

ALPHA BANK AD SKOPJE

ANNUAL REPORT 2002





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About the Bank

New name

In April 2002, the Bank was renamed from Kreditna Banka AD Skopje into ALPHA BANK AD SKOPJE, following ALPHA BANK GROUP worldwide policy. Thus, all necessary steps were undertaken in order to re-brand the Bank, by keeping the ALPHA BANK GROUP corporate identity standards. The entire procedure was completed by the end of 2002.

Change in shareholders structure

In August 2002 ALPHA BANK GROUP acquired the minority stake of Alpha Bank AD Skopje, thus acquiring 100% of the share capital.

New branches

Following its network expansion policy, the Bank established three new branches in 2002. Two of the new branches are located in Skopje and one in Gevgelija.

Head Office expanded to new location

The Bank acquired new premises in Skopje, expanding the current premises of the Head Office to a new location on 3, Dame Gruev str. The new premises currently accommodate the Accounting Division, Lending Division, International and Domestic Communication Division and Internal Control and Audit



Bank's Network

HEAD OFFICE IN SKOPJE

Dame Gruev 1, MK-1000 Skopje
P. O. Box. 564
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AVTOKOMANDA BRANCH - SKOPJE

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Tel.: ++389 2 3175 548
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VLAE BRANCH - SKOPJE

Partizanski odredi No.155 K1-01,
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Tel.: ++389 2 2050 083
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TETOVO BRANCH

Marsal Tito 120, MK-1200 Tetovo
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STRUMICA BRANCH

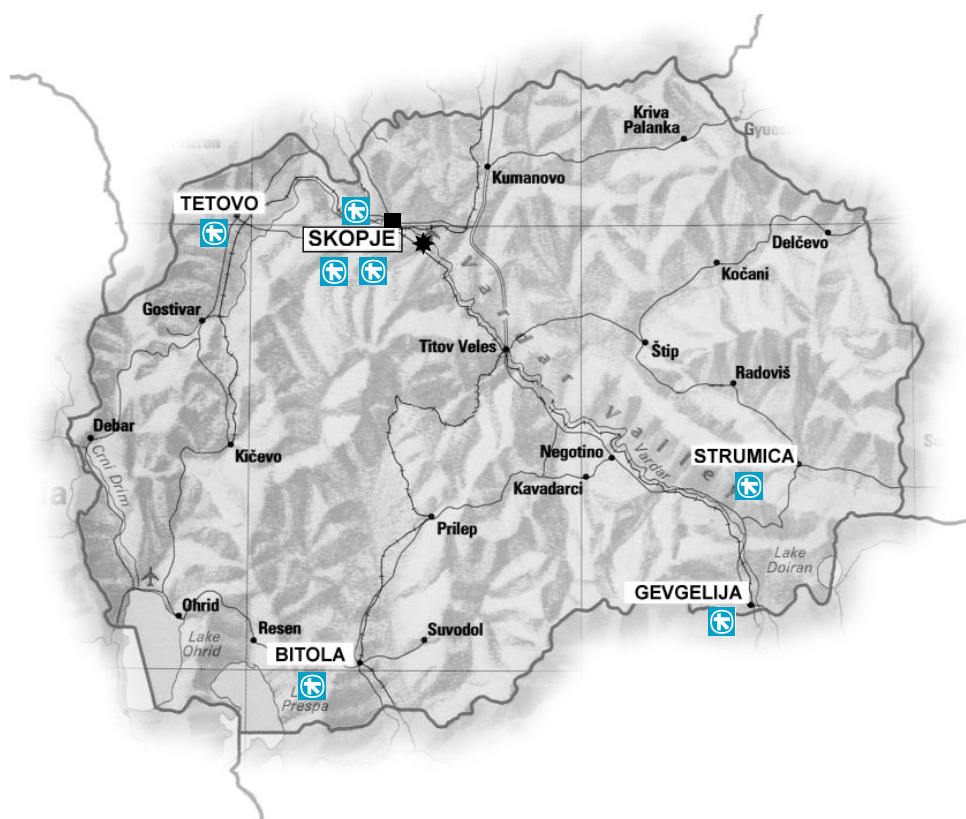
Leninova 100, MK-2400 Strumica
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BITOLA BRANCH

Ignatia Atanasovski bb, MK-7000 Bitola
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Fax: ++389 47 258 338

GEVGELIJA BRANCH

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Tel.: ++389 34 217 801
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List of Main Correspondens

Austria		
Bank Austria, Vienna	EUR	BKAU AT WW
Australia		
Commonwealth Bank of Australia, Sydney	AUD	CTBA AU 2S
Belgium		
Banque Bruxelles Lambert, Bruxelles	EUR	BBRU BE BB
Denmark		
Danske Bank, Copenhagen	DKK	DABA DK KK
France		
BNP Paribas, Paris	EUR	BNPA FR PP
Germany		
LHB Internationale Handelsbank, Frankfurt	EUR, USD	LHBI DE FF
Deutsche Bank, Frankfurt	EUR	DEUT DE FF
Commerzbank, Frankfurt	EUR	COBA DE FF
Greece		
Alpha Bank, Athens	EUR, USD	CRBA GR AA
Italy		
Banca Intesa SpA, Milan	EUR	BCIT IT MM
Netherlands		
ABN AMRO Bank, Amsterdam	EUR	ABNA NL 2A
Sweden		
Skandinaviska Enskilda Banken, Stockholm	SEK	ESSE SE SS
Switzerland		
Credit Suisse First Boston, Zurich	CHF	CRES CH ZZ 80A
United Kingdom		
National Westminster Bank, London	GBP	NWBK GB 2L
United States of America		
JPMorgan Chase Bank, New York	USD	CHAS US 33
American Express Bank, New York	USD	AEIB US 33



