Interest expense	1,897,036	1,194,464
Net trading expense / (income)	22,319	(614)
Deferred tax expense/(benefit)	159	(1,789)
Impairment losses on financial assets, net	603,958	411,621
Impairment losses on non-financial assets	95,671	46,411
Provision for employee benefits	1,389	14,908
Provision for litigation	-	3,200
Interest receipts	4,434,159	3,309,409
Interest paid	(1,829,377)	(1,134,860)
Operating profit before changes in operating assets and liabilities:	2,358,812	1,868,691
(Increase)/decrease of operating assets:		
Purchase of held-for-trading financial assets	(5,049)	(102,325)
Loans to customers	(9,535,805)	(11,732,446)
Other receivables	144,400	57,177
Net deferred tax assets and liabilities	2,028	3,409
Increase/(decrease) of operating liabilities:		
Deposits from banks and financial institutions	(2,220,726)	1,517,234
Deposits from customers	3,915,036	10,242,646
Other liabilities (including income tax payable)	(11,654)	140,248
Net cash flows (used in)/ generated from operating activities before income tax	(5,352,958)	1,994,634
Income tax paid	(119,009)	(8,527)
Net cash flows (used in)/ generated from operating activities	(5,471,967)	1,986,107

STATEMENT OF CASH FLOWS (Continued)
Year ended December 31, 2008
(In thousands of Denars)

	2008	2007
Cash flows from investing activities		
Acquisition of property and equipment	(128,554)	(127,244)
Acquisition of intangible assets	(127,081)	(18,254)
Net proceeds from investments	219,740	499,403
Dividend received	15,423	7,892
Proceeds from sale of property and equipment	63,264	55,780
Proceeds from sale of investment property	10,008	39,446
Net cash flows from investing activities	52,800	457,023
Cash flows from financing activities		
Net increase/(decrease) of loans (including subordinated debt)	1,532,959	(65,011)
Dividends paid	(7,785)	(71,986)
Net cash flows from/(used in) financing activities	1,525,174	(136,997)
Net (decrease)/increase of cash and cash equivalents	(3,893,993)	2,306,133
Cash and cash equivalents, beginning of the year	15,398,369	13,092,236
Cash and cash equivalents at the end of the year	11,504,376	15,398,369
Cash and cash equivalents at the end of the year:		
Cash and cash equivalents (Note 16)	6,829,754	4,722,680
Treasury bills and other eligible bills (Note 17)	2,538,177	5,232,175
Deposits with banks (Note 21)	2,136,445	5,443,514
	11,504,376	15,398,369

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

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

1. GENERAL INFORMATION

Stopanska banka AD, Skopje was established as a shareholding bank on December 29, 1989. The address of its registered office and principal place of business is 11 Oktomvri 7, 1000 Skopje. The Bank operates in the Republic of Macedonia with 66 branches (2007: 60 branches).

The Bank is registered as a universal type of commercial bank in accordance with Macedonian laws. The principal activities of the Bank are as follows:

- Collecting deposits and other recurrent sources of funds;
- Financing in the country and abroad, including factoring and financing commercial transactions;
- Issuance and administration of payment instruments (cards, checks, bills of exchange);
- Domestic and international payment operations, including purchase/sale of foreign currency funds;
- Fast money transfer;
- Trading in instruments at the money market (bills of exchange, deposit certificates);
- Trading in foreign currency funds, securities and financial derivatives;
- Financial leasing;
- Foreign exchange operations;
- Purchase/sale, guaranteeing and placement of securities issue;
- Economic and financial consulting;
- Providing services in collection of invoices, keeping records;
- Issuing payment guarantees, backing guarantees and other forms of security;
- Managing assets and securities portfolio at order and for account of clients;
- Rendering services to custody bank;
- Intermediating in concluding agreements for loans and borrowings and in selling insurance policies;
- Providing services of renting safe deposit boxes, depositories and depot;
- Other financial services defined by law, which can be performed only by a bank.

On December 21, 1999, a Share Purchase Agreement (“the Agreement”) was signed between the Bank, National Bank of Greece, International Finance Corporation (“IFC”), and the European Bank for Reconstruction and Development (“EBRD”) (“the Investors”) from one side and the Bank Rehabilitation Agency of the Republic of Macedonia and the Ministry of Finance of the Republic of Macedonia on the other side. Pursuant to the Agreement, the investors acquired ordinary shares in the Bank in a total amount equal to 85% of the Bank’s issued and outstanding shareholders’ capital in the following proportion: National Bank of Greece 65%, IFC 10% and EBRD 10%.

The Bank is controlled by National Bank of Greece, incorporated in Greece, which has 73.04% shareholding in the Bank and represents its ultimate parent company.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement on compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board (the “IASB”).

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

The IFRS accounting policies set below have been consistently applied by the Bank to all periods presented in these financial statements.

(b) Basis of measurement

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (included derivate financial instruments) held at fair value through profit or loss, under the going concern assumption.

(c) Functional and reporting currency

The financial statements are presented in Denars which is the Bank's functional currency. All financial information is presented in Denars rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation uncertainty and critical estimates in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in Note 3.16 to the financial statements.

A summary of the principal accounting policies applied in preparing the IFRS financial statements are set out within Note 3 to the financial statements.

(e) Standards and Interpretations effective in the current period

At the date of authorization of these financial statements, the following Standards and Interpretations were effective for the current period:

- IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (Amendments October and November 2008);
- IFRIC 11, "IFRS 2 – Group and Treasury Share Transactions";
- IFRIC 12, "Service Concession Arrangements";
- IFRIC 13 "Customer Loyalty Programmes";
- IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" and
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation".

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

(e) Standards and Interpretations effective in the current period (continued)

The adoption of these Standards and Interpretations has not led to any changes in the Banks' accounting policies.

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 (Revised) Presentation of financial statements (effective for accounting periods beginning on or after 1 January 2009);
- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009);
- IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after 1 July 2009);
- Amendments to IFRS 2 Share Based Payment – Vesting Conditions and Cancellations (effective for accounting periods beginning on or after 1 January 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009);
- IFRIC 15, "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009);
- Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009, except amendments to IFRS 5 that are effective for periods beginning on or after 1 July 2009);
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" (Amendment "Cost of investment in a subsidiary, jointly-controlled entity and or associate) (effective from 1 July 2009);
- IAS 39 "Financial Instruments: Recognition and Measurement" (Amendment "Eligible Hedged Items") (effective for annual periods beginning on or after 1 July 2009) and
- IFRIC 17, "Distributions of Non-cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009).

Management anticipate that all of the above Standards and Interpretations will be adopted in the Bank's financial statements for the period commencing 1 January 2009 and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

(f) Basis of consolidation

The accompanying financial statements are the Bank's stand-alone financial statements. On December 31, 2007, the Bank had 100% ownership in Stoba Trejd ("the Entity"). Since the investment is considered immaterial and the Entity has not been significantly operational, the financial statements of the Entity are not consolidated and the Bank's investments are stated as available-for-sale financial assets at cost, less impairment. In compliance with the modifications to the Banking Law, the above entity was liquidated in 2008.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (Continued)

(g) Comparative figures

In order to conform with the presentation of the figures in the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended December 31, 2007. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the financial statements. Details of reclassifications are described in Note 38.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest income and expense

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized 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 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 (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions 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.

3.2 Fee and commission income

Fees and commissions, except the fees on approval of loans, are generally recognized on an accrual basis over the period of service rendering. Other fees relating to the acquisition and origination of loans are deferred over the life of the loan and amortized using the effective interest rate method.

3.3 Dividend income

Dividend income is recognized when the right to receive payment is established for equity securities and is separately reported and included in dividend income.

3.4 Foreign exchange translation

Transactions denominated in foreign currencies have been translated into Denars at rates set by the National Bank of the Republic of Macedonia (“NBRM”) at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Denars at the balance sheet date using official rates of exchange ruling on that date. Foreign exchange gains or losses arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement.

Commitments and contingent liabilities denominated in foreign currencies are translated into Denars by applying the official exchange rates at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets

Financial assets are classified into the following specified categories: trading securities, available-for-sale financial assets, held-to-maturity financial assets and loans to banks and customers. The classification depends on the nature and the purposes of the financial assets and is determined at the time of initial recognition. Financial assets are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the agreed timeframe.

Securities held-for-trading

Securities held-for-trading, which comprise securities issued in local currency by the Ministry of Finance are securities included in a portfolio in which a pattern of short-term profit making exists. Initially, these securities are recognized at cost and subsequently measured at fair value as determined based on their market price.

All the respective realized and unrealized gains and losses are included under net trading income. Interest, if realized, during managing securities, is recorded as interest income. The sale of securities held-for-trading is recognized on trading date, which is the date when the Bank is obliged to buy/sell the asset.

Available-for-sale financial assets

Available-for-sale financial assets 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 equity prices. This portfolio comprises quoted and unquoted equity investments in shares of banks and other financial institutions and enterprises, where the Bank does not exercise control. Available-for-sale financial assets are initially recognized at cost, and subsequently re-measured at fair value based on quoted prices in active markets or amounts derived from cash flow models for unquoted equity investments.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. However, interest calculated using the effective interest method and foreign exchange gains and losses are recognized in the income statement.

Held-to-maturity financial assets

Held-to-maturity financial assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. If the Bank is to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. These securities are measured at amortized cost using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (continued)

Loans originated by the Bank

Loans originated by the Bank include loans where cash is provided directly to the borrower. Loans are initially recognized at fair value, including any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

Interest on loans originated by the Bank is included in interest income and is recognized on an accrual basis.

Loans to customers and financial institutions are stated at their net amount reduced by provisions for impairment.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

The amount of the impairment loss for financial assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

Impairment losses on loans and advances

Allowances for losses on impairment and uncollectability are determined if there is objective evidence that the Bank cannot collect all amounts due on a claim according to the original contractual terms. A "claim" means a loan, a commitment such as a letter of credit, guarantee or commitment to extend the credit. A provision for loan impairment is reported as a reduction of the carrying amount of the loan, whereas for off-balance sheet items is presented within the provisions. Additions to provisions are made through impairment losses on financial assets in the income statement.

The allowances for losses on impairment and uncollectability are determined on the basis of the degree (size) of the risk of uncollectability or specific country risk on the basis of the following principles:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Financial assets (continued)

Impairment losses on loans and advances (continued)

- Separate loan exposures (risks) are assessed on the basis of the type of loan applicant, his/her/its overall financial position, resources and payment records and recoverable value of collaterals. Allowances for losses on impairment and uncollectability are measured and determined for the difference between the carrying value of the loan and its estimated recoverable amount, which is, in fact, the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted by effective loan interest rate.
- If there is objective proof of uncollectability of loans in the loan portfolio that may not be identified on a specific basis, the allowances for losses on impairment and uncollectability are determined at level of risk for overall loan portfolio. These losses are determined on the basis of historical data on loan classification of borrowers and express the current economic environment of the borrowers.
- Losses on impairment and uncollectability is termination of the calculation of interest income as per agreed terms and conditions, while the loan is classified as non-performing since the contractual liabilities for payment of the principal and/or interest are in default, i.e. uncollected for a period longer than 90 days. All allowances for losses on impairment and uncollectability are reviewed and tested at least once a year, and any further changes in the amount and timing of expected future cash flows in comparison to previous assessments result in changes in allowances for losses on impairment and uncollectability recorded in the income statement.
- The loan which is believed that is impossible to be collected is written off against the relevant allowance for losses on impairment and uncollectability. Further collections are recorded as reduction of losses on impairment and uncollectability in the income statement.
- In case of loans granted to borrowers in countries with increased risk of difficulties for servicing external debt, the political and economic circumstances are assessed and additional allowances for sovereign risk are allocated.

Derecognition of financial assets

The Bank derecognizes financial assets when the right to receive cash from the financial asset have expired or has transferred its rights to receive cash flows from the asset and substantially all the risks and rewards of ownership of the assets to another entity.

3.6 Financial liabilities

Financial liabilities are classified in accordance with the substance of the contractual arrangement. There is no equity instruments that should be classified as equity as the Bank did not entered into any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities, except for the holders of preference shares.

Financial liabilities are classified as deposits from banks, financial institutions and customers, loans payable and other payables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Financial liabilities (continued)

Deposits of banks and other financial institutions and customers

These financial liabilities are initially recognized at fair value net of transaction costs incurred. Subsequently are measured at amortized cost.

Loans payable

Loans payable are initially recognized at fair value net of transaction costs incurred. Subsequent measurement is at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the loan using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Other payables

Other payables, other than deferred loan origination fees, which are stated at fair value on initial recognition and subsequently measured at amortized cost, are stated at their nominal amounts.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired.

