

# ALPHA BANK SKOPJE



ANNUAL REPORT  
2003

ALPHA BANK AD SKOPJE

ANNUAL REPORT 2003





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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.

### 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.

### 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 in 3, Dame Gruev str. The new premises currently accommodate the Financial Division, Credit Division, Communication Division, the Sub-Division for Legal Matters and the Internal Audit.



## Bank's Network

### **HEAD OFFICE IN SKOPJE**

Dame Gruev 1, MK-1000 Skopje  
P. O. Box. 564  
Tel.: + 389 2 3116 433  
Fax: + 389 2 3135 206, 3116 830  
Telex: 51758  
SWIFT: KRSKMK2X  
e-mail: [contact@alphabank.com.mk](mailto:contact@alphabank.com.mk)

### **AVTOKOMANDA BRANCH - SKOPJE**

Trifun Hadzijanev, kula 3  
MK-1000 Skopje  
Tel.: + 389 2 3175 548  
Fax: + 389 2 3175 537

### **VLAJE BRANCH - SKOPJE**

Partizanski odredi No.155 K1-01  
MK-1000 Skopje  
Tel.: + 389 2 2050 083  
Fax: + 389 2 2050 084

### **TETOVO BRANCH**

Marsal Tito 120, MK-1200 Tetovo  
Tel.: + 389 44 334 250  
Fax: + 389 44 338 939

### **STRUMICA BRANCH**

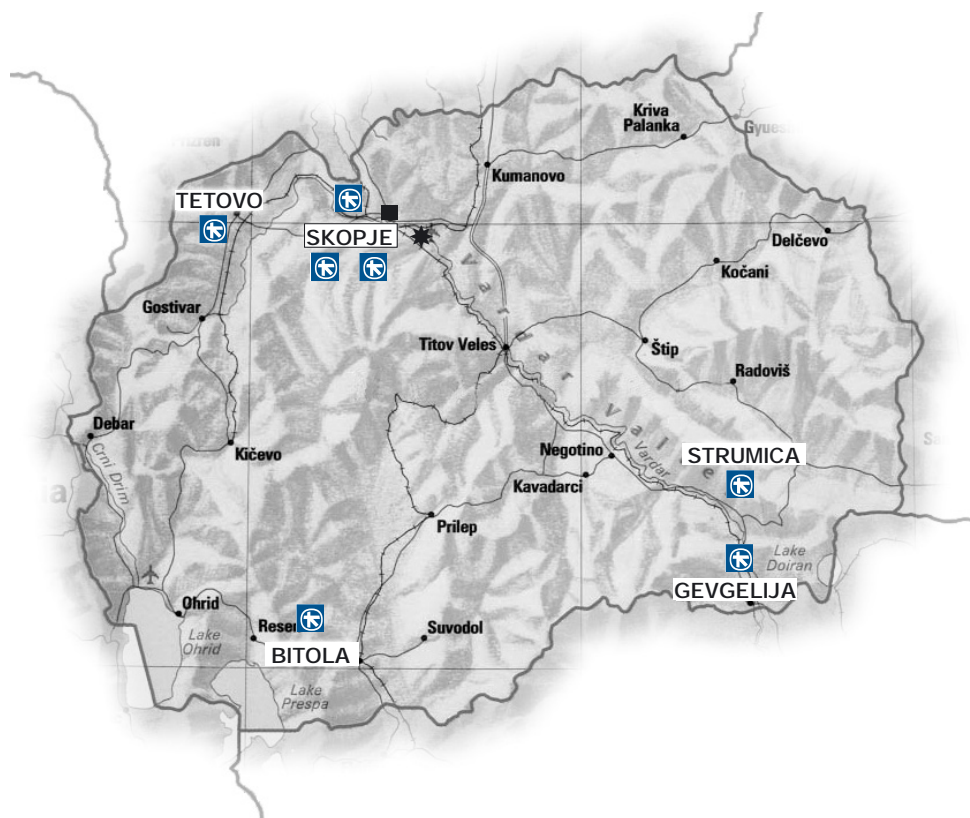
Leninova 100, MK-2400 Strumica  
Tel.: + 389 34 330 250  
Fax: + 389 34 344 940

### **BITOLA BRANCH**

Ignatia Atanasovski bb, MK-7000 Bitola  
Tel.: + 389 47 258 228  
Fax: + 389 47 258 338

### **GEVGELIJA BRANCH**

Marsal Tito 110, MK-1480 Gevgelija  
Tel.: + 389 34 217 801  
Fax: + 389 34 217 882



## List of Main Correspondents

Austria		
Bank Austria, Vienna	EUR	BKAU AT WW
Australia		
Commonwealth Bank of Australia, Sydney	AUD	CTBA AU 2S
Belgium		
ING Belgium SA/NV, 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

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### 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 D. 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 D. Cerepnalkovska

#### *Second General Manager*

Zacharias G. Charpidis

#### *Managers*

Financial Division  
Zeljko V. Rakic

International Division  
Aleksandar T. Kirovski

Banking Business Division  
Branko K. Penov

Treasury Division  
Milena P. Percinkova

Communication Division  
Lidija G. Daceva

Credit Division  
Dimitrios C. Beis

Sub-Division for Legal Matters  
Vanco Z. Andonovski



## Financial Statement





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### INDEPENDENT AUDITORS' REPORT


#### *To the Shareholders of ALPHA BANK AD, SKOPJE*

We have audited the financial statements of ALPHA BANK AD – SKOPJE on pages 2 to 27, which comprise the balance sheet as of 31 December 2003 and the statement of income, cash flows statement, and the statement of changes in equity for the year then ended, and the related notes. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

This report is made solely to the Bank's members, as a body, in accordance with Article 556 of the Companies Law and Article 70 of the Banking Law. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.