The Administrative Structure

Assembly of the Bank

Chairman

Dusan Tudzarov
Replek Makedonija AD, Skopje

Managing Board

Chairman

Spyros N. Filaretos
Executive General Manager
Alpha Bank AE, Athens

Members

Vassilios I. Karaindros
Manager
Alpha Bank AE, Athens

Pavlina Cerepnalkovska
First General Manager
Alpha Bank AD Skopje, Skopje

Zacharias G. Charpidis
Second General Manager
Alpha Bank AD Skopje, Skopje

George N. Kontos
Chief Financial Officer
Alpha Bank AE, Athens

Trajan Ivanov
Manager
Replek Makedonija AD, Skopje

Dimce Nikolovski
Manager
Vadex, Skopje

Senior Management of the Bank

First General Manager

Pavlina Cerepnalkovska

Second General Manager

Zacharias G. Charpidis

Managers

Financial Division
Zeljko Rakic

International Division
Aleksandar Kirovski

Banking Business Division
Branko Penov

Treasury Division
Milena Percinkova

Communication Division
Lidija Daceva

Credit Division

Financial Statement



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Report of the auditor to the shareholders of Alpha Banka AD, Skopje

We have audited the accompanying balance sheet of Alpha Banka AD, Skopje (the "Bank") as of 31 December 2002 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the directors. 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 as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2002 and of the results of its operations and cash flows for the year then ended in accordance with Macedonian regulations.

7 March 2003
Skopje

KPMG
Managing Partner
Georgi Chuchuk



KPMG Macedonia, a limited liability company established under Macedonian law, is a member of KPMG International, a Swiss association.

Registered by
Skopje Basic Court I
No. 5772/97

Tax Number
4030996107850

Income Statement

For the year ended 31 December 2002

In thousands of denars

	<i>Note</i>	<i>2002</i>	<i>2001</i>
Interest income		173,356	125,780
Interest expense		(39,120)	(15,229)
Net interest income	1	134,236	110,551
Fee and commission income		96,683	78,448
Fee and commission expense		(6,733)	(9,247)
Net fee and commission income	2	89,950	69,201
Dividend income		330	-
Net foreign exchange gain		43,098	64,011
Other operating income		5,294	3,975
Operating income		272,908	247,738
Impairment losses	3	(27,180)	(49,093)
Other operating expenses	4	(107,825)	(76,174)
Operating expenses		(135,005)	(125,267)
Profit before tax		137,903	122,471
Income tax expense	5	(10,497)	(9,338)
Net profit for the year	20	127,406	113,133



Balance Sheet

As at 31 December 2002

In thousands of denars

	Note	2002	2001
Assets			
Cash and cash equivalents	6	500,722	1,092,820
Placements with banks	7	972,062	858,043
Loans and advances to customers	8	586,573	399,199
Interest receivable and other assets	9	16,237	21,714
Income tax receivable		1,981	-
Investments	10	1,330	1,000
Intangible assets	12	20,268	12,719
Property and equipment	13	148,975	123,175
Total assets		2,248,148	2,508,670
Liabilities			
Deposits from banks	14	10,310	11,505
Amounts owed to other depositors	15	1,110,743	1,524,878
Other borrowed funds	16	30,536	-
Accruals	17	1,736	2,113
Provisions	18	2,877	2,050
Income tax payable		-	1,397
Other liabilities	19	6,170	6,852
Total liabilities		1,162,372	1,548,795
Shareholders' equity			
Share capital		185,760	185,760
Share premium		337,169	337,169
Reserves		264,368	262,673
Retained earnings		298,479	174,273
Total shareholders' equity	20	1,085,776	959,875
Total liabilities and shareholders' equity		2,248,148	2,508,670
Memorandum items			
Contingent liabilities	22		
Guarantees		175,506	156,277
Letters of credit		81,966	73,923

These financial statements set out on pages 3 to 33 were approved by the Board of Directors on 7 March 2003 and were signed on its behalf by:

Mrs. Pavlina Cherepnalkovska
Managing Director

Statement of cash flows

For the year ended 31 December 2002

In thousands of denars

	Note	2002	2001
Operating activities			
Profit before tax		137,903	122,471
Adjustments for non cash items:			
Depreciation of property and equipment	4	10,168	5,910
Amortization of intangible assets	4	4,897	1,955
Revaluation of depreciation and amortization		167	-
Dividend income		(330)	-
Impairment losses	3	28,476	50,442
Interest and commission income and recoveries of previously written off interest		(270,469)	(204,558)
Interest expense	1	39,120	15,229
Interest and commission receipts		263,947	193,399
Interest paid		(39,497)	(13,724)
Operating profit before changes in operating assets		174,382	171,124
(Increase) decrease in operating assets:			
Placements with banks		(114,019)	(248,284)
Loans and advances to customers		(222,129)	(164,374)
Other assets		(480)	(745)
Increase (decrease) in operating liabilities:			
Deposits from banks		(1,195)	(32,182)
Amounts owed to other depositors		(414,135)	955,843
Other liabilities		(682)	(2,189)
Net cash from operating activities before income tax		(578,258)	679,193
Income tax paid		(13,875)	(2,345)
Cash flows from operating activities		(592,133)	676,848
Investing activities			
Acquisition of property and equipment		(15,032)	(36,904)
Acquisition of intangible assets		(12,269)	(11,380)
Acquisition of investments	12	-	(1,000)
Cash flows from investing activities		(27,301)	(49,284)