3.7 Property and equipment

Property and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in the income statement as an expense as incurred.

Depreciation is charged at estimated rates so as to write off the cost of assets over their estimated useful lives, using the straight-line method. No depreciation is provided on construction in progress until the constructed assets are put into use. The annual depreciation rates are as follows:

Buildings	2.5% -5%
Furniture and equipment	10% - 25%

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss.

The Bank annually reviewed its property and equipment for impairment. Where the carrying amount on an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intangible assets

Intangible assets are assets acquired separately and are reported at cost less accumulated amortization and accumulated impairment losses. Intangible assets include:

- Computer software and software that was acquired apart from hardware;
- Leasehold improvements; and
- Other intangibles.

Expenditure on software is amortized on a straight-line basis over the estimated useful life, which is five years. The leasehold improvements and other intangible assets are amortized on a straight-line basis over the relevant contract period.

The Bank annually reviewed its intangible assets and assess whether there is any indication for impairment. If such indications exist, an estimate is performed to assess whether the carrying amount is recoverable. If the carrying amount exceeds the recoverable amount, a write down is made.

3.9 Impairment of tangible and intangible assets

At each balance sheet date, the Bank’s management reviews the carrying amounts of the Bank’s tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period. A reversal of an impairment loss is recognized as income immediately.

3.10 Investment property

Investment property includes buildings owned by the Bank with the intention of earning rentals or for capital appreciation or both, and is initially recorded at cost, which includes transaction costs. The classification of the investment property is based on the criteria that the property is mostly held to earn rentals when compared to the property used by the Bank for its own needs.

Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and any accumulated impairment losses.

The depreciation of investment property is calculated on straight-line basis in a way to write off the cost value of assets over their estimated useful lives, which approximates the useful life of similar assets included in property and equipment.

Investment property is annually reviewed for impairment. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Assets acquired through foreclosure proceedings

Foreclosed assets include property and equipment acquired through foreclosure proceedings in full or partial satisfaction of a related loan and are reported in other receivables.

Initially, these asset are measured at the lower of the cost of the loan, including transaction costs (usually the cost value of the loan stated in an enactment passed by a competent body from where the legal grounds for acquiring of ownership arises) and the fair value less estimated cost to sell, as determined by local certified valuers on the date of asset foreclosure.

After initial recognition, foreclosed assets are reviewed for impairment annually and are measured at the lower of their carrying amount less estimated costs to sell and accumulated impairments.

3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand and nostro accounts, unrestricted demand deposits and placements with other banks and financial institutions, unrestricted account balances with the NBRM and other financial assets such as treasury and other eligible bills, as highly liquid assets with maturity up to three months and insignificant changes to fair value.

3.13 Managed funds

The Bank provides fiduciary and trust services to legal entities and citizens, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Managed funds are not assets of the Bank and are not recognized in the financial statements. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

3.14 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Employment benefits

Health, pension and social insurance contributions from gross wages and salaries are being paid by the Bank during the year to the national organizations at the statutory rates. Such contributions represent defined contribution benefit plans and are recognized as an expense when employees have rendered services entitling them to the contributions. There is no additional liability to these plans.

In accordance with the statutory requirements, the collective agreement, and the internal rules and regulation, the Bank is obliged to pay to its employees a termination lump sum upon retirement equal to two monthly average salaries. These benefits are considered defined pension benefit plans. The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets (there are currently no plan assets recognized), together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is to be settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

3.16 Leases

Assets leased out under operating lease are included in the balance sheet as investment property. Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

3.17 Critical accounting judgments and estimates

The most significant areas, for which judgments, estimates and assumptions are required, are:

Fair value of financial instruments

The fair value of the financial instruments that are not quoted in active markets are determined using internal valuation techniques. These include present value methods, models based on observable input parameters. All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed by qualified personnel independent of the area that created the model. Wherever possible, the Bank compares valuations derived from models with quoted prices of similar instruments, and with actual values when realized, in order to further validate and standardized models. A variety of factors are incorporated into the models, including actual or estimated market prices and rates, such as time value and volatility, and market conditions and liquidity.

The Bank applies its models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment.

In the Republic of Macedonia sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Critical accounting judgments and estimates (continued)

Fair value of financial instruments (continued)

The Management assesses its overall risk exposure and in instances in which it estimates that the value in the books may not be realized, it recognizes a provision. In the opinion of management, the reported carrying amounts for the assets that are not quoted in an active market represent the most valid and useful reporting values under the present market conditions.

Allowance for loan losses

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 income statement, 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 Bank, or national or local economic conditions that correlate with defaults on assets in the Bank.

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.

Useful lives of tangible and intangible assets

The Bank's management determines estimated useful lives and related depreciation and amortization charges for its tangible and intangible assets. The appropriateness of the estimated useful lives is reviewed annually or whenever there is an indication of significant changes in the underlying assumptions, such as anticipated technological developments and changes in the broad economic and industry factors.

Actuarial assumptions in respect of defined benefit plan

The eventual cost to Bank depends on actual future experience and in particular change in discount rate and pay increase. Other factors will also change the overall liability such as the number of employees leaving service before the retirement and the number of new employees.

Financial crises

Recent developments on the financial markets, may affect future cash flows of the Bank that otherwise would be expected under the regular public interest. As a result, future cash flows are subject to possible fluctuations and whether the fluctuations are significant relative to the previously expected cash flows remains uncertain.

4. FINANCIAL INSTRUMENTS

4.1 Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

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

The Bank's risk management organization structure ensures existence of clear lines of responsibility, efficient segregation of duties and prevention of conflicts of interest at all levels, including the Board of Directors, Executive and Senior Management, as well as between the Bank and the NBG Group, its customers and any other stakeholders. Within the Bank, risk management activities broadly take place at the following levels:

- Strategic level encompasses risk management functions performed by the Supervisory Board. These include the approval of risk and capital strategy, ascertaining the Bank's risk definitions, profile and appetite, as well as, the risk reward profile and other high-level risk related policies and internal guidelines.

- Tactical level encompasses risk management functions performed by the Board of Directors, Executive and Senior Management. These include the approval of risk policies and procedure manuals for managing specific risks and establishing adequate systems and controls to ensure that the overall risk and reward relationship remains within acceptable levels. Generally, the risk management activities performed by the Risk Management department of the Bank, as well as, other critical support functions fall into this category.

- Operational (business line) level – It involves management of risks at the point where they are actually created. The relevant activities are performed by individuals who undertake risk on the organization's behalf. Risk management at this level is implemented by means of appropriate controls incorporated into the relevant operational procedures and guidelines set by management.

The most important types of risk are credit risk, liquidity risk, market risk and operational risk.

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk to earnings arising from a counter party's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, letters of guarantees and credits.

4.2.1 Credit risk measurement, limits and mitigation policies

Initially, when approving loans and loan commitments, different Credit Committees assess creditworthiness of the clients depending on the type and size of the exposure. The credit risk management, which encompasses measurement, monitoring and control of credit risk, is performed by the Risk Management Committee and Committee for classification of assets and provisioning for potential losses, commitments and contingencies and it is mainly based on reports and analyses prepared by the Risk Management Division. The Supervisory Board is regularly informed of the credit risk that Bank is exposed to.

The Bank monitors compliance with the legally and internally established limits and controls concentrations of credit risk. Credit risk limits regarding an individual borrower, internal persons, shareholders with over 5% of the voting shares, firms in which the Bank owns capital share, as well as large exposures are set in the Risk Strategy which is approved and revised by the Supervisory Board, and are in line with the regulatory requirements. The Bank structures the levels of credit risk that undertakes towards domestic and foreign banks by placing limits on the amount of risk accepted subject to an annual or more frequent review, when considered necessary. The concentration risk is monitored regularly for product, geographical and industry segments.

The Bank employs a range of practices to mitigate credit risk. Common practice is accepting suitable collateral for approved loans. The main collateral types for loans and other credit exposures are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

4.2.2 Impairment and provisioning policies

The internal rating systems focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the Bank's credit rating categories:

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.2 Impairment and provisioning policies (continued)

Corporate credit rating	Criteria	Mapping
Risk category A	Debtor not likely to default and repays on time, or with delay of 15 days. Credit exposure secured by first-class collateral.	Satisfactory risk
Risk category B	Debtor repays its obligation with a delay of 30 days, occasionally 31-90 days. Regardless the temporary weak financial position, no signs of further deterioration.	Watch list
Risk category C	Debtor repays its obligation with a delay of 31-90 days, occasionally 91-180 days. Debtor is assessed to have inadequate cash flows to fulfill its obligations.	Watch list
Risk category D	Debtor repays its obligation with a delay of 91-180 days, occasionally 181-365 days. Debtor is illiquid and insolvent, and has acceptable collateral.	Substandard
Risk category E	Debtor who repays its obligation with a delay of more than 365 days or do not repay its obligation at all. Usually credit exposure is to debtor under bankruptcy or liquidation procedure, without or with bad collateral.	Substandard

Retail credit rating	Criteria	Mapping
Risk category A	Debtor repays its obligation on time or with a delay of 1-30 days	Satisfactory risk
Risk category B	Debtor repays its obligation with a delay of 31-90 days	Watch list
Risk category C	Debtor repays its obligation with a delay of 91-180 days	Watch list
Risk category D	Debtor repays its obligation with a delay of 181-365 days	Substandard
Risk category E	Debtor repays its obligation with a delay of more than 365 days or does not pay at all	Substandard

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.2 Impairment and provisioning policies (continued)

The internal rating tool assists Management to determine whether objective evidence of impairment exists under IAS 39 in full, 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 (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require it. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for portfolios of homogenous assets that are individually below materiality thresholds.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure in thousands of Denars	
	31 December 2008	31 December 2007
Credit risk exposure relating to on balance sheet assets		
Treasury and other eligible bills	2,538,177	5,232,175
Held-for-trading financial assets	258,350	253,301
Available-for-sale financial assets	123,834	123,123
Held-to-maturity financial assets	3,605,052	3,838,602
Placement with, and loans to banks	2,136,445	5,443,514
Loans to customers	41,859,337	32,917,403
Other receivables	341,660	329,562
	50,862,855	48,137,680
Credit risk exposure relating to off-balance sheet assets/liabilities		
Financial guarantees	3,438,476	2,019,165
Standby letters of credits	519,246	1,001,711
Commitments to extend credits	7,361,064	7,332,304
Other off-balance sheet commitments	722,466	286,274
	12,041,252	10,639,454
Total credit risk exposure	62,904,107	58,777,134

Deposits, property, cars, government bonds, pledges over machines and other movables are accepted as collateral in order to secure the credit exposures.

Mortgages and consumer loans in the amounts over EUR 5,000 are fully secured by property (residential and business premises) with a loan to value ratio up to 75%. Also, deposits and government bonds are accepted as valid collateral.

Auto loans (included in category-consumer loans) are secured by vehicles.