We conducted our audit in accordance with International Standards on Auditing. 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 also 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 Board of 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 Bank's financial statements give a true and fair view of the financial position of ALPHA BANK AD – SKOPJE as of 31 December 2003 and of its financial performance and its cash flows for the year then ended in accordance with Accounting Principles applicable in the Republic of Macedonia.

  
Verica Hadzi Vasileva - Markovska  
Director

Skopje, 2 March 2004



  
Dragica Alacova  
Certified Auditor

## Income Statement

For the year ended 31 December 2003

*In thousands of denars*

	<i>Note</i>	<i>2003</i>	<i>2002</i>
Interest income	3	147,898	173,356
Interest expense	3	(20,869)	(39,120)
<b><i>Net interest income</i></b>		127,029	134,236
Provision for loan losses and other provisions, net of recoveries	4	(20,673)	(28,476)
<b><i>Net interest income after provisions</i></b>		106,356	105,760
Fee and commission income		83,170	96,683
Foreign exchange gains, net	5	27,658	43,098
Other operating income	6	13,611	6,920
<b><i>Operating income</i></b>		124,439	146,701
Fee and commission expense		(5,575)	(6,733)
Other operating expenses	7	(99,794)	(107,825)
<b><i>Operating expenses</i></b>		(105,369)	(114,558)
<b><i>Profit before taxation</i></b>		125,426	137,903
Income tax	8	(18,421)	(10,497)
<b><i>Net profit</i></b>		107,005	127,406



## Balance Sheet

As at 31 December 2003

In thousands of denars

	Note	2003	2002
<b>Assets</b>			
Cash and due from banks	9	1,763,025	1,472,782
Placements with other banks	10	23,000	-
Loans to customers	11	995,221	586,686
Interest and other receivables	12	13,936	16,126
Income tax receivable		383	1,981
Investment securities available-for-sale	13	2,660	1,330
Properties held for sale	14	1,962	-
Property and equipment	15	145,344	163,710
Intangible assets	16	3,852	5,533
<b>Total assets</b>		<b>2,949,383</b>	<b>2,248,148</b>
<b>Liabilities</b>			
Amounts due to banks	17	964	10,310
Deposits	18	1,746,816	1,107,318
Loans payable		-	30,536
Interest payable and other liabilities	19	10,153	11,331
Provision for commitments and contingencies	25	2,176	2,877
<b>Total liabilities</b>		<b>1,760,109</b>	<b>1,162,372</b>
<b>Shareholders' equity</b>			
Share capital	20	185,760	185,760
Share premium		337,169	337,169
Statutory reserves	21	220,787	220,787
Revaluation reserves	22	43,674	43,581
Retained earnings		401,884	298,479
<b>Total shareholders' equity</b>		<b>1,189,274</b>	<b>1,085,776</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,949,383</b>	<b>2,248,148</b>
<b>Commitments and contingencies</b>	25	<b>217,987</b>	<b>257,472</b>

Signed on behalf of the Board of Directors on 27 February 2004

First General Manager

Second General Manager

Ms. Pavlina Cerepnalkovska

Mr. Zacharias G. Charpidis

## Statement of cash flows

For the year ended 31 December 2003

*In thousands of denars*

	2003	2002
<b><i>Cash flows from operating activities</i></b>		
Net profit before income taxes	125,426	137,903
Adjustments for:		
Depreciation	19,686	13,162
Amortization	2,428	1,903
Revaluation of depreciation	91	167
Provision for loan losses and other provisions, net of recoveries	20,673	28,476
Scrip dividend received	(1,330)	(330)
Interest and commission income	(231,068)	(270,039)
Interest expense	20,869	39,120
<b><i>Operating loss before changes in working capital:</i></b>	<b>(43,225)</b>	<b>(49,638)</b>
Decrease /(Increase) in other receivables	1,817	(912)
(Increase) in placements with banks	(23,000)	-
(Increase) in loans to customers	(424,210)	(222,129)
(Decrease) in amounts due to banks	(9,346)	(1,195)
Increase /(Decrease) in deposits	639,498	(414,135)
Loan repayments / receipts	(30,536)	30,536
(Decrease) in other liabilities	(3,278)	(682)
Interest and commissions received	225,742	263,947
Interest paid	(18,769)	(39,497)
Income taxes paid	(16,823)	(13,875)
<b><i>Net cash flows from / (used in) operating activities</i></b>	<b>297,870</b>	<b>(447,580)</b>
<b><i>Cash flows from investing activities</i></b>		
Acquired properties held for sale	(1,962)	-
Purchase of equipment	(1,318)	(26,484)
Purchase of computer software	(747)	(817)
<b><i>Net cash flows (used in) investing activities</i></b>	<b>(4,027)</b>	<b>(27,301)</b>
<b><i>Cash flows from financing activities</i></b>		
Employee bonuses paid	(3,600)	(3,200)
<b><i>Net cash flow (used in) financing activities</i></b>	<b>(3,600)</b>	<b>(3,200)</b>
Net increase / (decrease) in cash and cash equivalents	290,243	(478,081)
Cash and cash equivalents at 1 January	1,472,782	1,950,863
<b><i>Cash and cash equivalents at 31 December</i></b>	<b>1,763,025</b>	<b>1,472,782</b>