For the year ended 31 December 2002

In thousands of denars

	Note	2002	2001
Financing activities			
Compensation benefits to employees	20	(3,200)	-
Net increase in borrowings	16	30,536	-
Cash flows from financing activities		27,336	-
Net (decrease)/ increase in cash and cash equivalents		(592,098)	627,564
Cash and cash equivalents at 1 January		1,092,820	465,256
Cash and cash equivalents at 31 December	6	500,722	1,092,820

Notes to the financial statements

Significant accounting policies

a) Business background

Alpha Bank AD Skopje ("the Bank") is a joint stock company incorporated in the Republic of Macedonia. The Bank is 100% owned subsidiary of Alpha Bank AE Athens. The Bank is licensed to perform all banking activities and the main activities include commercial lending, receiving of deposits, foreign exchange deals, payment operation services in the country and abroad and retail banking services. In addition, it provides trade finance facilities to companies for export and import purposes.

b) Statement of compliance

The financial statements have been prepared in accordance with Macedonian regulations.

c) Basis of preparation

The financial statements are presented in Macedonian denars, rounded to the nearest thousand. The financial statements are prepared on the amortized or historical cost basis except for revaluation of intangible assets and property and equipment. They are drawn up from financial statements prepared in conformity with Macedonian regulations but, where needed, adjustments and reclassifications were made in order to be in conformity with International Accounting Standard (IAS) 1 - "Presentation of the financial statements" and IAS 30 - "Disclosures in the financial statements of banks and similar financial institutions".

The accounting policies are consistent with those used in the previous year.

d) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to denars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are

recognized in the income statement. Non-monetary assets and liabilities denominated in foreign currency, which are stated at historical cost, are translated to denars at the foreign exchange rate ruling at the date of the transaction.

The foreign currencies the Bank deals with are predominantly Euro (EUR), United States Dollars (USD), Swiss Franck based. The exchange rates used for translation at 31 December 2002 and 2001 were as follows:

	2002	2001
	MKD	MKD
1 EUR	61.07	60.96
1 USD	58.60	69.17
1 CHF	41.98	41.11

e) Financial instruments

(I) Classification

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers. Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include equity investments.

(II) Recognition

Originated loans and receivables are recognized on the day they are transferred by the Bank.

The Bank recognizes available-for-sale assets on the day they are transferred by/to the Bank.

(III) Measurement

Financial instruments are measured initially at cost.

Subsequent to initial recognition all available-for-sale assets are measured at cost, less impairment losses.

All non-trading financial liabilities, originated



loans and receivables are measured at amortized cost less impairment losses.

(IV) Specific instruments

Cash and cash equivalents

Cash and cash equivalents comprise cash balance on hand, demand deposits with banks, cash deposited with the National Bank of the Republic of Macedonia ("NBRM") and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills.

Investments

Investments are classified as available-for-sale assets.

Loans and advances to banks and customers

Loans and advances originated by the Bank are classified as originated loans and receivables. Loans and advances are reported net of allowances to reflect the estimated recoverable amounts (refer accounting policy I).

f) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to set off recognized amounts and the transactions are intended to be settled on a net basis.

g) Intangible assets

(I) Owned assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortization.

Items of intangible assets are restated at the year end by applying official indices to cost and to accumulated amortization. The restatement is allocated to revaluation reserve (refer note 12 and 20).

(II) Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it

increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

(III) Amortization

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Assets are not amortized until they are brought into use.

The allowable tax amortization rates are used for amortization of intangible assets as follows:

	%
Software	20
Leasehold improvements	20

h) Property and equipment

(I) Owned assets

Items of property and equipment are stated at cost or valuation less accumulated depreciation.

Items of property, plant and equipment are restated at the year end by applying official indices to cost and to accumulated depreciation. The restatement is allocated to revaluation reserve (refer note 13 and 20).

(II) Subsequent expenditure

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 expenditure is recognized in the income statement as an expense as incurred.

(III) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment. Assets are not depreciated until they are brought into use. The allowable tax depreciation rates are used for depreciation of

the property and equipment as follows:

	%
Buildings	1
Furniture and equipment	11 to 20

h) Impairment

The carrying amounts of the bank's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances

Originated loans and advances are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

Loans continuously, in a six months period, classified in the loss category are written off and charged against the allowances for uncollectibility. The amount of loans previously written off that have been recovered are credited to the income statement. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

j) Share capital

(I) Dividends

Dividends are recognized as a liability in the period in which they are declared.

k) Income recognition

(I) Interest income and expense

Interest income and expense is recognized in the income statement as it accrues.

(II) Fee and commission income

Fee and commission income arises on financial services provided by the Bank including foreign currency settlements,

guarantees, letters of credit, credit facilities, remittances and other services.

Fee and commission income is recognized when the corresponding service is provided.

(III) Dividend income

Dividend income is recognized in the income statement on the date that the dividend is declared.

l) Income tax

Income tax on the profit or loss for the year comprises current tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.