The corporate loans and small business lines are secured with different types of collaterals: residential mortgage, commercial premises, cars, pledge over machines and other movables, L/Gs from first-class banks, corporate L/Gs and personal bills of exchange taking into consideration the quality of the collateral and the loan to value ratio.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.4 Loans and advances

Loans and advances are summarized below:

	Neither past due nor impaired	Past due but not impaired	Individu-ally impaired	Total gross	Allowance for individ. Impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2008								
Cards	2,205,338	290,012	-	2,495,350	-	(119,972)	(119,972)	2,375,378
Consumer	14,302,802	2,474,271	-	16,777,073	-	(819,553)	(819,553)	15,957,520
Mortgage	4,167,070	1,027,866	-	5,194,936	-	(56,131)	(56,131)	5,138,805
Small Business Loans	4,608,165	2,266,084	2,905,563	9,779,812	(2,614,276)	-	(2,614,276)	7,165,536
Corporate Loans	6,092,160	3,934,301	4,241,157	14,267,618	(3,045,520)	-	(3,045,520)	11,222,098
Total	31,375,535	9,992,534	7,146,720	48,514,789	(5,659,796)	(995,656)	(6,655,452)	41,859,337
Due from banks	2,089,502	76,036	-	2,165,538	-	(29,093)	(29,093)	2,136,445
	33,465,037	10,068,570	7,146,720	50,680,327	(5,659,796)	(1,024,749)	(6,684,545)	43,995,782

	Neither past due nor impaired	Past due but not impaired	Individu-ally impaired	Total gross	Allowance for individ. Impaired loans	Allowance for collectively impaired loans	Total allowance for impairm.	Total net
December 31, 2007								
Cards	1,519,095	406,184	-	1,925,279	-	(61,504)	(61,504)	1,863,775
Consumer	10,455,370	2,515,643	-	12,971,013	-	(490,334)	(490,334)	12,480,679
Mortgage	2,500,311	821,733	-	3,322,044	-	(62,018)	(62,018)	3,260,026
Small Business Loans	3,909,233	2,215,964	1,941,339	8,066,536	(1,517,340)	-	(1,517,340)	6,549,196
Corporate Loans	5,555,020	3,024,479	4,138,081	12,717,580	(3,953,853)	-	(3,953,853)	8,763,727
Total	23,939,029	8,984,003	6,079,420	39,002,452	(5,471,193)	(613,856)	(6,085,049)	32,917,403
Due from banks	5.392,146	77,435	-	5,469,581	-	(26,067)	(26,067)	5,443,514
	29,331,175	9,061,438	6,079,420	44,472,033	(5,471,193)	(639,923)	(6,111,116)	38,360,917

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.4 Loans and advances (continued)

a) Loans and advances neither past due nor impaired

All the loans and advances neither past due nor impaired have been mapped to the group of the satisfactory credit risk based on the criteria of the internal credit-quality grading system.

b) Loans and advances past due but not individually impaired

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 180-365 days	Past due 1-2 years	Past due over 2 years	Total
31 December 2008								
Cards	127,913	32,356	24,566	105,177	-	-	-	290,012
Consumer	1,011,101	400,340	235,433	480,237	128,816	218,344	-	2,474,271
Mortgage	741,108	160,139	70,970	21,323	-	34,326	-	1,027,866
Small Business Loans	1,776,640	395,604	93,840	-	-	-	-	2,266,084
Corporate Loans	3,201,612	402,130	330,559	-	-	-	-	3,934,301
Total	6,858,374	1,390,569	755,368	606,737	128,816	252,670	-	9,992,534
Due from banks	-	-	-	-	-	-	76,036	76,036
	6,858,374	1,390,569	755,368	606,737	128,816	252,670	76,036	10,068,570

	Past due up to 30 days	Past due 31-60 days	Past due 61-90 days	Past due 91-180 days	Past due 180-365 days	Past due 1-2 years	Past due over 2 years	Total
31 December 2007								
Cards	295,992	46,674	10,743	52,775	-	-	-	406,184
Consumer	1,413,448	370,391	189,390	283,450	159,307	99,657	-	2,515,643
Mortgage	545,417	147,659	35,316	70,824	1,957	-	20,560	821,733
Small Business Loans	1,510,646	473,205	232,113	-	-	-	-	2,215,964
Corporate Loans	2,332,594	265,340	426,545	-	-	-	-	3,024,479
Total	6,098,097	1,303,269	894,107	407,049	161,264	99,657	20,560	8,984,003
Due from banks	-	-	-	-	-	-	77,435	77,435
	6,098,097	1,303,269	894,107	407,049	161,264	99,657	97,995	9,061,438

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.4 Loans and advances (continued)

b) Loans and advances past due but not individually impaired (continued)

The fair value of collateral is based on valuation techniques that are used for similar assets. Total fair value of collateral for consumer loans is Denar 9,286,042 thousand (2007: Denar 7,103,970 thousand), while for mortgages it is Denar 12,413,687 thousand (2007: Denar 8,529,484 thousand)

The fair value of collateral for corporate portfolio is summarized bellow:

	2008	**2007**
Cash and balances with the Central bank	711,232	297,633
Financial guarantees	4,922,463	2,719,217
Movable property	16,700,080	8,573,319
Real estate	40,286,729	28,621,092
Total	**62,620,504**	**40,211,261**

Restructured loans and advances

The Bank has restructured the loan to the borrower due to a diminishing of the borrower's creditworthiness, if it has:

a. Extended the principal and interest maturity
b. Decreased the interest rate on the loan approved
c. Reduced the amount of debt, principal or interest
d. Made other concessions, which place the borrower in better financial position.

Upon restructuring of the loan, the Bank performs a financial analysis of the borrower and assesses its capacities to realize cash flows necessary for the repayment of the loan principal, as well as the corresponding interest once the loan is restructured.

During 2008 and 2007, the Bank has not restructured any loans.

4.2.5 Foreclosed assets during the year

During 2008, the Bank engaged two external appraisal companies in order to determine the fair value of the foreclosed assets.

In this period, the Bank sold 54 assets (2007: 30 assets) at a total value of Denar 132,525 thousand (2007: Denar 121,124 thousand), whereas it foreclosed 5 facilities (2007:10 facilities) at a total value of Denar 16,397 thousand (2007: Denar 18,987 thousand). Activities have been undertaken for preparing the assets foreclosed during 2008 for sale because the general policy of the Bank is these facilities to be sold within a period of 3 years. The Bank utilizes such facilities for its own activities very rarely.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.2 Credit risk (continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of December 31, 2008 and 2007. In this table, the Bank has allocated exposures to regions based on the country of domicile of the counterparties.

	Greece	Macedonia	West Europe	USA and Canada	SE Europe	Australia and Japan	Total
31 December 2008							
Treasury and other eligible bills	-	2,538,177	-	-	-	-	2,538,177
Held-for-trading financial assets	-	199,732	-	49,861	8,757	-	258,350
Available-for-sale financial assets	-	92,777	31,057	-	-	-	123,834
Held-to-maturity financial assets	-	3,605,052	-	-	-	-	3,605,052
Placement with, and loans to banks	5,304	383,375	1,329,472	219,405	104,015	94,874	2,136,445
Loans to customers	-	41,859,337	-	-	-	-	41,859,337
Other receivables	-	341,660	-	-	-	-	341,660
	5,304	49,020,110	1,360,529	269,266	112,772	94,874	50,862,855
31 December 2007							
Treasury and other eligible bills	-	5,232,175	-	-	-	-	5,232,175
Held-for-trading financial assets	-	226,690	-	-	26,611	-	253,301
Available-for-sale financial assets	-	92,066	31,057	-	-	-	123,123
Held-to-maturity financial assets	-	3,838,602	-	-	-	-	3,838,602
Placement with, and loans to banks	5,075	45	4,028,047	510,741	236,034	663,572	5,443,514
Loans to customers	-	32,917,403	-	-	-	-	32,917,403
Other receivables	-	329,562	-	-	-	-	329,562
	5,075	42,636,543	4,059,104	510,741	262,645	663,572	48,137,680

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued))

4.2 Credit risk (continued)

4.2.6 Concentration of risks of financial assets with credit risk exposure (continued)

Industry sector

The following table breaks down the Group's main credit exposure at their carrying amounts, as summarized by the industry sectors of the counterparties.

	Financial Institutions	Tobacco, food and beverage	Trade	Steel	Construc-tion	Clothing	Agricultu., Fishing, Mining	Transport	Services	Electricity	Public sector	Retail	Other	Total
31 December 2008														
Treasury and other eligible bills	2,538,177	-	-	-	-	-	-	-	-	-	-	-	-	2,538,177
Held-for-trading financial assets	176,973	-	-	-	-	-	-	-	-	-	81,377	-	-	258,350
Available-for-sale financial assets	77,575	-	2,021	6,667	-	10,850	10,296	2	-	-	16,423	-	-	123,834
Held-to-maturity financial assets	309,148	-	-	-	-	-	-	-	-	-	3,295,904	-	-	3,605,052
Placement with, and loans to banks	2,136,445	-	-	-	-	-	-	-	-	-	-	-	-	2,136,445
Loans to customers	297	2,199,967	4,546,647	3,495,165	1,226,546	965,319	941,364	582,523	-	796,324	648,342	23,739,138	2,717,705	41,859,337
Other receivables	-	-	-	-	-	-	-	-	-	-	-	-	341,660	341,660
	5,238,615	2,199,967	4,548,668	3,501,832	1,226,546	976,169	951,660	582,525	-	796,324	4,042,046	23,739,138	3,059,365	50,862,855
31 December 2007														
Treasury and other eligible bills	5,232,175	-	-	-	-	-	-	-	-	-	-	-	-	5,232,175
Held-for-trading financial assets	26,611	-	-	-	-	-	-	-	-	-	226,690	-	-	253,301
Available-for-sale financial assets	72,016	-	2,919	6,728	-	14,742	-	227	-	-	-	-	26,491	123,123
Held-to-maturity financial assets	-	-	-	-	-	-	-	-	-	-	3,838,602	-	-	3,838,602
Placement with, and loans to banks	5,443,514	-	-	-	-	-	-	-	-	-	-	-	-	5,443,514
Loans to customers	451	1,754,913	3,861,295	1,975,969	1,038,436	691,738	675,861	641,516	-	1,199,157	504,226	17,466,151	3,107,690	32,917,403
Other receivables	-	-	148,515	-	22,389	-	20,125	-	43,177	-	62	82,759	12,535	329,562
	10,774,767	1,754,913	4,012,729	1,982,697	1,060,825	706,480	695,986	641,743	43,177	1,199,157	4,569,580	17,548,910	3,146,716	48,137,680

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices (such as interest rates, credit margins, foreign exchange rates and equity prices).

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a regular basis. The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2008 and 2007.

In thousands of Denars
December 31, 2008

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	2,727,728	57,437	74,071	2,859,236	3,970,518	6,829,754
Treasury and other eligible bills	-	-	-	-	2,538,177	2,538,177
Held-for-trading financial assets	55,494	49,861	8,845	114,200	144,150	258,350
Available-for-sale financial assets	35	-	-	35	123,799	123,834
Held-to-maturity financial assets	3,605,052	-	-	3,605,052	-	3,605,052
Placement with, and loans to banks	492,619	575,920	687,130	1,755,669	380,776	2,136,445
Loans to customers	24,973,671	1,374,637	223,075	26,571,383	15,287,954	41,859,337
Other receivables	352	-	-	352	341,308	341,660
Total assets	31,854,951	2,057,855	993,121	34,905,927	22,786,682	57,692,609
LIABILITIES						
Deposits from banks and financial institutions	888,003	5,909	108,810	1,002,722	526,804	1,529,526
Deposits from customers	23,332,794	1,967,822	814,836	26,115,452	21,148,132	47,263,584
Loans payable (including subordinated debt)	2,811,225	50,792	98,377	2,960,394	108,927	3,069,321
Other liabilities & provisions	116,177	67,576	72,909	256,662	560,915	817,577
Total liabilities	27,148,199	2,092,099	1,094,932	30,335,230	22,344,778	52,680,008
Net currency gap:	4,706,752	(34,244)	(101,811)	4,570,697	441,904	5,012,601

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (continued)

4.3.1 Foreign exchange risk (continued)

In thousands of Denars
December 31, 2007

	EUR	USD	Other currency	Total foreign currency	In reporting currency	Total
ASSETS						
Cash and cash equivalents	1,998,978	66,191	159,992	2,225,161	2,497,519	4,722,680
Treasury and other eligible bills	-	-	-	-	5,232,175	5,232,175
Held-for-trading financial assets	88,562	-	-	88,562	164,739	253,301
Available-for-sale financial assets	11,787	-	-	11,787	111,336	123,123
Held-to-maturity financial assets	3,838,602	-	-	3,838,602	-	3,838,602
Placement with, and loans to banks	3,844,560	995,795	603,159	5,443,514	-	5,443,514
Loans to customers	20,158,122	701,707	229,480	21,089,309	11,828,094	32,917,403
Other receivables	340	-	-	340	329,222	329,562
Total assets	29,940,951	1,763,693	992,631	32,697,275	20,163,085	52,860,360
LIABILITIES						
Deposits from banks and financial institutions	3,038,788	10,904	65,927	3,115,619	634,633	3,750,252
Deposits from customers	15,310,075	1,265,391	661,700	17,237,166	26,043,723	43,280,889
Loans payable (including subordinated debt)	1,296,179	57,403	-	1,353,582	182,780	1,536,362
Other liabilities	105,803	2,371	7,344	115,518	658,672	774,190
Total liabilities	19,750,845	1,336,069	734,971	21,821,885	27,519,808	49,341,693
Net currency gap:	10,190,106	427,624	257,660	10,875,390	(7,356,723)	3,518,667

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (continued)

4.3.2 Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flow.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Supervisory Board sets limits on the level of mismatch of interest rate re-rating that may be undertaken and monitors this on a regular basis. In general, the Bank is asset sensitive because of the majority of the interest-bearing assets and liabilities and the Bank has the right simultaneously to change the interest rates. The Bank strives to maintain the interest margin at the same level. However, the actual effect will depend on various factors, including stability of the economy, environment and level of inflation.

The tables below summarize the Bank's interest bearing and non-interest bearing assets and liabilities as of December 31, 2008 and 2007.