## Statement of changes in equity

For the year ended 31 December 2003

*In thousands of denars*

	Share Capital	Share premium	Statutory reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2002	185,760	337,169	220,787	41,886	174,273	959,875
Employee bonuses	-	-	-	-	(3,200)	(3,200)
Revaluation effect of fixed and intangible assets	-	-	-	1,695	-	1,695
Net Profit	-	-	-	-	127,406	127,406
Balance at 31 December 2002	185,760	337,169	220,787	43,581	298,479	1,085,776
Employee bonuses	-	-	-	-	(3,600)	(3,600)
Revaluation effect of fixed and intangible assets	-	-	-	93	-	93
Net Profit	-	-	-	-	107,005	107,005
Balance at 31 December 2003	185,760	337,169	220,787	43,674	401,884	1,189,274

## Notes to the financial statements

### 1. Corporate information

Alpha Bank AD, Skopje was established in 1993 as a joint stock company in the Republic of Macedonia. The Bank is a wholly owned subsidiary of Alpha Bank A.E., Athens, which is the ultimate parent of the Alpha Bank Group of companies. The Bank's head office is located at "Dame Gruev" str. No.1, Skopje, Republic of Macedonia.

Alpha Bank AD, Skopje is registered as a bank with license by the National Bank of the Republic of Macedonia for payment transfers, credit and deposit activities in the country and abroad, and in accordance with Macedonian law, is operating on the principles of liquidity, security of placements and profitability. The financial statements of the Bank for the year ended 31 December 2003 were approved by the Board of Directors on 27 February 2004.

### 2. Summary of significant accounting policies

#### a) Basis of preparation of financial statements

The financial statements of the Bank have been prepared in accordance with Accounting Principles applicable in the Republic of Macedonia, which comprise International Accounting Standards, IAS 1 through 39 effective as of 5 November 1999, with the exception of the revaluation of fixed and intangible assets, as explained in notes 2h and 2i below. The financial statements have been prepared on the historical cost basis, as modified by the revaluation of fixed assets, and related depreciation, in accordance with the regulations of the Republic of Macedonia. The financial statements have been prepared for the years ended 31 December 2003 and 2002. Current and comparative data are expressed in thousands of Macedonian Denars ("MKD"), unless otherwise stated.

#### b) Reclassifications

Certain reclassifications have been made as necessary to prior year balances to conform to current year presentation.

#### c) Revenue recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and these benefits can be measured reliably. Interest income is recognized as it accrues. Service fees, commission income and dividends from equity participations are recorded as income when earned.

#### d) Foreign exchange transactions

Foreign exchange transactions are recorded at the rate ruling at the day of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

#### e) Cash and cash equivalents

Cash and cash equivalents comprise Denar and foreign currency cash at hand, nostro accounts in domestic and foreign banks, Denar and foreign currency cash held at the National Bank, cheques in the course of collection, time deposits with foreign banks and treasury bills with an original maturity of less than three months. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

#### f) Financial instruments

All financial instruments are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the financial instrument.

The financial instruments of the Bank are classified into the following categories:

##### (I) Originated Loans

Loans to customers and other banks originated by the Bank by providing cash loans to borrowers are classified as originated loans and are carried at amortized cost by applying year end interest rate which approximates the effective interest rate, less any amounts written-off and specific and general provisions.

## (II) Investment securities available-for-sale

Investment securities available-for-sale consist of equity investments. After initial recognition, investments, which are classified as available for sale, are measured at fair value, unless fair value cannot be reliably measured.

For investments actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. Investments for which there is no quoted market price or those not traded in an active market and whose fair value cannot be determined reliably, are recognised at cost less impairment. Any gain or loss arising from a change in fair value of investment securities available for sale, or impairment losses, are included in the income statement in the period in which it arises.

### g) Provision for loan losses and other provisions

The allowance for loan and other losses is the amount estimated by management to be adequate to absorb possible future losses on existing loans that may become un-collectable due to current economic conditions, quality and inherent risks in the loan portfolio and other relevant factors, which warrant current recognition. Loans and other placements are classified and accounted for in different categories based on the prospects of collectibility and the types of collateral obtained for such loans. A specific loan loss provision is created to reduce impaired loans to their recoverable amount. Potential losses not specifically identified, but which experience indicates are present in a portfolio of loans and other placements, are recognized as an expense and are deducted from the total carrying amount of loans and other placements as a general provision for losses on loans. A write-off is made when all or part of a loan is deemed un-collectable. Write-offs are charged against previously

established allowances and reduce the principal amount of a loan. Recoveries of loans written-off in an earlier period are included as income from recoveries.