1. Net interest income

Interest income by product

In thousands of denars

	2002	2001
Loans and advances to customers	95,620	75,320
Cash and cash equivalents	56,914	20,363
Placements with banks	20,822	30,097
	173,356	125,780

Interest expense by product

In thousands of denars

	2002	2001
Deposits from non-financial institutions	32,658	14,916
Deposits from banks	6,462	313
	39,120	15,229
Net interest income	134,236	110,551

2. Net fee and commission income

Fee and commission income

In thousands of denars

	2002	2001
Letters of credit and guarantees	16,427	15,859
Payment transactions	63,485	48,564
Trust activities	2,719	700
Lending activities	6,891	1,374
Other	7,161	11,951
	96,683	78,448

Fee and commission expense

In thousands of denars

	2002	2001
Payment transactions	6,733	9,247
Net fee and commission income	89,950	69,201

3. Impairment losses

<i>In thousands of denars</i>	<i>Note</i>	<i>2002</i>	<i>2001</i>
Write - downs			
Interest receivable		2,899	3,683
Loans and advances to customers	11	24,750	53,985
Commitments and contingencies	18	827	-
		28,476	57,668
Reversals of write - downs			
Commitments and contingencies	18	-	(7,226)
		-	(7,226)
Net impairment losses before recoveries		28,476	50,442
Recoveries			
Recoveries on previously written -off			
Interest		(430)	(330)
Loans and advances		(866)	(1,019)
		(1,296)	(1,349)
Net impairment losses		27,180	49,093

4. Other operating expenses

<i>In thousands of denars</i>	<i>2002</i>	<i>2001</i>
Personnel expenses		
Wages and salaries	29,043	22,417
Compulsory social security contributions	12,007	9,028
Administration and marketing costs	24,018	17,685
Tax on financial transactions	20,417	14,851
Depreciation of property and equipment	10,168	5,910
Amortization of intangible assets	4,897	1,955
Insurance premiums	3,259	1,251
Revaluation of depreciation and amortization	167	-
Other staff costs	3,824	2,959
Other	25	118
	107,825	76,174

Tax on financial transactions is applicable from 1 July 2001. The base for calculation of the tax on financial transactions is the amount, i.e. the value designated in the payment order, the contract or the other respective document on the basis of which the financial transaction is

performed. The tax rate is 0.5% except for financial transactions made on the basis of cash payments where the rate applicable is 1%.

The average number of employees in 2002 was 74 (2001: 53).



5. Income tax expense

Reconciliation of effective tax rate
In thousands of denars

	2002	2002	2001	2001
Profit before tax		137,903		122,471
Profit tax	15.00%	20,685	15.00%	18,371
Non-deductible expenses	0.09%	118	0.07%	89
Tax exempt revenue	(0.04%)	(50)	-	-
Tax incentives not recognized in the income statements	(7.44%)	(10,256)	(7.45%)	(9,122)
	7.61%	10,497	7.62%	9,338

6. Cash and cash equivalents

In thousands of denars

	2002	2001
Cash on hand	69,711	509,320
Balances with NBRM	95,946	77,271
Treasury bills	266,704	412,885
Current accounts with local banks	1,714	8,318
Current accounts with foreign banks	40,734	63,687
Restricted accounts	25,074	19,699
Other short term highly liquid investments	839	1,640
	500,722	1,092,820

In 2001 the increase in cash on hand resulted from conversion of other European foreign currencies into euro (refer note 15).

At 31 December 2002 cash and cash equivalents included MKD 29,062 thousand (2001: MKD 35,948 thousand) as obligatory reserve requirement. These funds are not available for the Bank's daily business. Interest of 6% per annum is accrued on the obligatory reserve (2001: 89% of the prime rate of NBRM, which at 31 December 2001 was 10.7% per annum). Current income is shown in interest income.

Treasury bills issued by NBRM are with maturity of 28 to 30 days and with interest rates ranging from 15.43% to 15.79% (2001: from 14 days to 28 days with interest from 11% to 15%) per annum. Current income is shown in interest income.

Restricted accounts represent deposits for opened letters of credit with maturity of 90 days or less, on behalf of the Bank's customers.

MKD 6,182 thousand of current accounts with foreign banks are held with Alpha Bank AE Athens (2001: MKD 19,241 thousand).

7. Placements with banks

Analysis by currency

<i>In thousands of denars</i>	2002	2001
Placements with banks in foreign currency	972,062	858,043

MKD 72,172 thousand of placements with foreign banks are held with Alpha Bank AE Athens (2001: MKD 471,464 thousand).

Analysis by interest rates

<i>In thousands of denars</i>	2002	2001
Placements with foreign banks		
EUR deposits with fixed interest rates ranging from 2.65% - 3.15% (2001: 3.35% - 3.75%) per annum	851,936	588,274
USD deposits with fixed interest rate 1.30% (2001: 1.80%-1.85%) per annum	120,126	269,769
	972,062	858,043

The interest rates shown represent rates at the end of the reporting period.