In thousands of Denars
December 31, 2008

	Interest bearing	Non-interest bearing	Total
ASSETS			
Cash and cash equivalents	3,057,566	3,772,188	6,829,754
Treasury and other eligible bills	2,538,177	-	2,538,177
Held-for-trading financial assets	194,586	63,764	258,350
Available-for-sale financial assets	-	123,834	123,834
Held-to-maturity financial assets	3,471,328	133,724	3,605,052
Placement with, and loans to banks	2,086,966	49,479	2,136,445
Loans to customers	41,859,337	-	41,859,337
Other receivables	-	341,660	341,660
Total assets	53,207,960	4,484,649	57,692,609
LIABILITIES			
Deposits from banks and financial institutions	1,471,930	57,596	1,529,526
Deposits from customers	47,263,584	-	47,263,584
Loans payable (including subordinated debt)	3,069,321	-	3,069,321
Other liabilities	-	817,577	817,577
Total liabilities	51,804,835	875,173	52,680,008
Net interest gap:	1,403,125	3,609,476	5,012,601

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.3 Market risk (continued)

4.3.2 Interest rate risk (continued)

			In thousands of Denars December 31, 2007
	Interest bearing	**Non-interest bearing**	**Total**
ASSETS			
Cash and cash equivalents	2,372,070	2,350,610	4,722,680
Treasury and other eligible bills	5,232,175	-	5,232,175
Held-for-trading financial assets	226,421	26,880	253,301
Available-for-sale financial assets	-	123,123	123,123
Held-to-maturity financial assets	3,838,602	-	3,838,602
Placement with, and loans to banks	5,443,514	-	5,443,514
Loans to customers	32,917,403	-	32,917,403
Other receivables	-	329,562	329,562
Total assets	50,030,185	2,830,175	52,860,360
LIABILITIES			
Deposits from banks and financial institutions	3,750,252	-	3,750,252
Deposits from customers	43,280,889	-	43,280,889
Loans payable (including subordinated debt)	1,474,115	62,247	1,536,362
Other liabilities	-	774,190	774,190
Total liabilities	48,505,256	836,437	49,341,693
Net interest gap:	1,524,929	1,993,738	3,518,667

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk

Liquidity risk is defined as the current or prospective risk to earnings and capital arising from the institution’s inability to meet its liabilities when they come due without incurring unacceptable losses. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

4.4.1 Liquidity risk management process

The Bank’s liquidity risk management process encompasses:

- Appliance of operating standards relating to the Bank’s liquidity risk, including appropriate policies, procedures and resources for controlling and limiting liquidity risk.
- Maintenance of stock of liquid assets appropriate for the cash flow profile of the Bank which can be readily converted into cash without incurring undue capital losses.
- Measurement, control and scenario testing of funding requirements, as well as access to funding sources.
- Preparing contingency plans of the Bank for handling liquidity disruptions by means of the ability to fund some or all activities in a timely manner and at a reasonable cost.
- Monitoring liquidity risk limits and ratios (e.g. maturity mismatch ratio, liquid asset ratio) taking into account the Bank’s risk appetite and profile.

The basic tool for measuring, monitoring and evaluating liquidity needs and liquidity sources is the cash flow gap report. Cash flow or liquidity gap reports reflect the liquidity provided by cash inflows and the liquidity needed to fund cash outflows. They incorporate cash flows associated with assets and liabilities into time buckets.

Monitoring of the Bank’s liquidity is performed by the Liquidity Department. The Liquidity Department reconciles all inflows and/or outflows in all currencies along with money orders, checks, bank transfers and account transfers.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (continued)

4.4.1 Liquidity risk management process (continued)

In thousands of Denars
December 31, 2008

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and cash equivalents	6,829,754	-	-	-	-	6,829,754
Treasury and other eligible bills	2,538,177	-	-	-	-	2,538,177
Held-for-trading financial assets	258,350	-	-	-	-	258,350
Available-for-sale financial assets	123,834	-	-	-	-	123,834
Held-to-maturity financial assets	-	146,610	147,380	2,414,290	896,772	3,605,052
Placement with, and loans to banks	2,099,638	-	-	-	36,807	2,136,445
Loans to customers	12,989,936	2,337,233	8,276,967	11,229,860	7,025,341	41,859,337
Other receivables	252,215	-	8,285	612,033	-	872,533
Investment property	-	-	-	-	86,427	86,427
Intangible assets	-	-	-	-	180,466	180,466
Property and equipment	-	-	-	-	1,123,902	1,123,902
Deferred tax assets	-	-	-	-	1,630	1,630
Total assets	25,091,904	2,483,843	8,432,632	14,256,183	9,351,345	59,615,907
LIABILITIES AND EQUITY						
Deposits from banks and financial institutions	794,670	291,044	123,617	320,195	-	1,529,526
Deposits from customers	22,296,683	8,945,836	14,077,784	1,870,994	72,287	47,263,584
Loans payable (including subordinated debt)	14,085	21,835	31,861	83,570	2,917,970	3,069,321
Other liabilities	802,047	622	-	-	14,908	817,577
Equity	-	-	-	-	6,935,899	6,935,899
Total liabilities and equity	23,907,485	9,259,337	14,233,262	2,274,759	9,941,064	59,615,907
Net liquidity gap	1,184,419	(6,775,494)	(5,800,630)	11,981,424	(589,719)	-

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (continued)

4.4.1 Liquidity risk management process (continued)

In thousands of Denars
December 31, 2007

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and cash equivalents	4,722,680	-	-	-	-	4,722,680
Treasury and other eligible bills	4,894,572	337,603	-	-	-	5,232,175
Held-for-trading financial assets	253,301	-	-	-	-	253,301
Available-for-sale financial assets	123,123	-	-	-	-	123,123
Held-to-maturity financial assets	-	212,064	745,617	2,873,138	7,783	3,838,602
Placement with, and loans to banks	5,443,514	-	-	-	-	5,443,514
Loans to customers	9,482,223	1,706,348	5,970,088	11,030,008	4,728,736	32,917,403
Other receivables	308,234	-	11,195	10,133	691,807	1,021,369
Investment property	-	-	-	-	110,334	110,334
Intangible assets	-	-	-	-	109,857	109,857
Property and equipment	-	-	-	-	1,134,954	1,134,954
Deferred tax assets	-	-	-	-	1,789	1,789
Total assets	25,227,647	2,256,015	6,726,900	13,913,279	6,785,260	54,909,101
LIABILITIES AND EQUITY						
Deposits from banks and financial institutions	3,296,311	350,310	82,604	21,027	-	3,750,252
Deposits from customers	21,906,394	11,084,920	9,255,696	933,703	100,176	43,280,889
Loans payable (including subordinated debt)	34,955	2,892	18,345	85,727	1,394,443	1,536,362
Other liabilities	773,546	644	-	-	-	774,190
Equity	-	-	-	-	5,567,408	5,567,408
Total liabilities and equity	26,011,206	11,438,766	9,356,645	1,040,457	7,062,027	54,909,101
Net liquidity gap	(783,559)	(9,182,751)	(2,629,745)	12,872,822	(276,767)	-

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (continued)

4.4.1 Liquidity risk management process (continued)

The structure of the Bank’s assets and liabilities as classified into their relevant maturities as of December 31, 2008 indicates the existence of a significant discrepancy in the period from 1 year. The primary reason for the aforementioned unreconciled amounts lies in the fact that the short-term sources of funds with maturities from 3 months have been committed for longer periods of time.

According to management estimation, based on evaluation of the deposit level on corporate and retail, there is a deposit core in the amount of Denar 30,388,000 thousand (2007: Denar 28,020,000 thousand) which helps the liquidity gap to be overcome.

Items with indefinite maturities are included in the over five year’s category.

4.4.2 Contractual maturity analysis for financial liabilities (undiscounted cash flow)

The table below presents the cash flows payable by the Bank by remaining contractual maturities of financial liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (continued)

4.4.2 Contractual maturity analysis for financial liabilities (undiscounted cash flow) (continued)

In thousands of Denars

	Sight	Up to 1 month	From 1 to 3 months	From3 to 12 months	From 1to 2 years	From 2- 3 years	From 3- 4 years	From 4- 5 years	Over 5 years	Total
31 December 2008										
LIABILITIES										
Deposits from banks and financial institutions	156,827	640,035	296,167	127,125	15,280	-	-	307,061	-	1,542,495
Deposits from customers	17,318,013	5,117,365	9,198,960	14,518,989	1,277,968	378,058	75,801	351,087	73,055	48,309,296
Loans payable (including subordinated debt)	7,961	6,191	46,495	171,422	218,021	201,443	200,671	199,901	3,826,042	4,878,147
Income tax payable	-	-	-	49,054	-	-	-	-	-	49,054
Deferred tax liabilities	-	-	-	3,335	-	-	-	-	-	3,335
Other liabilities	284,181	275,352	622	12,007	-	-	-	-	-	572,162
Total Liabilities	17,766,982	6,038,943	9,542,244	14,881,932	1,511,269	579,501	276,472	858,049	3,899,097	55,354,489

In thousands of Denars

	Sight	Up to 1 month	From 1 to 3 months	From3 to 12 months	From 1to 2 years	From 2- 3 years	From 3- 4 years	From 4- 5 years	Over 5 years	Total
31 December 2007										
LIABILITIES										
Deposits from banks and financial institutions	3,152,002	144,009	357,876	88,598	21,469	-	-	-	-	3,763,954
Deposits from customers	17,941,836	4,095,460	11,277,478	9,607,703	377,211	411,756	19,466	36,382	120,323	43,887,615
Loans payable (including subordinated debt)	5,573	22,585	26,427	77,581	96,938	83,775	82,815	81,853	1,746,104	2,223,651
Income tax payable	-	-	-	2,747	-	-	-	-	-	2,747
Deferred tax liabilities	-	-	-	1,307	-	-	-	-	-	1,307
Other liabilities	214,215	366,012	87,261	22,755	-	-	-	-	-	690,243
Total Liabilities	21,313,626	4,628,066	11,749,042	9,800,691	495,618	495,531	102,281	118,235	1,866,427	50,569,417

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

4. FINANCIAL INSTRUMENTS (Continued)

4.4 Liquidity risk (continued)

4.4.3 Off-balance sheet items

a) Commitments to extend credit

The commitments to extend credits are summarized in the table below.

b) Financial guarantees and other financial facilities

Financial guarantees are also included below based on the earliest contractual maturity date.

In thousands of Denars

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
31 December 2008										
Commitments to extend credits	7,361,064	-	-	-	-	-	-	-	-	7,361,064
Financial guarantees and letters of credit	-	127,834	413,699	2,272,328	703,368	181,390	500	-	258,603	3,957,722
Other commitments	722,466	-	-	-	-	-	-	-	-	722,466
Total	8,083,530	127,834	413,699	2,272,328	703,368	181,390	500	-	258,603	12,041,252

In thousands of Denars

	Sight	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	Over 5 years	Total
31 December 2007										
Commitments to extend credits	7,332,304	-	-	-	-	-	-	-	-	7,332,304
Financial guarantees and letters of credit	5,447	165,286	620,908	1,148,748	160,912	811,885	101,320	-	6,370	3,020,876
Other commitments	286,274	-	-	-	-	-	-	-	-	286,274
Total	7,624,025	165,286	620,908	1,148,748	160,912	811,885	101,320	-	6,370	10,639,454

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities

In thousands of Denars

	Carrying amount		Fair value	
	December 31 2008	December 31 2007	December 31 2008	December 31 2007
Financial assets				
Cash and cash equivalents	6,829,754	4,722,680	6,829,754	4,722,680
Treasury and other eligible bills	2,538,177	5,232,175	2,538,177	5,232,175
Held-for-trading financial assets	258,350	253,301	258,350	253,301
Available-for-sale financial assets	123,834	123,123	123,834	123,123
Held-to-maturity financial assets	3,605,052	3,838,602	3,605,052	3,838,602
Placement with, and loans to banks	2,136,445	5,443,514	2,136,443	5,443,375
Loans to customers	41,859,337	32,917,403	41,859,337	32,917,403
Other receivables, less foreclosure assets	341,660	329,562	341,660	329,562
	57,692,609	52,860,360	57,692,607	52,860,221
Financial liabilities				
Deposits from banks and financial institutions	1,529,526	3,750,252	1,529,526	3,750,252
Deposits from customers	47,263,584	43,280,889	47,269,019	43,285,866
Loans payable (including subordinated debt)	3,069,321	1,536,362	3,069,321	1,536,362
Other liabilities	817,577	774,190	817,577	774,190
	52,680,008	49,341,693	52,685,443	49,346,670

Cash and cash equivalents

The carrying amount of cash and cash equivalents equals their fair values as they include cash and nostro accounts representing unrestricted demand deposits and placements with NBRM, which mature shortly.

Treasury and other eligible bills

Their fair value is their carrying amount, as their fair values are measured based on discounted cash flows.

Held-for-trading financial assets

Fair value as determined by reference to market prices equal to their carrying amount.