### h) Property and equipment

Property and equipment are recorded at cost upon their acquisition and are revalued annually using official revaluation coefficients based on the general manufactured goods price index in the Republic of Macedonia. Such coefficients are applied to historical cost or later valuation, and to accumulated depreciation. Any revaluation effect is taken to a revaluation reserve, forming part of the Bank's equity.

The carrying values of property and equipment are reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

Depreciation is charged on a straight-line basis at prescribed rates to allocate the cost of property and equipment, after adjustments for revaluations, over their estimated useful lives. No depreciation is provided on construction in progress until the constructed assets are put into use.

The annual depreciation rates applied for the years ended 31 December 2003 and 2002 are the following:



	2003	2002
Buildings	2.5%	1%
Motor vehicles	25%	16%
Computers	25%	20%
Leasehold improvements	20%	20%
Furniture & fixtures	20%	12%-16%
Other equipment	10%-20%	11%-16%

The annual depreciation rates were revised during 2003 to the maximum allowed by fiscal regulations, as modified with effect from 1 January 2003.

#### i) Intangible assets

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. After initial recognition, intangible assets are revalued annually using official revaluation coefficients based on the general manufactured goods price index in the Republic of Macedonia. Such coefficients are applied to historical cost, and to accumulated amortization. Any revaluation effect is taken to a revaluation reserve, forming part of the Bank's equity. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets are entirely comprised of computer software which is amortized using the straight-line method over a useful life of four years.

#### j) Post-retirement benefits, pension plans, and termination indemnities

The Bank contributes to its employees' post retirement plans as prescribed by the domestic social security legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. There is no additional liability regarding these plans. In addition, all employers in the Republic of Macedonia are obligated to pay employees minimum severance pay on retirement equal to three months of

the average monthly salary applicable in the Country at the time of retirement.

The Bank has not provided for the employees' accrued entitlement to severance pay on retirement as this amount would not have a material effect on the financial statements.

#### k) Income tax

Deferred taxation is provided, using the liability method, on all temporary differences, if any. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### l) Offsetting

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



### 3. Net interest income and expense

Interest income and interest expense categorized by the sectors in which the loans have been granted, and the

related sources of deposits or borrowings obtained, is set out below:

<i>In thousands of denars</i>	<i>2003</i>		<i>2002</i>	
	Income	Expense	Income	Expense
Interest on loans and deposits:				
Citizens	21,629	3,742	14,325	4,520
Enterprises	75,261	16,730	81,295	28,138
Banks and financial institutions	51,008	397	77,736	6,462
<b>Total</b>	<b>147,898</b>	<b>20,869</b>	<b>173,356</b>	<b>39,120</b>
<b>Net interest income</b>	<b>127,029</b>		<b>134,236</b>	

### 4. Provision for loan losses and other provisions, net of recoveries

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Loans to customers	15,675	24,750
Interest and other receivables	5,699	2,899
Commitments and contingencies	(701)	827
<b>Total</b>	<b>20,673</b>	<b>28,476</b>

Movements of the provisions for loan losses and other provisions for the year

ended 31 December 2003 is as follows

<i>In thousands of denars</i>	Loans to customers (note 11)	Interest and other receivables (note 12)	Commitments and contingencies (note 25)	Total
Balance at 1 January 2003	37,910	2,904	2,877	43,691
Charge / (recovery) during the year	15,675	5,699	(701)	20,673
Transfer from memorandum accounts	5,800	-	-	5,800
Bad and doubtful interest, net	-	3,518	-	3,518
Balance at 31 December 2003	59,385	12,121	2,176	73,682

### 5. Foreign exchange gains, net

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Foreign exchange gains	677,092	566,851
Foreign exchange losses	(649,434)	(523,753)
<b>Foreign exchange gains, net</b>	<b>27,658</b>	<b>43,098</b>

## Notes to the financial statements

### 6. Other operating income

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Investment income	1,330	330
Income from forex operations	4,646	3,913
Income from rented safety deposit boxes	513	419
Collection from memorandum accounts	5,000	1,291
Other operating income	2,122	967
<b>Total</b>	<b>13,611</b>	<b>6,920</b>

### 7. Other operating expenses

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Gross salaries and other personnel costs	48,409	44,410
Tax on financial transactions	-	20,417
Materials and services	17,569	17,165
Depreciation	19,686	13,162
Amortization	2,428	1,903
Revaluation of depreciation	91	167
Operating leases	4,903	4,928
Insurance	2,663	3,259
Advertising	1,054	1,403
Indirect taxes and contributions	634	289
Legal expenses	355	319
Other expenses	2,002	403
<b>Total</b>	<b>99,794</b>	<b>107,825</b>

At 31 December 2003 the Bank had 79 employees (2002:76 employees).



## 8. Income tax

The income tax expense comprises entirely the charge for the current year income tax.

A reconciliation of income tax expense applicable to profit from operating

activities before income tax at the statutory income tax rate to income tax expense at the Bank's effective income tax rate for the years ended 31 December was as follows:

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Profit before income tax	125,426	137,903
Tax at statutory income tax rate of 15%	18,814	20,685
Income not taxable for income tax purposes	(465)	(10,306)
Expenditure not allowable for income tax purposes	72	118
At effective income tax rate of 14.6% (2002: 7.6%)	18,421	10,497

The Bank's tax liabilities are based on the tax returns filed to the tax authorities and are finalized when audited by the Central Tax Authorities, or a ten-year period has elapsed from the year they are filed. The Bank's books and records have not been audited by the tax authorities for tax

purposes since 1998. Therefore, the Bank's taxes for the unaudited years may not be considered finalized. Additional taxes that may be levied in the event of a tax audit cannot be determined with any reasonable accuracy.