Geographical analysis

<i>In thousands of denars</i>	2002	2001
Greece	72,172	593,386
Germany	435,752	142,735
France	232,069	121,922
Austria	232,069	-
	972,062	858,043

8. Loans and advances to customers

Analysis by product	Total	Short	Long	Total	Short	Long
		Term	Term		Term	Term
<i>In thousands of denars</i>	2002	2002	2002	2001	2001	2001
Corporate customers	474,818	468,206	6,612	386,396	384,857	1,539
Retail customers	149,777	99,766	50,011	92,394	84,520	7,874
	624,595	567,972	56,623	478,790	469,377	9,413
Less allowance for uncollectibility	(38,022)	(34,575)	(3,447)	(79,591)	(78,026)	(1,565)
Net loans and advances to customers	586,573	533,397	53,176	399,199	391,351	7,848

Included in the total amount of loans and advances before allowance for uncollectibility, is an amount of MKD 5,813 thousand (2001: MKD 66,124 thousand) on which interest has ceased to be accrued. Part of short term loans of MKD 10,005 thousand in 2002 was collected through acquiring business premises

(refer note 13) and consequently they are not presented in the statement of cash flows. Part of short term corporate loans in amount of MKD 395,368 thousand is with variable interest rates ranging from 12% to 19% and the rest of MKD 72,838 thousand is with variable interest rates ranging from 10% to 19% (2001: MKD



381,692 thousand are with variable interest rate ranging from 13% to 22% and the rest of MKD 3,165 thousand is with variable interest rates ranging from 12% to 16%) per annum. Long term corporate loans are with variable interest rates ranging from 10% to 19% (2001: 12% to 16%) per annum. Part of short term retail loans in amount of MKD 72,881 thousand is with variable interest rate of 13% and the rest of MKD 26,885

thousand is with variable interest rate of 19% (2001: MKD 68,492 thousand are with variable interest rate of 15% and the rest of MKD 16,028 thousand is with variable interest rate of 23%) per annum. Long term retail loans are with variable interest rate of 19% (2001: from 15% to 23%) per annum. The above interest rates represent rates at the end of the reporting period.

Concentration of credit risk by industry

The commercial lending is concentrated on companies located in the Republic of Macedonia.

<i>In thousands of denars</i>	2002	2001
Manufacturing	409,946	327,038
Commerce	58,275	55,320
Citizens	149,777	92,394
Other	6,597	4,038
	624,595	478,790
Less allowance for uncollectibility	(38,022)	(79,591)
Net loans and advances to other customers	586,573	399,199

9. Interest receivable and other assets

<i>In thousands of denars</i>	2002	2001
Interest receivable	10,540	15,656
Accrued interest	1,124	1,957
Fee and commission receivable	782	821
Other assets	3,791	3,280
	16,237	21,714

Part of interest receivable of MKD 9,580 thousand in 2002 was collected through acquiring business premises (refer note 13)

and consequently they are not presented in the statement of cash flow.

10. Investments

Investments available-for-sale

<i>In thousands of denars</i>	2002	2001
Equity investments	1,330	1,000

Income from equity investments is recognised in dividend income.

11. Allowance for uncollectibility

<i>In thousands of denars</i>	<i>Note</i>	<i>2002</i>	<i>2001</i>
Balance on 1 January		79,591	175,362
Impairment losses recognised:			
Additional allowances	3	24,750	53,985
Write off		(66,319)	(149,756)
Balance on 31 December		38,022	79,591

The allowance is apportioned as follows:

<i>In thousands of denars</i>	<i>Note</i>	<i>2002</i>	<i>2001</i>
As a reduction of loans and advances to customers	8	38,022	79,591
		38,022	79,591

12. Intangible assets

<i>In thousands of denars</i>	Software	Leasehold improvements	Assets under construction	Total
Cost or valuation				
At 1 January 2002	13,879	6,966	-	20,845
Additions	374	-	11,895	12,269
Transfer	443	11,452	(11,895)	-
Revaluation	155	162	-	317
At 31 December 2002	14,851	18,580	-	33,431
Depreciation				
At 1 January 2002	7,313	813	-	8,126
Charge for the year	1,903	2,994	-	4,897
Revaluation	101	39	-	140
At 31 December 2002	9,317	3,846	-	13,163
Carrying amount				
At 1 January 2002	6,566	6,153	-	12,719
At 31 December 2002	5,534	14,734	-	20,268



13. Property and equipment

<i>In thousands of denars</i>	Buildings	Furniture & equipment	Assets under construction	Total
Cost or valuation				
At 1 January 2002	88,066	69,517	4,211	161,794
Additions	-	-	34,617	34,617
Transfer	20,756	17,590	(38,346)	-
Revaluation	1,028	851	-	1,879
At 31 December 2002	109,850	87,958	482	198,290
Depreciation				
At 1 January 2002	3,287	35,332	-	38,619
Charge for the year	983	9,185	-	10,168
Revaluation	46	482	-	528
At 31 December 2002	4,316	44,999	-	49,315
Carrying amount				
At 1 January 2002	84,779	34,185	4,211	123,175
At 31 December 2002	105,534	42,959	482	148,975

All buildings are occupied by the Bank for its own activities.

Part of the buildings of MKD 19,585 thousand in 2002 were acquired by closing it receivables from both short term loans of MKD 10,005 thousand (refer note 8) and the interest receivable of MKD 9,580 thousand (refer note 9) and consequently they are not presented in the statement of cash flows.

As at 31 December 2002 the Bank does not have any property pledged as collateral (2001: none).

14. Deposits from banks

<i>In thousands of denars</i>	2002	2001
Demand deposits		
Domestic banks	10,310	11,505

Demand deposits from domestic banks are non-interest bearing.
Interest is recognized in interest expense.