Available-for-sale financial assets

Their fair value is measured based on quoted prices or amounts derived from cash flow models. Consequently, their fair value is their carrying amount.

Held-to-maturity financial assets

Taking into consideration the nature of these instruments (fixed maturity and fixed and determinable payments), as well as the existing market information, the management's opinion is that the fair value of such instruments approximates their carrying amount.

4. FINANCIAL INSTRUMENTS (Continued)

4.5 Fair value of financial assets and liabilities (continued)

Placement with, and loans to banks

The majority of the time deposits represent overnight deposits. The fair value of the overnight deposits and sight placements is their carrying amount. The smaller portion of the time deposits are fixed interest bearing deposits, which estimated fair value determined based on discounting cash flow using interest rates for similar placements.

Loans to customers

Loans are net of provisions for impairment. The major part of the loans to customers is with floating interest rate (over 95%). The remaining part of the loans with fixed interest rate relates to "teaser loans", for which the fair value is estimated based on the discounted cash flow.

Other receivables, less foreclosure assets

Other receivables approximate their fair value as they will mature shortly.

Deposits from banks and financial institutions

The fair value of sight and time deposits from banks and other financial institutions is their carrying amount.

Deposits from customers

The fair value of the sight deposits and the deposits with floating interest rate is their carrying amount. The estimated fair value of the deposits with fixed interest rate is based on discounted cash flows using the interest rate for similar deposits with similar maturity.

Loans payable (including subordinated debt)

Subordinated debt represents the major part of this position. This loan is with floating interest rate. The remaining part relates to the loans from specific sources for which the market interest rate can not be reliably determined, taking into consideration the fact that there are no similar instruments on the market.

Other liabilities

Other liabilities approximate their fair value as they will mature shortly.

4. FINANCIAL INSTRUMENTS (Continued)

4.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- To comply with the capital requirements set by the regulator;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the directives required by the regulator, for supervisory purposes. The required information is filed with the NBRM on a quarterly basis.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The bank's uncovered loss from previous years, the current loss, the book value of goodwill are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital, cumulative preferred shares and premium from cumulative preferred shares sold revaluation reserves from fixed assets, hybrid capital instruments. Investments in financial institutions are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of credit risk associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis

4.7.1 Sensitivity analysis (foreign currency)

The currency risk management, performed by monitoring the assets and liabilities in foreign currencies, is supplemented by conducting sensitivity analysis of the Bank's foreign currencies assets and liabilities. Therefore, appropriate scenario (change of the exchange rates by +10% i.e. -10%, with respect to the Denar) is used.

		In thousands of Denars	
31 December 2008		**Change in exchange rate**	
	Total	**10%**	**-10%**
ASSETS			
Cash and cash equivalents	6,829,754	278,517	(278,517)
Treasury and other eligible bills	2,538,177	-	-
Held-for-trading financial assets	258,350	10,536	(10,536)
Available-for-sale financial assets	123,834	3	(3)
Held-to-maturity financial assets	3,605,052	360,505	(360,505)
Placement with, and loans to banks	2,136,445	106,854	(106,854)
Loans to customers	41,859,337	2,634,831	(2,634,831)
Other receivables	341,660	35	(35)
Total assets	57,692,609	3,391,281	(3,391,281)
LIABILITIES			
Deposits from banks and financial institutions	1,529,526	89,391	(89,391)
Deposits from customers	47,263,584	2,530,062	(2,530,062)
Loans payable (including subordinated debt)	3,069,321	286,202	(286,202)
Other liabilities	817,577	18,375	(18,375)
Total liabilities	52,680,008	2,924,030	(2,924,030)
Net currency gap:		467,251	(467,251)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (continued)

4.7.1 Sensitivity analysis (foreign currency) (continued)

31 December 2007		In thousands of Denars Change in exchange rate	
	Total	10%	-10%
ASSETS			
Cash and cash equivalents	4,722,680	222,516	(222,516)
Treasury and other eligible bills	5,232,175	-	-
Held-for-trading financial assets	253,301	8,856	(8,856)
Available-for-sale financial assets	123,123	1,179	(1,179)
Held-to-maturity financial assets	3,838,602	383,860	(383,860)
Placement with, and loans to banks	5,443,514	544,351	(544,351)
Loans to customers	32,917,403	2,108,931	(2,108,931)
Other receivables	329,562	34	(34)
Total assets	52,860,360	3,269,727	(3,269,727)
LIABILITIES			
Deposits from banks and financial institutions	3,750,252	311,562	(311,562)
Deposits from customers	43,280,889	2,222,831	(2,222,831)
Loans payable (including subordinated debt)	1,536,362	135,358	(135,358)
Other liabilities	774,190	11,552	(11,552)
Total liabilities	49,341,693	2,681,303	(2,681,303)
Net currency gap:		588,424	(588,424)

At 31 December 2008, if Denar had weakened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year would have been Denar 467,251 thousand higher (2007: Denar 588,424 thousand). Conversely, if the Denar had strengthened 10% against the EUR (and all other currencies) with all other variables held constant, the profit for the year would have been Denar 467,251 thousand lower (2007: Denar 588,424 thousand). The lower sensitivity of the Bank’s assets and liabilities in case of change in foreign exchange rates compared to the previous year is a result of the lower open currency position as of December 31, 2008.

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (continued)

4.7.2 Sensitivity analysis (interest rates)

		In thousands of Denars 31 December 2008	
	Total	IR change + 200 bp	IR change - 200 bp
ASSETS			
Cash and cash equivalents	3,057,566	61,151	(61,151)
Treasury and other eligible bills	2,538,177	50,764	(50,764)
Held-for-trading financial assets	194,586	3,892	(3,892)
Held-to-maturity financial assets	3,471,328	69,427	(69,427)
Placement with, and loans to banks	2,086,966	41,739	(41,739)
Loans to customers	41,859,337	836,931	(836,931)
Total assets	53,207,960	1,063,904	(1,063,904)
LIABILITIES			
Deposits from banks and financial institutions	1,471,930	29,439	(29,439)
Deposits from customers	47,263,584	945,272	(945,272)
Loans payable (including subordinated debt)	3,069,321	61,386	(61,386)
Total liabilities	51,804,835	1,036,097	(1,036,097)
Net interest gap:	1,403,125	27,807	(27,807)

4. FINANCIAL INSTRUMENTS (Continued)

4.7 Sensitivity analysis (continued)

4.7.2 Sensitivity analysis (interest rates) (continued)

			In thousands of Denars 31 December 2007
	Total	**IR change + 200 bp**	**IR change - 200 bp**
ASSETS			
Cash and cash equivalents	2,372,070	47,441	(47,441)
Treasury and other eligible bills	5,232,175	104,644	(104,644)
Held-for-trading financial assets	226,421	4,528	(4,528)
Held-to-maturity financial assets	3,838,602	76,772	(76,772)
Placement with, and loans to banks	5,443,514	108,870	(108,870)
Loans to customers	32,917,403	658,348	(658,348)
Total assets	50,030,185	1,000,603	(1,000,603)
LIABILITIES			
Deposits from banks and financial institutions	3,750,252	75,005	(75,005)
Deposits from customers	43,280,889	865,618	(865,618)
Loans payable (including subordinated debt)	1,474,115	29,482	(29,482)
Total liabilities	48,505,256	970,105	(970,105)
Net interest gap:	1,524,929	30,498	(30,498)

As a part of interest rate risk management, the Bank analyzes the sensitivity of the balance sheet items. The sensitivity analysis is performed taking into account interest bearing assets and liabilities. Hence, it was tested what would happen, if interest rates decreased/increased by 200 b.p.

If interest rates had been 200 b.p. higher with all other variables held constant, taking into account the balances of assets and liabilities as of December 31, 2008, profit for the year would have been Denar 27,807 thousand (2007: Denar 30,498 thousand higher) higher. Conversely, if the interest rates had been 200 b.p. lower with all other variables held constant, profit for the year would have been Denar 27,807 thousand (2007: 30,498 thousand lower) lower. Such an effect arises due to higher sensitivity of assets compared to the sensitivity of liabilities when experiencing a change of the interest rates.

5. INTEREST INCOME AND EXPENSE

Interest income and expense analyzed by category of financial instruments is as follows:

	In thousands of Denars Year ended December 31, 2008	2007
Interest income:		
Cash and cash equivalents	54,957	37,805
Placement with, and loans to banks	134,283	174,985
Loans to customers	3,802,777	2,740,056
Investment securities	473,871	404,154
Other receivables	4,208	5,413
	4,470,096	3,362,413
Interest expense:		
Deposits from banks and financial institutions	48,598	27,034
Deposits from customers	1,741,772	1,086,961
Loans payable	2,237	3,475
Subordinated debt	96,469	69,147
Other liabilities (dividends of preference shares)	7,960	7,847
	1,897,036	1,194,464
Net interest income	2,573,060	2,167,949

The sector analysis of interest income and expense is as follows:

	Year ended December 31, 2008		In thousands of Denars Year ended December 31, 2007	
	Income	Expense	Income	Expense
Enterprises	1,352,529	538,148	994,815	369,972
State	276,993	5,119	272,948	5,337
Not-for-profit institutions	1,778	-	976	-
Banks	433,919	146,944	379,086	98,763
Other non-banking financial entities	-	11,392	-	8,297
Households	2,404,877	1,183,454	1,714,516	702,239
Non-residents	-	11,979	72	9,856
	4,470,096	1,897,036	3,362,413	1,194,464
Net interest income	2,573,060		2,167,949	

6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense is analyzed by financial activity as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
			In thousands of Denars	
	Income	Expense	Income	Expense
Loans provided	448,446	-	381,355	-
Domestic payment operations	228,378	57,840	230,337	32,393
Foreign payment operations	268,016	8,534	238,083	8,468
Letters of credit and guaranties	61,644	-	69,219	-
Brokerage	2,605	157	19,338	39
Trustee activities	324	-	9,344	-
Other	18,662	782	21,497	9,986
	1,028,075	67,313	969,173	50,886
Net fee and commission income	960,762		918,287	

The sector analysis of fee and commission income and expense is as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
			In thousands of Denars	
	Income	Expense	Income	Expense
Enterprises	612,367	17,233	535,703	13,080
State	6,007	-	6,127	-
Banks	17,596	41,596	17,946	29,571
Other non-banking financial entities	-	138	-	-
Households	357,383	-	380,664	-
Non-residents	34,722	8,346	28,733	8,235
	1,028,075	67,313	969,173	50,886
Net fee and commission income	960,762		918,287	

7. DIVIDEND INCOME

	In thousands of Denars Year ended December 31, 2008	2007
Available-for-sale investments	15,352	7,892
Held-for-trading investments	71	-
	15,423	7,892

8. FOREIGN EXCHANGE GAINS, NET

	In thousands of Denars Year ended December 31, 2008	2007
Foreign exchange gains	6,847,093	3,639,677
Foreign exchange losses	(6,646,392)	(3,527,701)
	200,701	111,976

9. TRADING (EXPENSE)/INCOME, NET

	In thousands of Denars Year ended December 31, 2008	2007
Held-for-trading financial assets:		
Gain on sale	347	629
Net gain/(loss) on fair valuation	(22,666)	(15)
	(22,319)	614

10. OTHER OPERATING INCOME

	In thousands of Denars Year ended December 31, 2008	2007
Gain on sale of property and equipment	34,936	15,324
Gain on sale of foreclosure assets	47,262	26,189
Rental income	6,267	6,499
Early withdrawal of deposits and operations with non-residents	29,871	18,805
Sale of shares from JUBMES Bank a.d., Belgrade, Serbia	4,443	26,880
Income from managing accounts for the Ministry of Finance	9,117	5,809
Indemnity from sold shares of VISA Inc.	95,995	-
Other	44,772	21,670
	272,663	121,176

11. IMPAIRMENT LOSSES

	In thousands of Denars Year ended December 31, 2008	2007
Impairment losses on financial assets, net	603,958	411,621
Impairment losses on non-financial assets	95,671	46,411
	699,629	458,032

Impairment losses on financial assets, net

In thousand of Denars

	31 December 2008			31 December 2007		
	Charge	Release	Net	Charge	Release	Net
Placement with, and loans to banks	4,928	(1,902)	3,026	-	(10,734)	(10,734)
Loans to customers	1,203,532	(573,724)	629,808	790,598	(369,725)	420,873
Other receivables	-	(32,599)	(32,599)	-	(937)	(937)
Available-for-sale investments	-	(9,220)	(9,220)	-	(2,597)	(2,597)
Off-balance sheet items	12,943	-	12,943	5,016	-	5,016
	1,221,403	(617,445)	603,958	795,614	(383,993)	411,621