## 9. Cash and due from banks

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Denar cash	17,659	10,343
Foreign currency cash	39,524	59,368
Foreign currency accounts at call:		
with domestic banks	3,661	1,714
with foreign banks	115,404	40,733
Balances with the National Bank		
in Denars	60,466	95,946
in foreign currency	93,731	-
Time deposits with foreign bank:		
up to 30 days	1,120,146	972,062
Foreign currency letters of credit	2,151	25,074
Treasury bills	308,618	266,703
Cheques in foreign currency	1,665	839
<b>Total</b>	<b>1,763,025</b>	<b>1,472,782</b>

Included in balances with the National Bank in Denars and in foreign currency is the obligatory reserve for liquidity purposes, which represents a minimum reserve deposit required by the National Bank of the Republic of Macedonia. Such reserves are calculated as a percentage of 7.5% of the average monthly amount of outstanding Denar liabilities and foreign currency deposits owed to banks and customers, and are available for use at short notice. At 31 December 2003, the reserve for liquidity purposes amounts to MKD 32,896 thousand (2002: MKD 29,119 thousand). Interest rates charged on the reserve for liquidity purposes in Denars during 2003 range from 4% to 6% per annum (2002: from 6% to 9.52% per annum). The interest rate on the reserve

for liquidity purposes in foreign currency at 31 December 2003 was 1% per annum (2002 : -).

At 31 December 2003, a significant portion of the time deposits with foreign banks up to 30 days is concentrated in five banks in total amount of MKD 1,120,146 thousand. Interest rates on these deposits during 2003 range from 0.84% to 2.78% per annum (2002: from 1.30% to 3.15% per annum).

Treasury bills of the National Bank in total amount of MKD 308,618 thousand (2002: MKD 266,703 thousands), are made for varying periods, none exceeding one month and earn interest that ranges from 5.8% to 15.93% per annum (2002: from 15.43% to 15.79% per annum).

#### 10. Placements with other banks

As of 31 December 2003, the total amount of MKD 23.000 thousand of Denar short-term loans is placed with one domestic

bank. This short-term inter-bank placement of up to one month bears fixed annual interest rate of 6% per annum.

#### 11. Loans to customers, net

##### a) Analysis of loans by type of customer

<i>In thousands of denars</i>	<i>2003</i>		<i>2002</i>	
	Up to one year	Over one year	Up to one year	Over one year
Citizens - in Denars	11,040	152,134	70,717	76,896
Overdrafts of citizens' current accounts	1,115	-	2,165	-
Enterprises:				
in Denars	511,052	38,211	365,833	79,450
in foreign currencies	131,770	209,284	29,535	-
	654,977	399,629	468,250	156,346
Current maturity of long-term loans	121,043	(121,043)	99,723	(99,723)
Less: Provisions for loan losses (note 4)	(57,885)	(1,500)	(37,187)	(723)
<b>Total</b>	<b>718,135</b>	<b>277,086</b>	<b>530,786</b>	<b>55,900</b>



The Bank charges 7.00% to 19.00% per annum interest on short-term and long-term loans in Denars granted to enterprises (2002: from 10.00% to 19.00% per annum). The Bank charges 10.00% to

19.00% and 19.50% to 32.10% per annum interest on loans granted to citizens and overdrafts on citizens' current accounts, respectively (2002: from 10.00% to 19.00% and 32.10% per annum).

#### b) Analysis of loans by sectors

As of 31 December 2003 and 2002, an analysis of loans by industry was as follows:

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Manufacturing	418,025	115,969
Food processing industry	333,971	282,295
Commerce	105,572	65,849
Technical and other services	26,730	2,530
Construction	3,000	-
Transport and communication	2,200	4,675
Catering and tourism	819	3,500
Citizens	164,289	149,778
	1,054,606	624,596
Less: Provision for loan losses (note 4)	(59,385)	(37,910)
<b>Total</b>	<b>995,221</b>	<b>586,686</b>

At 31 December 2003, three customers accounted for 47% of the total loan portfolio. All these borrowers operate in different industries.

#### c) Maturity of loans

Maturity of loans to customers, net of provision for potential losses, is as follows:

<i>In thousands of denars</i>	<i>2003</i>		<i>2002</i>	
	Up to one year	Over one year	Up to one year	Over one year
Up to 30 days	132,627	-	90,828	-
From 30 days to 3 months	79,152	-	92,531	-
From 3 months to 1 year	506,356	-	347,427	-
From 1 to 5 years	-	277,086	-	55,900
<b>Total</b>	<b>718,135</b>	<b>277,086</b>	<b>530,786</b>	<b>55,900</b>

## 12. Interest and other receivables, net

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Interest receivable:		
in Denars	21,912	14,193
in foreign currencies	1,386	263
Fees receivable in Denars	784	782
Other receivables in Denars	894	2,405
Prepaid expenses	1,081	1,387
	26,057	19,030
Less: Provisions for losses (note 4)	(12,121)	(2,904)
<b>Total</b>	<b>13,936</b>	<b>16,126</b>

## 13. Investment securities available-for-sale

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Equity investment - unlisted	2,660	1,330
<b>Total</b>	<b>2,660</b>	<b>1,330</b>

## 14. Properties held for sale

Properties held for sale entirely comprise a business premise received for settlement of bad debts, and is valued at market prices based on valuations performed by independent local authorized valuers as of the dates of acquisition. At each balance sheet date the Bank reviews the carrying amounts of such properties to determine whether there is any indication that those assets

have suffered an impairment loss.