15. Amounts owed to other depositors

<i>In thousands of denars</i>	Short Term 2002	Long Term 2002	Short Term 2001	Long Term 2001
<i>Demand deposits</i>				
Domestic citizens	165,036	-	114,907	-
Foreign citizens	25,530	-	42,568	-
Domestic companies	567,068	-	349,712	-
Foreign companies	93,761	-	121,751	-
	851,395	-	628,938	-
<i>Time deposits</i>				
Domestic citizens	134,347	-	455,387	-
Domestic companies	21,827	-	275,651	-
Foreign companies	23,936	-	31,367	-
	180,110	-	762,405	-
<i>Restricted deposits</i>				
Domestic citizens	1,063	-	299	-
Foreign citizens	1,042	-	58,933	-
Domestic companies	53,168	-	73,994	-
Foreign companies	23,965	-	309	-
	79,238	-	133,535	-
Total	1,110,743	-	1,524,878	-

In 2001 the increase in demand and time deposits from domestic citizens in foreign currency resulted from conversion of other European foreign currencies into euro (refer note 6).

Part of demand deposits from citizens in amount of MKD 36,169 thousand is non-interest bearing and the rest of MKD 154,397 thousand is with variable interest rates ranging from 0.5% to 2% (2001: MKD 21,657 thousand are non-interest bearing and the rest of MKD 135,818 thousand is with variable interest rates ranging from 0.5% to 3%) per annum.

Part of demand deposits from companies in amount of MKD 417,912 thousand are non-interest bearing and the rest of MKD 242,917 thousand are with variable interest rate of 2.5% (2001: MKD 316,285 thousands are non-

interest bearing and the rest of MKD 155,178 thousand is with variable interest rate of 3% per annum.

Time deposits from citizens are with interest rates ranging from 1% to 11% (2001: 1% to 12%) per annum. The Bank accrues an interest on time deposits from companies ranging from 1% to 9.5% (2001: 1% to 13.5%) per annum. Restricted deposits represent deposits made by companies for payments to be made abroad by the Bank on their behalf, for facilitating opening of letters of credit, for purchase of foreign currencies and as collateral for loans and guarantees extended by the Bank to certain customers. Part of restricted deposits in amount of MKD 54,210 thousand are non-interest bearing and the rest of MKD 25,028 are with variable interest rates



ranging from 0.5% to 2% (2001: MKD 120,634 thousand are non-interest bearing and the rest of MKD 14,901 thousand is with variable interest rates ranging from 0.5% to 3%) per annum.

The above interest rates represent rates at the end of the reporting period.

Interest is recognized in interest expense.

16. Other borrowed funds

Analysis by sources

<i>In thousands of denars</i>	Short Term 2002	Long Term 2002	Short Term 2001	Long Term 2001
Foreign borrowings				
Alpha Bank AE Athens	30,536	-	-	-

Borrowings from Alpha Bank AE Athens are with variable interest rate of EURIBOR plus 1.75% per annum.

17. Accruals

<i>In thousands of denars</i>	2002	2001
Accrued interest due and payable	1,504	977
Accrued interest	232	1,136
	1,736	2,113

18. Provisions

<i>In thousands of denars</i>	Note	2002	2001
Balance at 1 January		2,050	9,276
Provisions made during the year	3	827	-
Provisions released during the year	3	-	(7,226)
Balance at 31 December		2,877	2,050

19. Other liabilities

<i>In thousands of denars</i>	2002	2001
Suppliers payable	1,331	1,448
Other taxes and contributions	452	901
Other	4,387	4,503
	6,170	6,852

Part of other liabilities in amount of MKD 4,248 thousand (2001: MKD 4,248 thousand) represents liability to a company with which the

Bank has been in court litigation since 1995. This liability was settled during February 2003.

20. Capital and reserves

Reconciliation of movements in capital and reserves

<i>In thousands of denars</i>	Share Capital	Share premium	Revaluation reserve	Statutory reserve	Retained earnings	Total
Balance at 1 January 2001	185,760	337,169	41,886	220,787	64,140	849,742
Net profit for the year	-	-	-	-	113,133	113,133
Profit distributed to employees	-	-	-	-	(3,000)	(3,000)
Balance at 31 December 2001	185,760	337,169	41,886	220,787	174,273	959,875
Balance at 1 January 2002	185,760	337,169	41,886	220,787	174,273	959,875
Net profit for the year	-	-	-	-	127,406	127,406
Profit distributed to employees	-	-	-	-	(3,200)	(3,200)
Effect of revaluation of:						
property and equipment	-	-	1,351	-	-	1,351
intangible assets	-	-	177	-	-	177
Effect of revaluation of depreciation for the year	-	-	167	-	-	167
Balance at 31 December 2002	185,760	337,169	43,581	220,787	298,479	1,085,776

The capital registered in the court is MKD 785,602 thousand (2001: MKD 785,602 thousand) and consists of share capital determined by the nominal value of the shares of MKD 185,760 thousand (2001: MKD 185,760 thousand), a share premium of MKD 337,169 thousand (2001: MKD 337,169

thousand), statutory reserve of MKD 220,787 thousand (2001: MKD 220,787 thousand) and revaluation reserve of MKD 41,886 thousand (2001: MKD 41,886 thousand) distributed to share capital in accordance with the Macedonian regulations.

Share capital and share premium

In number of shares	Ordinary shares	
	2002	2001
On issue at 1 January	1,548	1,548
On issue at 31 December - fully paid	1,548	1,548

All shares have a par value of MKD 120,000. 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 a meeting of the shareholders of Bank. All shares

rank equally with regard to the Bank's residual assets.