Impairment losses on non-financial asset

	In thousands of Denars Year ended December 31, 2008	2007
Investment property	11,972	7,117
Assets acquired through foreclosure procedures	83,699	39,294
	95,671	46,411

12. PERSONNEL EXPENSES

	In thousands of Denars Year ended December 31, 2008	2007
Wages and salaries	364,616	350,327
Social security cost	199,237	169,537
Other staff costs	76,935	48,756
Bonuses	18,424	21,421
Pension costs based on defined benefit plans	1,389	14,908
	660,601	604,949
Average number of employees during the period	1,170	1,093
Number of permanent employees at the end of the year	1,185	1,102
Number of seasonal employees at the end of the year	4	-

13. DEPRECIATION AND AMORTIZATION

	In thousands of Denars Year ended December 31, 2008	2007
Depreciation of property and equipment	111,278	149,700
Depreciation of investment property	3,075	3,919
Amortization of intangible assets	56,477	73,767
	170,830	227,386

14. OTHER OPERATING EXPENSES

	In thousands of Denars Year ended December 31, 2008	2007
Material and services	478,121	415,003
Insurance premiums for deposits	202,962	153,202
Insurance premiums for property and employees	16,158	14,076
Marketing costs	166,930	135,776
Court claims	23,578	40,014
Travel expenses	17,413	14,688
Other taxes and contributions	11,207	5,920
Consulting services	7,647	18,049
Provision for litigation	-	3,200
Other expenses	30,252	35,118
	954,268	835,046

15. INCOME TAX

The major components of income taxes in the income statement are as follows:

	In thousands of Denars Year ended December 31, 2008	2007
Current income tax	165,316	13,376
Deferred income tax	159	(1,789)
	165,475	11,587

The total charge for the year can be reconciled to the accounting profit as follows:

	In thousands of Denars Year ended December 31, 2008	2007
Profit before tax	1,514,962	1,202,481
Income tax at the statutory income tax rate of 10% (2007: 12%)	151,496	144,298
Tax on expenses not allowed for tax purposes	17,609	6,067
Tax on income not taxable for tax purposes	(3,630)	(1,450)
Tax exemption on foreign investor	-	(137,328)
At effective rate of 10.9% (2007: 0.9%)	165,475	11,587

In accordance with the provisions of the Income Tax Law, the Bank has taken advantage of the income tax exemption applicable to foreign investors for the years ended 31 December 2007, 2006 and 2005. The above rule applies to the first three operational years commencing from the year in which taxable profit is reported.

Recognized deferred tax assets and deferred tax liabilities are as follows:

	31 December 2008			In thousand of Denars 31 December 2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Recognized in:						
Income statement:						
Other assets	1,630	-	1,630	1,789	-	1,789
In equity:						
Available-for-sale financial assets	-	(3,335)	(3,335)	-	(1,307)	(1,307)
	1,630	(3,335)	(1,705)	1,789	(1,307)	482

15. INCOME TAX (Continued)

The movement of the temporary differences during the year as follows:

				In thousands of Denars
	Balance 1 January	**Income Statement**	**Equity**	**Balance 31 December**
31 December 2008				
Deferred tax assets				
Other assets	1,789	(159)	-	1,630
Deferred tax liabilities				
Available-for-sale financial assets	(1,307)	-	(2,028)	(3,335)
Net deferred tax assets/(liabilities)	482	(159)	(2,028)	(1,705)
31 December 2007				
Deferred tax assets				
Other assets	-	1,789	-	1,789
Deferred tax liabilities				
Available-for-sale financial assets	(2,102)	-	795	(1,307)
Net deferred tax assets/(liabilities)	(2,102)	1,789	795	482

16. CASH AND CASH EQUIVALENTS

		In thousands of Denars
	December 31, 2008	**December 31, 2007**
Cash on hand:		
- in Denars	787,704	334,865
- in foreign currency	491,992	281,971
	1,279,696	616,836
Mandatory reserves with the Central Bank		
- in Denars	3,057,716	2,301,448
- in foreign currency	2,367,050	1,733,575
	5,424,766	4,035,023
Non-mandatory reserves with the Central Bank	125,093	70,622
Precious metals	199	199
	6,829,754	4,722,680

The level of mandatory reserves in foreign currency held with the Central Bank is determined based on the average amount of deposits in foreign currencies existing during one calendar month. These reserves earn no interest.

The mandatory reserves in Denars held with the Central Bank bear an interest at a rate of 2% p.a. (2007: 2% p.a.).

17. TREASURY BILLS AND OTHER ELIGIBLE BILLS

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Treasury bills	2,488,532	4,894,572
Other eligible bills	49,645	337,603
	2,538,177	5,232,175

Treasury bills represent bills issued by the Central Bank with a maturity of 28 days. Depending on maturity, interest rates range from 4.09% to 7.00% p.a.

Other eligible bills represent bills issued by the Ministry of Finance of the Republic of Macedonia with a maturity of three months up to one year. Depending on maturity, interest rates range from 4.71% to 8.00% p.a.

18. HELD-FOR-TRADING FINANCIAL ASSETS

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Debt securities:		
Government bonds:		
- old citizens' savings in foreign currency	4,005	5,161
- denationalization	52,185	57,590
- continued Government bonds	143,542	163,670
	199,732	226,421
Equity securities:		
Trading securities in other companies:		
- JUBMES Bank a.d., Belgrade, Serbia	8,757	26,680
- VISA Inc, San Francisco, USA	49,861	-
	58,618	26,680
	258,350	253,301

The Bank trades with the trading securities in order to generate profit from the short-term fluctuations in their stock price.

The Bank is not able to exert significant influence over the companies in which it holds equity securities due to the insignificant percentage it has in the ordinary share capital in these companies.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	In thousands of Denars December 31, 2008	December 31, 2007
Investments in subsidiary (Stoba Trejd)	-	249
Investments in other entities:		
- banks and other financial institutions	81,799	44,848
- foreign legal entities	118,268	149,603
- domestic legal entities	191,857	205,733
	391,924	400,433
Less: Allowance for impairment	(268,090)	(277,310)
	123,834	123,123

The movement in the provision for impairment is as follows:

	In thousands of Denars December 31, 2008	December 31, 2007
Balance at the beginning of the year	277,310	284,262
Release	(9,220)	(2,597)
Write off	-	(4,355)
	268,090	277,310

20. HELD-TO-MATURITY FINANCIAL ASSETS

	In thousands of Denars December 31, 2008	December 31, 2007
Government debt securities:		
Securities in exchange for Bank's non-performing receivables	3,162,390	3,678,060
Old savings' deposits	107,653	133,292
Denationalization	25,861	27,250
	3,295,904	3,838,602
Corporate debt securities:		
NLB Tutunska banka a.d., Skopje	309,148	-
	3,605,052	3,838,602

20. HELD-TO-MATURITY INVESTMENTS (Continued)

The government debt securities amounting to Denar 3,162,390 thousand (2007: 3,678,060 thousand) represent government debt securities issued by the Republic of Macedonia in exchange for the Bank's non-performing receivables from four major debtors in accordance with the Law for guaranteeing the investment of strategic investors and taking over of receivables by the Republic of Macedonia from the Bank. These debt securities bear an interest rate of three month EURIBOR plus a margin of 1% and are repayable in 56 quarterly installments commencing from 2001 to 2014.

The government debt securities amounting to Denar 107,653 thousand (2007: 133,292 thousand) represent debt securities from old savings deposits issued by the Republic of Macedonia in May 2000. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in semi-annual installments commencing from April 2002 to October 2011.

The government debt securities amounting to Denar 25,861 thousand (2006: Denar 27,250 thousand) represent government securities issued by the Republic of Macedonia in February 2004 for denationalization. These debt securities bear a fixed interest rate of 2% p.a. and are repayable in annual installments commencing from June 2006 to June 2014.

The Corporate debt security issued from NLB Tutunska Banka a.d., Skopje in the amount of Denar 309,148 thousand is non-convertible and non-transferrable corporate debt security. This debt security bears an interest rate of six-month EURIBOR plus 1.2% p.a. with semi-annual payment of interest. The principal amount is repayable in three years commencing from May 2009 to November 2011.

21. PLACEMENTS WITH, AND LOANS TO BANKS

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Sight deposits with banks	431,820	189,800
Time deposits with banks	1,238,445	5,161,497
Other loans and advances to banks	456,661	77,435
Other amounts due from banks	38,612	40,849
	2,165,538	5,469,581
Less: Allowance for impairment	(29,093)	(26,067)
	2,136,445	5,443,514

The movement in the provision for impairment is as follows:

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Balance at the beginning of the year	26,067	36,801
Charge for the year	4,928	-
Release	(1,902)	(10,734)
Balance at the end of the year	29,093	26,067

21. PLACEMENTS WITH, AND LOANS TO BANKS (Continued)

Analysis of interest rates

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Domestic banks:		
Short-term loans bearing interest of 4.38% (2007: 4.15 %) p.a.	380,000	412
Foreign banks:		
EUR deposits bearing interest of 1.50%-4.45% (2007: 2.60%-4.50%) p.a.	545,846	3,763,147
USD deposits bearing interest of 0.20%-4.50% (2007: 4.25%-5.70) p.a.	569,467	1,050,312
GBP deposits without interest	-	1,996
AUD deposits bearing interest of 5.73%-6.90% (2007: 5.73%-6.90%) p.a.	363,309	441,879
CHF deposits bearing interest of 1.80% - 2.00% (2007: 1.80% - 2.00%) p.a.	52,358	9,186
GBP deposits bearing interest of 1.00% - 5.80% (2007: 4.97% - 6.25%) p.a.	102,628	129,988
CAD deposits bearing interest of 1.25%-4.10% (2007: 4.05%-4.75%) p.a.	45,843	45,812
SEK deposits bearing interest of 1.85%-4.85% (2007: 2.85%-3.65%) p.a.	12,484	17,536
NOK deposits bearing interest of 3.50 %-4.00% (2007: 3.50 %-4.00%) p.a.	12,788	1,619
DKK deposits bearing interest of 3.50% - 3.85% (2007: 3.50% - 3.85%) p.a.	12,664	6,887
JPY deposits	68,151	807
	1,785,538	5,469,169
	2,165,538	5,469,581
Less: Provision for impairment	(29,093)	(26,067)
	2,136,445	5,443,514

Restricted accounts amounting to Denar 75,975 thousand (2007: Denar 75,283 thousand) represent accounts held with banks in the Republic of Serbia, which went into bankruptcy in January 2002. Allowance for impairment and uncollectability of Denar 29,093 thousand (2007: Denar 26,067 thousand) is charged by the Bank against this exposure. The allowance represents the net exposure determined as the difference between the Bank's deposited funds and deposits taken from the corresponding foreign banks (Note 27).

According to independent legal opinion, the Bank is entitled to net-off the deposits from this bank with the deposits held with the same bank.

Placement with, and loans to banks include restricted accounts amounting to Denar 36,807 thousand (2007: Denar 21,043 thousand) represent deposits held with Barclays' Bank, London, Great Britain (2007: JP Morgan Chase Manhattan Bank New York), as collateral for the transactions performed with VISA payment cards. These funds are not available for the Bank's daily operations.

22. LOANS TO CUSTOMERS

a) Analyses of loans by type of customer

In thousands of Denars

	December 31, 2008			December 31, 2007		
	Up to one year	Over one year	Total	Up to one year	Over one year	Total
Enterprises	13,338,468	10,322,424	23,660,892	11,050,792	9,395,626	20,446,418
Government	85,609	300,929	386,538	56,424	281,274	337,698
Citizens	12,416,441	12,050,918	24,467,359	8,920,361	9,297,975	18,218,336
	25,840,518	22,674,271	48,514,789	20,027,577	18,974,875	39,002,452
Current maturity of long-term loans	4,406,272	(4,406,272)	-	2,701,944	(2,701,944)	-
	30,246,790	18,267,999	48,514,789	22,729,521	16,272,931	39,002,452
Less: Provision for impairment	(6,093,066)	(562,386)	(6,655,452)	(5,570,862)	(514,187)	(6,085,049)
	24,153,724	17,705,613	41,859,337	17,158,659	15,758,744	32,917,403

During 2008, the Bank has extended its retail banking services especially with respect to consumer loans, household loans, payment card operations and deposits from citizens with bonus interest rates.