As of 31 December 2003, no impairment loss for permanent diminution in value of properties held for sale has been provided, since management is satisfied that the market value of these buildings did not differ materially from the reported carrying amounts. It is the Bank's intention to sell such assets and they are not used for the operating activities of the Bank.

## 15. Property and equipment

<i>In thousands of denars</i>	Buildings	Equipment	Leasehold improve- ments	Construction in progress	Total
At 1 January 2003, net of accu- mulated depreciation	105,534	42,959	14,735	482	163,710
Additions	-	1,018	300	-	1,318
Transfers from construction in progress	-	482	-	(482)	-
Revaluation	-	2	-	-	2
Depreciation charge for the year	(2,746)	(13,219)	(3,721)	-	(19,686)
At 31 December 2003, net of accumulated depreciation	102,788	31,242	11,314	-	145,344
At 1 January 2003					
Revalued amount	109,850	87,958	18,580	482	216,870
Accumulated depreciation	(4,316)	(44,999)	(3,845)	-	(53,160)
<b>Net carrying amount</b>	105,534	42,959	14,735	482	163,710
At 31 December 2003					
Revalued amount	109,850	87,244	18,880	-	215,974
Accumulated depreciation	(7,062)	(56,002)	(7,566)	-	(70,630)
<b>Net carrying amount</b>	102,788	31,242	11,314	-	145,344

## 16. Intangible assets

<i>In thousands of denars</i>	Computer software
At 1 January 2003, net of accumulated amortization	5,533
Additions	747
Amortization charge for the year	(2,428)
At 31 December 2003, net of accumulated amortization	3,852
At 1 January 2003	
Revalued amount	14,851
Accumulated amortization	(9,318)
<b>Net carrying amount</b>	5,533
At 31 December 2003	
Revalued	15,599
Accumulated amortization	(11,747)
<b>Net carrying amount</b>	3,852

## 17. Amounts due to banks

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Foreign currency demand deposits of:		
domestic banks	964	10,310
<b>Total</b>	<b>964</b>	<b>10,310</b>

The foreign currency demand deposits of domestic banks are non-interest bearing.

## 18. Deposits

<i>In thousands of denars</i>	<i>2003</i>		<i>2002</i>	
	Up to one year	Over one year	Up to one year	Over one year
<b><i>Demand deposits</i></b>				
Citizens:				
in Denars	23,996	-	11,454	-
in foreign currencies	157,784	-	154,644	-
Enterprises:				
in Denars	418,619	-	256,321	-
Foreign entities:				
in Denars	199	-	3,348	-
in foreign currencies	121,078	-	144,747	-
Non-profit entities:				
in foreign currencies	142,945	-	317,102	-
Other entities:				
in foreign currencies	30,313	-	39,592	-
	894,934	-	927,208	-
<b><i>Time deposits</i></b>				
Citizens:				
in Denars	4,456	74	7,654	98
in foreign currencies	98,162	27,213	113,867	12,728
Enterprises:				
in Denars	8,889	-	21,827	-
in foreign currencies	686,483	-	-	-
Foreign entities:				
in foreign currencies	26,605	-	23,936	-
	824,595	27,287	167,284	12,826
<b>Total</b>	<b>1,719,529</b>	<b>27,287</b>	<b>1,094,492</b>	<b>12,826</b>





The Bank charges interest on demand deposits of enterprises in Denars at an interest rate of 2.50% per annum (2002: from 2.50% to 3.00% per annum). The Bank charges interest on Denar and foreign currency time deposits of enterprises at interest rates ranging from 3% to 9.52% and 0.59% to 1.95% per annum (2002: from 4.15% to 13.50% and 1% per annum). The Bank accrues interest on citizens' demand deposits in

Denars and foreign currencies at an interest rate of 2% and 0.20% to 1.00% per annum (2002: from 2% to 3% and 0.50% to 1.00 per annum). The Bank pays interest on citizens' time deposits in Denars and foreign currencies at interest rates ranging from 4.50% to 11.00% and 0.40% to 2.00% per annum (2002: from 6.82% to 10.93% and 1% to 2% per annum).

## 19. Interest payable and other liabilities

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Interest payable in Denars	3,745	1,620
Fees payable	2	26
Trade creditors	666	1,331
Due for taxes and contributions	227	451
Other liabilities in foreign currency	4,820	2,383
Other liabilities in Denars	693	5,520
<b>Total</b>	<b>10,153</b>	<b>11,331</b>

## 20. Share capital

<i>Authorized, issued and fully paid in:</i>	<i>Number of shares</i>	<i>MKD'000</i>
Ordinary shares of MKD 120.000 each	1,548	185,760
At 31 December 2003 and 2002	1,548	185,760

## 21. Statutory reserves

The Bank's statutory reserves consist entirely of allocations of profit, which can be used to offset future losses.