The Bank is 100% owned by Alpha Bank AE Athens.



Revaluation reserve

The revaluation reserve relates to intangible assets and property, and equipment and comprises the cumulative increased carrying value based on the increase of the producers' price index on the date of the revaluation.

Statutory reserve

Under local statutory legislation, 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 capital. Until reaching the minimum required level statutory reserve could be used only for loss recovery. When the minimum level is reached statutory reserve can also be used for distribution of dividends, based on a decision of the shareholders' meeting, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed by the Trading Companies Law or by the Bank's Statute.

Dividends

After the balance sheet date there were no dividends proposed by the directors.

21. Trust activities

The Bank manages assets on behalf of third parties that are mainly in the form of loans to various clients. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognized in the balance sheet. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments. At 31 December 2002 the total assets held by the Bank on behalf of customers were MKD 369,903 thousand (2001: MKD 105,606 thousands).

22. Commitments and contingencies

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to three years. Expirations are not concentrated in any period. The contractual amounts of commitments and contingent liabilities are set out in the following table by category.

<i>In thousands of denars</i>	<i>Note</i>	<i>2002</i>	<i>2001</i>
Guarantees			
in MKD		49,429	72,116
in foreign currency		126,077	84,161
Letters of credit			
in foreign currency		81,966	73,923
Provisions	18	(2,877)	(2,050)
		254,595	228,150

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

23. Risk management disclosures

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank is exposed are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and equity price risk.

(I) Credit risk

The Bank is subject to credit risk through its lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The risk that counter parties might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counter parties of good credit standing, and requires collateral.

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. In addition, the Bank is exposed to off balance sheet credit risk through guarantees issued (refer note 22). Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counter parties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by

location and type of customer in relation to the Bank's loans and advances and guarantees issued.

Concentration of credit risk is presented as net value of the Bank's financial assets.

In 2002 the Bank's assets of MKD 695,924 thousand are significantly concentrated in Bank Austria, BNP Paris and LHB International (2001: MKD 490,705 thousand in the Bank's shareholder Alpha Bank AE Athens).

The above concentration of assets and other exposures represent net exposure and is 30.95% of the total assets of the Bank (2001: 19.56%).

The Bank's policy is to require suitable collateral to be provided by the customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided.

Collateral for loans, guarantees, and letters of credit is usually in the form of cash, bank's and first class companies' guarantees, inventory, or other property.

The table below shows a breakdown of total credit extended by the Bank by type of collateral:

<i>In thousands of denars</i>	Note	2002	2001
Secured by mortgages		346,907	240,545
Secured by financial institutions guaranties		95,595	75,760
Secured by lien		65,757	57,386
Secured by corporate guaranties		35,095	1,327
Cash covered		9,457	8,403
Other collateral		71,784	95,369
	8	624,595	478,790

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised using a range of instruments including deposits and share

capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

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



(II) Liquidity risk
Maturities of the financial assets and liabilities

The following table provides an analysis of the

financial assets and liabilities of the Bank into relevant maturity groupings based on the original period to the repayment date.

For the year ended 31 December 2002

<i>In thousands of denars</i>	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	500,722	-	-	-	-	500,722
Placements with banks	972,062	-	-	-	-	972,062
Loans and advances to customers	92,094	88,623	352,680	53,176	-	586,573
Interest receivable and other assets	15,063	332	842	-	-	16,237
Income tax receivable	1,981	-	-	-	-	1,981
Investments	-	-	-	-	1,330	1,330
Total assets	1,581,922	88,955	353,522	53,176	1,330	2,078,905
Liabilities						
Deposits from banks	10,310	-	-	-	-	10,310
Amounts owed to other depositors	966,657	121,388	22,698	-	-	1,110,743
Other borrowed funds	30,536	-	-	-	-	30,536
Accruals	1,736	-	-	-	-	1,736
Other liabilities	6,170	-	-	-	-	6,170
Total liabilities	1,015,409	121,388	22,698	-	-	1,159,495
Net liquidity gap	566,513	(32,433)	330,824	53,176	1,330	919,410

For the year ended 31 December 2001

Assets						
Cash and cash equivalents	1,092,820	-	-	-	-	1,092,820
Placements with banks	858,043	-	-	-	-	858,043
Loans and advances to customers	24,209	27,681	339,461	7,848	-	399,199
Interest receivable and other assets	21,714	-	-	-	-	21,714
Investments	-	-	-	-	1,000	1,000
Total assets	1,996,786	27,681	339,461	7,848	1,000	2,372,776
Liabilities						
Deposits from banks	11,505	-	-	-	-	11,505
Amounts owed to other depositors	1,454,907	64,480	5,491	-	-	1,524,878
Income tax payable	1,397	-	-	-	-	1,397
Accruals	1,997	86	30	-	-	2,113
Other liabilities	6,852	-	-	-	-	6,852
Total liabilities	1,476,658	64,566	5,521	-	-	1,546,745
Net liquidity gap	520,128	(36,885)	333,940	7,848	1,000	826,031

(III) Market risk

Interest rate risk

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

Risk management activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

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

At the end of December 2001 savings in foreign currency with a floating interest rate increased significantly due to the euro conversion. In addition, by the end of 2001 the Bank introduced new savings product with fixed interest rate in order to attract more deposits for euro conversion. It resulted with a significant increase in cash on hand in foreign currency.