The Bank charges interest on loans to customers at the following rates per annum:

	2008		2007	
	Up to one year	Over one year	Up to one year	Over one year
Citizens:				
in Denars:				
mortgage loans	-	11.9%-12.9%	-	11.9%-12.9%
consumer loans	13.5%-16.5%	13.5%-16.5%	13.5%-16.5%	13.5%-16.5%
in foreign currency:				
mortgage loans	-	5.5%-9.5%	-	5.5%-9.5%
vehicles loans	-	7.0%-7.5%	-	7.0%-7.5%
consumer loans	11.5%-14.5%	7.0%-7.5%	11.5%-14.5%	7.0%-7.5%
Enterprises:				
- In Denars	8.75%-11.5%	9.45%-14.5%	8.75%-11.5%	9.45%-14.5%
- in foreign currency	1 m EURIBOR + 5.5%-6.25%	1 m EURIBOR + 9.75%-14.5%	1 m EURIBOR + 5.5%-6.25%	1 m EURIBOR + 9.75%-14.5%

22. LOANS TO CUSTOMERS (Continued)

b) Analysis of loans by sectors

	In thousands of Denars December 31, 2008	December 31, 2007
Tobacco, food and beverage	2,906,456	2,456,348
Trading	5,635,890	5,072,294
Metal industry	4,181,757	2,783,821
Construction	1,631,423	1,531,174
Textile and leather	1,566,319	1,087,276
Agriculture, forestry and fishing	1,373,704	1,017,002
Chemical industry	560,109	469,149
Transport	985,796	816,933
Mining	123,243	461,187
Machine industry	102,575	80,917
Hotels and restaurants	703,357	689,611
Wood, paper and cellulose	291,074	254,265
Vehicles	24,019	14,263
Other processing industry	126,806	160,076
Other non-metal industry	1,321,463	1,041,982
Electric and optic plants	280,867	158,942
Electricity supply	818,616	1,410,620
Citizens	24,467,359	18,218,336
Other	1,413,956	1,278,256
	48,514,789	39,002,452
Less: Provision for impairment	(6,655,452)	(6,085,049)
	41,859,337	32,917,403

c) Analysis of loans by type of security

	In thousands of Denars December 31, 2008	December 31, 2007
Cash and cash equivalents (accounts held in Bank)	287,376	253,602
Government securities	-	112
Bank guarantees	104,279	127,472
Corporate guarantees	1,741,939	1,482,738
Property	18,749,121	14,512,682
Equipment and other movable assets	4,388,898	2,168,084
Other securities	242,215	58,653
Non-secured	16,345,509	14,314,060
	41,859,337	32,917,403

22. LOANS TO CUSTOMERS (Continued)

d) Movement in provision for impairment

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Balance at the beginning of the year	6,085,049	6,327,058
Charge for the year	1,203,532	790,598
Release	(573,724)	(369,725)
Accrued penalties on bad and doubtful debts and write off, net	(59,405)	(662,882)
Balance at the end of the year	6,655,452	6,085,049

e) Risks and uncertainties

Management of the Bank has recorded provisions for impairment losses for all known and estimated risks as of the date of the financial statements. The Bank's portfolio contains a number of debtors whose ability to service and repay their debts has been impacted by economic developments in the Republic of Macedonia. The portfolio also contains a number of debtors that are involved in restructuring processes that are expected to lead to either partial or complete recoveries of the Bank's receivables. The receivables from such debtors were classified on the latest available information and the expected course of the restructuring process.

The Bank continues to be collateralized primarily by real estate, industrial land, buildings and equipment for corporate loans and in the case of retail loans depending on the type of loan product. Depending on the classification of loans, management is maximizing efforts to realize collateral on a timely basis. In the event that this proves to be unsuccessful, additional provisions will need to be made in the future to provide for any possible shortfall.

The Bank's operation could be influenced by the financial trends in case of worsening of the overall global and local economic environment. During the third and fourth quarter of 2008, when the global financial crises have commenced to influenced the local economy, the Bank did not faced any liquidity problems and undertook measures of strengthening its capital base through additional subordinated loans obtained from its parent company and retaining the earnings.

The potential impact of the financial crises could be expected in restraining domestic savings. The management of the Bank is reacting appropriately to any new developments to the market and economy as a whole. Some of the measures undertook are: limiting long-term financing as compared to the short-term financing, developing of the loan products with higher interest margins, strengthening monitoring of the large customers and industry sectors to which the Bank is mostly exposed for, making appropriate balance of the interest rates for loan receivables and payments for deposits, reassessment of the relationships with the corresponding banks and other participants on the local financial markets, where possible increase of collateral limits. All the above is focusing to protect and develop current and future customer/depositor base and achievement of the Bank's goals and objectives for 2009 and beyond.

Currently, the impact of the financial crises has limited impact on the Bank's operations; however, future unfavorable developments in certain industry sectors may have impact on the customer's ability for loan's repayment, which may consequently have impact on the level of provision for loan losses. Any additional provision based on the above, if any, cannot be determined at this stage with any reasonably accuracy.

23. OTHER RECEIVABLES

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Assets acquired through foreclosure proceedings	614,572	731,101
Less: Allowance for impairment (Note 11)	(83,699)	(39,294)
	530,873	691,807
Trade receivables	178,690	139,093
Advances	18,477	3,629
Prepaid expenses	59,871	35,662
Other receivables	92,020	190,075
	879,931	1,060,266
Less: Allowance for impairment for other receivables, less assets acquired through foreclosure proceedings	(7,398)	(38,897)
	872,533	1,021,369

The movement in the provision for impairment in other receivables, less assets acquired through foreclosure proceedings is as follows:

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Balance at the beginning of the year	38,897	39,834
Release	(32,599)	(937)
Other	1,100	-
Balance at the end of the year	7,398	38,897

Assets acquired through foreclosure proceedings include business premises, apartments and buildings and are not used by the Bank for its core operations.

24. INVESTMENT PROPERTY

	In thousands of Denars
Cost	
Balance, January 1, 2007	212,072
Transfer from assets acquired through foreclosure procedure	4,352
Transfer from property and equipment (Note 26)	3,084
Disposals	(47,005)
Balance, December 31, 2007	172,503
Transfer from assets acquired through foreclosure procedure	1,148
Disposals	(12,091)
Balance, December 31, 2008	161,560
Accumulated depreciation	
Balance, January 1, 2007	21,031
Charge for the year	3,919
Transfer from intangible assets (Note 25)	127
Transfer from property and equipment (Note 26)	782
Disposals	(7,559)
Other	(302)
Balance, December 31, 2007	17,998
Charge for the year	3,075
Disposals	(2,083)
Balance, December 31, 2008	18,990
Impairment	
Balance, January 1, 2007	37,054
Charge for the year (Note 11)	7,117
Balance, December 31, 2007	44,171
Charge for the year (Note 11)	11,972
Balance, December 31, 2008	56,143
Carrying amount	
Balance December 31, 2008	86,427
Balance December 31, 2007	110,334

25. INTANGIBLE ASSETS

In thousands of Denars

	Software	Leasehold improve-ments	Other intangibles	Total
Cost				
Balance at January 1, 2007	405,277	48,351	15,858	469,486
Additions	1,798	9,540	6,916	18,254
Transfer	-	20	(20)	-
From property and equipment (Note 26)	-	358	-	358
To property and equipment (Note 25)	-	(5,712)	-	(5,712)
Balance at December 31, 2007	407,075	52,557	22,754	482,386
Additions	49,409	22,158	55,514	127,081
Transfer	66,415	-	(66,415)	-
Balance at December 31, 2008	522,899	74,715	11,853	609,467
Accumulated amortization				
Balance at January 1, 2007	271,282	27,597	-	298,879
Charge for the year	68,948	4,819	-	73,767
Other	10	-	-	10
To investment property (Note 24)	-	(127)	-	(127)
Balance at December 31, 2007	340,240	32,289	-	372,529
Charge for the year	49,394	7,083	-	56,477
Other	(5)	-	-	(5)
Balance at December 31, 2008	389,629	39,372	-	429,001
Carrying amount				
Balance at December 31, 2008	133,270	35,343	11,853	180,466
Balance at December 31, 2007	66,837	20,268	22,752	109,857

26. PROPERTY AND EQUIPMENT

In thousands of Denars

	Buildings	Furniture and equipment	Construction in progress	Total
Cost				
Balance at January 1, 2007	1,133,458	1,293,058	87,756	2,514,272
Additions	21,273	42,968	63,003	127,244
Transfer	30,480	36,328	(66,808)	-
To intangible assets (Note 25)	-	-	(358)	(358)
To investment property (Note 24)	(3,084)	-	-	(3,084)
From foreclosure assets	6,474	-	-	6,474
From intangible assets (Note 25)	5,712	-	-	5,712
Disposals	(21,990)	(48,611)	-	(70,601)
Balance at December 31, 2007	1,172,323	1,323,743	83,593	2,579,659
Additions	28,380	39,095	61,079	128,554
Transfer	8,332	113,593	(121,925)	-
Disposals	(42,635)	(68,732)	-	(111,367)
Balance at December 31, 2008	1,166,400	1,407,699	22,747	2,596,846
Accumulated depreciation				
Balance at January 1, 2007	304,935	1,047,186	-	1,352,121
Charge for the year	28,467	121,233	-	149,700
Disposals	(9,822)	(46,512)	-	(56,334)
To investment property (Note 24)	(782)	-	-	(782)
Balance at December 31, 2007	322,798	1,121,907	-	1,444,705
Charge for the year	29,530	81,748	-	111,278
Disposals	(16,910)	(66,129)	-	(83,039)
Balance at December 31, 2008	335,418	1,137,526	-	1,472,944
Carrying amount				
Balance at December 31, 2008	830,982	270,173	22,747	1,123,902
Balance at December 31, 2007	849,525	201,836	83,593	1,134,954

The Bank's buildings as of December 31, 2008 include property with a net carrying amount of Denar 130,584 thousand (2007: Denar 185,886 thousand), for which the Bank does not possess appropriate ownership title deeds due to incomplete cadastral records.

As of December 31, 2008 and 2007, the Bank's property and equipment are free of any pledges and mortgages.

27. DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

In thousands of Denars

	December 31, 2008		December 31, 2007	
	Up to one year	Over one year	Up to one year	Over one year
Demand deposits				
Domestic banks and other financial institutions	52,174	-	94,701	-
Foreign banks	40,225	-	2,994,958	-
	92,399	-	3,089,659	-
Time deposits				
Domestic banks and other financial institutions	1,039,933	341,125	577,223	21,027
Restricted deposits				
Foreign banks	56,069	-	62,343	-
	1,188,401	341,125	3,729,225	21,027
Total deposits from banks and financial institutions	1,529,526		3,750,252	

The restricted deposits held with foreign banks amounting to Denar 56,069 thousand (2007: Denar 62,343 thousand) represent deposits from banks in the Republic of Serbia which went into bankruptcy in January 2002 (Note 21).

The Bank accrues interest on deposits at the following rates per annum:

	2008	2007
Demand deposits:		
Foreign currencies	0.001%-1.21%	0.001%-1.3%
Denars	0.4%	0.4%
Time deposits up to one year:		
Foreign currencies	0.001%-7.26%	0.001%-6.53%
Denars	4%-7.90%	4%-7%

28. DEPOSITS FROM CUSTOMERS

In thousands of Denars

	December 31, 2008		December 31, 2007	
	Up to one year	Over one year	Up to one year	Over one year
Individuals				
Savings accounts	6,986,337	-	8,157,864	-
Time deposits	20,399,040	1,605,131	16,051,678	880,643
Current accounts	2,207,987	-	1,931,305	-
	29,593,364	1,605,131	26,140,847	880,643
Enterprises				
Sight deposits	178,039	-	290,346	-
Time deposits	8,469,267	643,363	9,735,782	206,795
Current accounts	6,540,560	-	5,858,372	-
Other deposits	41,801	-	10,010	-
	15,229,667	643,363	15,894,510	206,795
Government and agencies				
Sight deposits	1,022	-	1,018	-
Time deposits	35,630	-	60,276	-
Current accounts	153,294	-	92,998	-
	189,946	-	154,292	-
Other customers	2,113	-	3,802	-
	45,015,090	2,248,494	42,193,451	1,087,438
Total deposits from customers	47,263,584		43,280,889	

The Bank accrues interest on deposits at the following rates per annum:

	2008		2007	
	Up to one year	Over one year	Up to one year	Over one year
Demand deposits				
Citizens:				
Denars	0.65%-1%	-	0.65%-1%	-
Foreign currencies	0.001%-2.12%	-	0.001%-1.7%	-
Enterprises:				
Denars	0.4%	-	0.4%	-
Foreign currencies	0.001%-1.21%	-	0.001%-1%	-
Time deposits				
Citizens:				
Denars	5.5%-8.00%	8.25%-10.5%	5,5%-7.75%	8%-8.5%
Foreign currencies	0.001%-4.6%	0.001%-6.3%	0.001%-4.3%	0.001%-4.5%
Enterprises:				
Denars	4.00%-7.90%	6.5%-9.50%	4%-7.23%	6.5%-8.85%
Foreign currencies	0.001%-7.26%	0.001%-7.26%	0.001%-5.71%	0.001%-5.57%