## 22. Revaluation reserves

In accordance with Macedonian accounting regulations, the surplus resulting from the revaluation of fixed and intangible assets based on published

producers price index is taken to the Revaluation Reserve. This reserve is not available for distribution.

## 23. Related party transactions

In the course of conducting its banking business, the Bank entered into various business transactions with Alpha Bank

A.E., Athens, its holding company. These transactions were carried out on commercial terms and at market rates.

Outstanding balances and related expenses and income were as follows:

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Foreign currency accounts at call	15,541	6,182
Time deposits with foreign banks up to 30 days	96,512	72,172
Interest and other receivables	35	5
Loans payable	-	30,536
Interest payable	-	116
Foreign currency guarantees	256,145	124,772

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Interest income	1,511	4,358
Fee and commission income	-	2,168
Interest expense	371	707

The loan portfolio includes loans to bank officers in the amount of MKD 1,314 thousand (2002: MKD 309 thousand).

These loans are granted at terms prevailing in the market.

#### 24. Memorandum accounts

According to the National Bank of the Republic of Macedonia decree dated 17 June 1998, banks in Macedonia were obligated to transfer all receivables classified as bad and doubtful in the last

two consecutive quarters during the year to memorandum accounts, together with corresponding provisions for bad and doubtful debts and potential losses.

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Loans	76,147	84,683
Interest and other placements	218,486	219,044
<b>Total</b>	<b>294,633</b>	<b>303,727</b>

All these amounts receivable were fully provided for at the time of their transfer to such memorandum accounts. Starting from 31 March 2003, the National Bank of the Republic of Macedonia has

revoked this decision and now requires banks to account for such doubtful receivables in the relevant balance sheet accounts.

## 25. Commitments and contingencies

Operating lease commitments: 2,675 thousands within one year, MKD  
The Bank has future minimum lease 10,188 thousands from one to five years  
payments on operating leases of MKD and MKD 6,628 over five years.

Credit related commitments:

At December 31, the Bank had the following credit-related commitments:

<i>In thousands of denars</i>	<i>2003</i>	<i>2002</i>
Guarantees:		
in Denars	70,624	49,428
in foreign currencies	87,122	126,078
Letters of credit in foreign currencies	60,241	81,966
	217,987	257,472
Less: Provision for commitments and contingencies (note 4)	(2,176)	(2,877)
<b>Total</b>	<b>215,811</b>	<b>254,595</b>

## 26. Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements as they arise. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. To mitigate liquidity risk, the Bank diversifies funding sources and assets are managed with liquidity in mind, maintaining a balance of cash and cash

equivalents.

The table below summarises the maturity profile of the Bank's major assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by the Bank to ensure adequate liquidity is maintained.

**31 December 2003**

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 Years	Total
<b>Assets</b>						
Cash and due from banks	1,763,025	-	-	-	-	1,763,025
Placements with other banks	23,000	-	-	-	-	23,000
Loans to customers, net	132,627	79,152	506,356	275,193	1,893	995,221
Interest and other receivables, net	13,066	345	525	-	-	13,936
Income tax receivable	383	-	-	-	-	383
Investment securities available for sale	-	-	-	-	2,660	2,660
Properties held for sale	-	-	1,962	-	-	1,962
Property and equipment	-	-	-	-	145,344	145,344
Intangible assets	-	-	-	-	3,852	3,852
<b>Total assets</b>	<b>1,932,101</b>	<b>79,497</b>	<b>508,843</b>	<b>275,193</b>	<b>153,749</b>	<b>2,949,383</b>
<b>Liabilities</b>						
Amounts due to banks	964	-	-	-	-	964
Deposits	1,613,612	79,294	26,623	27,287	-	1,746,816
Interest payable and other liabilities	4,074	6,079	-	-	-	10,153
Provision for commitments	-	2,176	-	-	-	2,176
Shareholders' equity	-	-	-	-	1,189,274	1,189,274
<b>Total liabilities and shareholders' equity</b>	<b>1,618,650</b>	<b>87,549</b>	<b>26,623</b>	<b>27,287</b>	<b>1,189,274</b>	<b>2,949,383</b>
<b>Net liquidity gap</b>	<b>313,451</b>	<b>(8,052)</b>	<b>482,220</b>	<b>247,906</b>	<b>(1,035,525)</b>	<b>-</b>



*31 December 2002*

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 Years	Over 5 Years	Total
<b>Assets</b>						
Cash and due from banks	1,472,782	-	-	-	-	1,472,782
Loans to customers, net	90,828	92,531	347,427	55,900	-	586,686
Interest and other receivables, net	14,952	332	842	-	-	16,126
Income tax receivable	1,981	-	-	-	-	1,981
Investment securities available for sale	-	-	-	-	1,330	1,330
Property and equipment	-	-	-	-	163,710	163,710
Intangible assets	-	-	-	-	5,533	5,533
<b>Total assets</b>	1,580,543	92,863	348,269	55,900	170,573	2,248,148
<b>Liabilities</b>						
Amounts due to banks	10,310	-	-	-	-	10,310
Deposits	966,657	121,388	6,447	12,826	-	1,107,318
Loans payable	-	-	30,536	-	-	30,536
Interest payable and other liabilities	11,331	-	-	-	-	11,331
Provision for commitments	-	2,877	-	-	-	2,877
Shareholders' equity	-	-	-	-	1,085,776	1,085,776
<b>Total liabilities and shareholders' equity</b>	988,298	124,265	36,983	12,826	1,085,776	2,248,148
<b>Net liquidity gap</b>	592,245	(31,402)	311,286	43,074	(915,203)	-

## 27. Interest rate risk position

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 flows. The tables below summarize the Bank exposure to interest rate risks.