**Interest rate gap analysis
For the year ended 31 December 2002 and 31 December 2001**

Fixed rate instruments 2002

<i>In thousands of denars</i>	Note	Total	Floating rate instruments	Up to 1 month	1 month to 3 months	3 months to 1 year	Non interest earning (bearing)
Assets							
Cash and cash equivalents	6	500,722	64,769	266,704	-	-	169,249
Placements with banks	7	972,062	-	972,062	-	-	-
Loans and advances to customers	8	586,573	557,068	1,187	2,374	25,944	-
Investments	10	1,330	-	-	-	-	1,330
Liabilities							
Deposits from banks	14	(10,310)	-	-	-	-	(10,310)
Amounts owed to other depositors	15	(1,110,743)	(422,342)	(48,510)	(119,858)	(11,742)	(508,291)
Other borrowed funds	16	(30,536)	(30,536)	-	-	-	-
Asset liability gap		909,098	168,959	1,191,443	(117,484)	14,202	(348,022)

Fixed rate instruments 2001

<i>In thousands of denars</i>	Note	Total	Floating rate instruments	Up to 1 month	1 month to 3 months	3 months to 1 year	Non interest earning (bearing)
Assets							
Cash and cash equivalents	6	1,092,820	99,635	412,885	-	-	580,300
Placements with banks	7	858,043	-	858,043	-	-	-
Loans and advances to customers	8	399,199	399,199	-	-	-	-
Investments	10	1,000	-	-	-	-	1,000
Liabilities							
Deposits from banks	14	(11,505)	-	-	-	-	(11,505)
Amounts owed to other depositors	15	(1,524,878)	(584,861)	(417,275)	(63,866)	(300)	(458,576)
Other borrowed funds	16	-	-	-	-	-	-
Asset liability gap		814,679	(86,027)	853,653	(63,866)	(300)	111,219

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short term imbalances. Denar is pegged to the

Euro and there is monetary projection that envisages stability of the exchange rate of the Denar against Euro. Since the appreciation of the Denar against Euro is unlikely, any depreciation will have positive effect for the Bank

The Bank's currency exposures were as follows:

	2002					
	MKD	EUR	USD	CHF	Other	Total
Monetary assets						
Cash and cash equivalents	378,063	89,123	22,039	8,459	3,038	500,722
Placements with banks	-	851,936	120,126	-	-	972,062
Loans and advances to customers	557,038	29,535	-	-	-	586,573
Income tax receivable	1,981	-	-	-	-	1,981
Interest receivable and other assets	16,101	136	-	-	-	16,237
Investments	1,330	-	-	-	-	1,330
	954,513	970,730	142,165	8,459	3,038	2,078,905
Monetary liabilities						
Deposits from banks	16	5,855	4,373	-	66	10,310
Amounts owed to other depositors	303,984	666,684	125,141	13,662	1,272	1,110,743
Other borrowed funds	-	30,536	-	-	-	30,536
Accruals	1,620	116	-	-	-	1,736
Income tax payable	-	-	-	-	-	-
Other liabilities	6,170	-	-	-	-	6,170
	311,790	703,191	129,514	13,662	1,338	1,159,495
Net position	642,723	267,539	12,651	(5,203)	1,700	919,410
	2001					
	MKD	EUR	USD	CHF	Other	Total
Monetary assets						
Cash and cash equivalents	539,209	498,380	31,936	8,037	15,258	1,092,820
Placements with banks	-	588,274	269,769	-	-	858,043
Loans and advances to customers	395,050	4,149	-	-	-	399,199
Income tax receivable	-	-	-	-	-	-
Interest receivable and other assets	21,423	242	49	-	-	21,714
Investments	1,000	-	-	-	-	1,000
	956,682	1,091,045	301,754	8,037	15,258	2,372,776
Monetary liabilities						
Deposits from banks	-	10,363	1,086	33	23	11,505
Amounts owed to other depositors	445,022	806,660	260,099	10,717	2,380	1,524,878
Other borrowed funds	-	-	-	-	-	-
Accruals	2,113	-	-	-	-	2,113
Income tax payable	1,397	-	-	-	-	1,397
Other liabilities	6,852	-	-	-	-	6,852
	455,384	817,023	261,185	10,750	2,403	1,546,745
Net position	501,298	274,022	40,569	(2,713)	12,855	826,031

On 31 December 2001 the Bank exceeded the prescribed limits for open foreign exchange

position for EUR from 20% to 30.92%.



24. Related party transactions

According to the Banking Law, related parties to the Bank are defined as: individuals with special rights and responsibilities; shareholders who possess directly or indirectly more than 5% of the voting right shares; parties related to the previously stated parties, as well as a party that makes significant interest in other party, in which the Bank also has significant interest.

The Bank makes loans, extends guarantees attracts and takes deposits and loans from enterprises and banks to which it is related. The directors consider that these transactions are on a normal commercial basis, at arm's length, and in the normal course of business. At the year end the transactions with related parties were as follows:

- credit exposure to the enterprises of MKD 9,886 thousand (2001: 19,367 thousand);
- deposits with banks related to the Bank of MKD 78,354 thousand (2001: MKD 490,705 thousand);
- deposits from enterprises to which the Bank is related of MKD 25,128 thousand (2001: MKD 5,377 thousand).

25. Subsequent events

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements.

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