29. LOANS PAYABLE

In thousands of Denars

	December 31, 2008		December 31, 2007	
	Up to one year	Over one year	Up to one year	Over one year
Domestic sources:				
Agency for assets management - part of the long-term loans Denar 11,703 thousand (2007: Denar 11,703 thousand) is repaid in 10 equal semi-annual installments commencing from June 2003, while the remaining amount of Denar 138,823 thousand (2007: Denar 150,622 thousand) matures and is payable in 2020 on a once off basis. Related fees for these loans are 1.5% p.a.	1,127	149,399	1,223	161,102
Agency for undeveloped regions - matures in 2009. The interest rate equals to 60% of the discount rate. In 2008, the interest rate is equal to 3.9% p.a. (2007: 3.9% p.a.)	877	29,555	1,511	28,109
	2,004	178,954	2,734	189,211
Foreign sources:				
Council of Europe Social Development Fund - matures in 2014 and bears fixed interest rate of 6.73% p.a.	308	47,097	358	54,760
ICDF Taiwan - to be repaid in 20 equal semi-annual installments until 2014 and bears interest rate of six month LIBOR decreased by 0.5% p.a.	611	50,793	1,334	57,402
Other banks	-	5,957	-	5,957
	919	103,847	1,692	118,119
Current maturity of long-term loans	52,597	(52,597)	46,899	(46,899)
	55,520	230,204	51,325	260,431
Total loans payable	285,724		311,756	

30. SUBORDINATED DEBT

In thousands of Denars

	Maturity	Interest rate	December 31, 2008	December 31, 2007
National Bank of Greece:				
Principal EUR 20,000,000	27.12.2016	3-month EURIBOR +0.85% p.a.	1,228,246	1,224,032
Principal EUR 25,000,000	05.11.2018	3-month EURIBOR +3.7%p.a.	1,535,308	-
Accrued interest			20,043	574
			2,783,597	1,224,606

30. SUBORDINATED DEBT (Continued)

The interest is payable quarterly.

It is mutually agreed with the creditor that the subordinated loan shall:

- be unconditionally non-redeemable;
- be fully and readily available for covering the Bank's risk and losses during the Bank's operations;
- not be covered by other type of collateral by the Bank or a person connected to the Bank;
- in the case of bankruptcy or liquidation of the Bank, the subordinated debt will be paid before settling the liabilities to the Bank's shareholders
- not be used for claims and contingent liabilities of the bank
- not be treated as deposit.

The purpose of the above mentioned funds is to strengthen the guaranteeing capital of the Bank, realization of the Bank's projected goals in accordance with its Business plan, increase of the competitive and market position of the Bank, its profitability as well as for the increase of Tier two coefficient of the capital adequacy and other qualitative and quantitative indicators of the Bank.

31. PREFERENCE SHARES

The Bank has issued 227,444 non-redeemable cumulative preference shares with a nominal value of Denar 400. The preference shares give preferential rights for dividends and do not have voting rights and participation in equity in the event of a liquidation of the Bank.

As of December 31, 2008 the Bank allocated an amount of Denar 7,960 thousand as a dividend to the holders of these shares for the year 2008 (2007: 7,847 thousand for the year 2007).

32. OTHER LIABILITIES

	In thousands of Denars	
	December 31, 2008	December 31, 2007
Trade payables	15,101	86,617
Taxes payable, other than income tax	11,887	10,165
Liabilities to NBRM	8,877	16,635
Deferred loan origination fees	165,632	123,174
Dividends payable for preferred shares	8,022	7,847
Liabilities for salaries	11	30,275
Liabilities for bonuses to employees	23,254	21,421
Accrued expenses	22,388	21,643
Early repayments of loans from citizens and entities	131,458	83,937
Claimed transactions with VISA cards	10,257	-
Unallocated cash receipts due to depositors and others	81,764	72,697
Other liabilities	86,323	109,843
	564,974	584,254

33. PROVISIONS

In thousands of Denars

	Off- balance sheet items	Employees benefits	Litigation	Total
Balance at January 1, 2007	71,780	-	-	71,780
Additions	5,016	14,908	3,200	23,124
Balance at December 31, 2007	76,796	14,908	3,200	94,904
Additions	12,943	1,389	-	14,332
Balance at December 31, 2008	89,739	16,297	3,200	109,236

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows. The principal actuarial assumptions used were as follows:

	2008	2007
Interest rate	6.0%	6.5%
Average salary increase	6.0%	6.0%
Inflation rate	3.0%	3.0%

Mortality rate:

From the study of the mortality rates in the last years, we have determined a representation of the expected current mortality in the Republic of Macedonia. We have used the Swiss mortality table, which is a reasonable approximation of the long-term mortality rate in the country.

34. EQUITY

a. Share capital

The share capital of the Bank as of December 31, 2008 and 2007 consists of 17,460,180 fully paid up ordinary shares with a nominal value of Denar 201. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Bank's General Assembly meetings, as well as the right to participate equally in the event of the. liquidation of the Bank.

The structure of shareholders exceeding 5% of the issued voting capital as of December 31, 2008 and 2007, officially announced and accepted by the Central Securities Depository of the Republic of Macedonia is as follows:

	December 31, 2008		December 31, 2007	
	% of participation	In thousands of Denars	% of participation	In thousand of Denars
National Bank of Greece	73.04%	2,564,602	73.04%	2,564,602
International Finance Corporation	10.80%	379,246	10.80%	379,246
European Bank for Reconstruction and Development	10.80%	379,246	10.80%	379,246
Others	5.36%	188,148	5.36%	188,148
	100%	3,511,242	100%	3,511,242

34. EQUITY (Continued)

b. Revaluation reserves

Revaluation reserves include unrealized gains and losses arising from changes in the fair value of available-for-sale investments.

c. Statutory reserve

In accordance with the local regulations, the Bank is required to set aside 15 percent of its net profit for the previous year in a statutory reserve until the level of the reserve reaches 1/5 of the court-registered share capital. Until the minimum required level is reached, the statutory reserve could be used only for loss recovery. When the statutory reserve exceeds the minimum level, after recovery of all losses, it can be used for distribution of dividends, based on a decision of the Shareholder's Assembly, but only if, for the current year, it has not reached the minimum for distribution as prescribed by the Law on Trade Companies or by the Bank's Statute.

d. Special fund

Special fund represent a fund set up based on the internal Bank's policy for various purposes broadly classified as restrictive.

35. RELATED PARTY TRANSACTIONS

Related parties include major shareholders, affiliates and jointly controlled entities, control/management with the Bank, or whose activities the Bank has an ability to control. All transactions with related parties arise in the normal course of business and their value is not materially different from the terms and conditions that would prevail in arms-length transactions.

The significant related party balances and transactions are presented as follows:

35. RELATED PARTY TRANSACTIONS (Continued)

	In thousands of Denars	
	December 31, 2008	**December 31, 2007**
ASSETS		
Current accounts in foreign currency		
National Bank of Greece, Athens	5,303	5,075
United Bulgarian Bank, Sofia	5,229	4,013
Total assets	10,532	9,088
LIABILITIES		
Demand deposits of foreign Banks		
United Bulgarian Bank, Sofia	4,235	4,205
Time deposits		
National Bank of Greece, Athens	-	2,754,072
Subordinated debt		
National Bank of Greece, Athens	2,763,554	1,224,032
Interest payable		
National Bank of Greece, Athens	20,043	574
Consultants services		
NBG Management, Greece	-	85,672
Ethnoplan S.A., Greece	6,145	-
Other liabilities		
NBG Management, Greece	-	5,121
Total liabilities	2,793,977	4,073,676
INCOME STATEMENT		
Interest income		
National Bank of Greece, Athens	80	51
United Bulgarian Bank, Sofia	37	24
Interest expense		
National Bank of Greece, Athens	96,469	69,147
United Bulgarian Bank, Sofia	16	-
Other expenses:		
NBG Management	-	7,160
Ethnoplan S.A., Greece	7,613	599

National Bank of Greece, Ahens represent the ultimate parent company and provide the Bank with subordinated loans. United Bulgarian Bank, Sofia, NBG Management, Greece and Ethnoplan S.A., Greece are fellow subsidiaries of the NBG Group and mainly provide management services to the Bank.

35. RELATED PARTY TRANSACTIONS (Continued)

The total compensation and other transactions with key management personnel as follows:

	In thousands of Denars December 31, 2008	December 31, 2007
Loans and advances	56	8,899
Due to customers	2,495	3,233
Wages and salaries	6,455	6,662
Social security contributions	3,018	3,661
Bonuses	5,051	5,402
Other	314	-
	17,389	27,857

The Bank entered into banking transactions with key management personnel in the normal course of business.

36. COMMITMENTS AND CONTINGENCIES

a. Off-balance sheet items

	In thousands of Denars December 31, 2008	December 31, 2007
Payment guarantees:		
in Denars	1,856,132	920,858
in foreign currency	367,958	539,661
Performance guarantees:		
in Denars	924,141	177,156
in foreign currency	290,245	381,490
Letters of credit in foreign currency	519,246	1,001,711
Unused current account overdrafts	1,059,677	1,049,058
Credit cards commitments	6,262,098	5,892,695
Other loan commitments	39,289	390,551
Other	722,466	286,274
	12,041,252	10,639,454
Less: provision for off-balance sheet items (Note 33)	(89,739)	(76,796)
	11,951,513	10,562,658

b. Managed funds

The Bank manages assets on a fee basis on behalf of customers. Such managed funds are not Bank's assets and are not recognized in the balance sheet. As of 31 December 2007 the net liability of Denar 18,244 thousand relate to timing differences in these accounts.

36. COMMITMENTS AND CONTINGENCIES (Continued)

b. Managed funds (continued)

In thousand of Denars

	31 December 2008			31 December 2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deposits in Denars	-	218,439	(218,439)	-	217,974	(217,974)
Deposits in foreign currency	-	-	-	-	471	(471)
Loans in Denars	47,400	47,400	-	47,400	47,400	-
Loans in foreign currency	170,351	170,351	-	176,081	176,081	-
Other receivables in Denars	328,322	328,322	-	191,366	191,366	-
Other receivables in foreign currency	29,827	-	29,827	34,426	-	34,426
Trustees accounts	-	-	-	8,490	26,225	(17,735)
Other	879,919	691,307	188,612	787,860	604,350	183,510
	1,455,819	1,455,819	-	1,245,623	1,263,867	(18,244)

The Bank is not exposed to any credit risk in respect of the above placements, as it does not guarantee placements.

c. Litigations

The Bank is involved in legal proceedings from its daily operations. As of December 31, 2008 the legal proceedings filed against the Bank amounted to Denar 423,103 thousand. This amount does not include any penalty interest. The Bank's management believes that the final outcome of the filed legal proceedings will be favorable, and that no material losses will result from the settlement of the aforementioned litigations. The Bank allocated provisions for impairment losses upon litigation in the amount of Denar 3,200 thousand.

d. Lease commitments

The Bank as lessor

Operating leases relate to the investment property owned by the Bank, which comprises a number of commercial real estate leased to third parties. All operating lease contracts contain market review clause in the event that the lessee exercise its option to renew. The expiration of the lease period range from one to five years. Rental income earned by the Bank from its investment property, all of which is leased out under operating leases, amounting to Denar 6,267 thousand (2007: Denar 6,499 thousand).

Future lease receivables approximate the current year's rental income level.

37. TAXATION RISK

The tax authorities may at any time inspect the books and records within 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 additional circumstances, which may give rise to a potential material liability in this respect.

38. RECLASSIFICATIONS

Certain amounts in prior year have been reclassified to conform to the current year presentation:

Income statement

	In thousand of Denars December 31, 2007		
	As restated	**As previously reported**	**Reclassi-fication**
Impairment losses	458,032	411,621	46,411
Personnel expenses	604,949	-	604,949
Depreciation and amortization expense	227,386	-	227,386
Other operating expenses	835,046	1,713,792	(878,746)
	2,125,413	2,125,413	-

Balance sheet

	In thousand of Denars December 31, 2007		
	As restated	**As previously reported**	**Reclassi-fication**
Leasehold improvements	-	20,268	(20,268)
Intangible assets	109,857	89,589	20,268
Loans payable	311,756	320,207	(8,451)
Subordinated debt	1,224,606	1,224,032	574
Other liabilities	584,254	656,373	(72,119)
Provisions	94,904	14,908	79,996
	2,325,377	2,325,377	-

39. EXCHANGE RATES

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

	In Denars	
	2008	**2007**
1 USD	43.5610	41.6564
1 EUR	61.4123	61.2016