Included in the tables are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates as of 31 December 2003 and 2002.

<i>31 December 2003</i>						
	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 Years	Non interest bearing	Total
<b>Assets</b>						
Cash and due from banks	1,593,825	-	-	-	169,200	1,763,025
Placements with other banks	23,000	-	-	-	-	23,000
Loans to customers, net	132,627	79,152	506,356	277,086	-	995,221
Interest and other receivables, net	11,961	-	-	-	1,975	13,936
Income tax receivable	-	-	-	-	383	383
Investment securities available for sale	-	-	-	-	2,660	2,660
<b>Total</b>	<b>1,761,413</b>	<b>79,152</b>	<b>506,356</b>	<b>277,086</b>	<b>174,218</b>	<b>2,798,225</b>
<b>Liabilities</b>						
Amounts due to banks	-	-	-	-	964	964
Deposits	1,318,593	79,294	26,623	27,287	295,019	1,746,816
Interest payable and other liabilities	303	534	-	-	9,316	10,153
<b>Total</b>	<b>1,318,896</b>	<b>79,828</b>	<b>26,623</b>	<b>27,287</b>	<b>305,299</b>	<b>1,757,933</b>
<b>Interest sensitivity gap</b>	<b>442,517</b>	<b>(676)</b>	<b>479,733</b>	<b>249,799</b>	<b>(131,081)</b>	<b>1,040,292</b>



**31 December 2002**

	Less than one month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 Years	Non interest bearing	Total
<b>Assets</b>						
Cash and due from banks	1,303,564	-	-	-	169,218	1,472,782
Loans to customers, net	90,828	92,531	347,427	55,900	-	586,686
Interest and other receivables, net	12,334	-	-	-	3,792	16,126
Income tax receivable	-	-	-	-	1,981	1,981
Investment securities available for sale	-	-	-	-	1,330	1,330
<b>Total</b>	<b>1,406,726</b>	<b>92,531</b>	<b>347,427</b>	<b>55,900</b>	<b>176,321</b>	<b>2,078,905</b>
<b>Liabilities</b>						
Amounts due to banks	-	-	-	-	10,310	10,310
Deposits	461,808	121,388	6,447	12,826	504,849	1,107,318
Loans payable	-	-	30,536	-	-	30,536
Interest payable and other liabilities	1,646	-	-	-	9,685	11,331
<b>Total</b>	<b>463,454</b>	<b>121,388</b>	<b>36,983</b>	<b>12,826</b>	<b>524,844</b>	<b>1,159,495</b>
<b>Interest sensitivity gap</b>	<b>943,272</b>	<b>(28,857)</b>	<b>310,444</b>	<b>43,074</b>	<b>(348,523)</b>	<b>919,410</b>

## 28. Currency risk

The following tables summarize the net foreign currency position of the Bank

monetary assets and liabilities as of 31 December 2003 and 2002:

	<b>31 December 2003</b>					
	EUR	USD	Other currencies	Total foreign	Local currency	Total
<b>Assets</b>						
Cash and due from banks	1,113,092	152,293	110,897	1,376,282	386,743	1,763,025
Placements with other banks	-	-	-	-	23,000	23,000
Loans to customers, net	326,339	14,715	-	341,054	654,167	995,221
Interest and other receivables, net	1,349	30	7	1,386	12,550	13,936
Income tax receivable	-	-	-	-	383	383
Investment securities available for sale	-	-	-	-	2,660	2,660
<b>Total</b>	<b>1,440,780</b>	<b>167,038</b>	<b>110,904</b>	<b>1,718,722</b>	<b>1,079,503</b>	<b>2,798,225</b>
<b>Liabilities</b>						
Amounts due to banks	222	741	1	964	-	964
Deposits	1,120,657	154,008	15,918	1,290,583	456,233	1,746,816
Interest payable and other liabilities	5,602	559	4	6,165	3,988	10,153
<b>Total</b>	<b>1,126,481</b>	<b>155,308</b>	<b>15,923</b>	<b>1,297,712</b>	<b>460,221</b>	<b>1,757,933</b>
<b>Net currency position</b>	<b>314,299</b>	<b>11,730</b>	<b>94,981</b>	<b>421,010</b>	<b>619,282</b>	<b>1,040,292</b>





31 December 2002

	EUR	USD	Other currencies	Total foreign	Local currency	Total
<b>Assets</b>						
Cash and due from banks	941,059	142,165	11,497	1,094,721	378,061	1,472,782
Loans to customers, net	29,535	-	-	29,535	557,151	586,686
Interest and other receivables, net	136	-	-	136	15,990	16,126
Income tax receivable	-	-	-	-	1,981	1,981
Investment securities available for sale	-	-	-	-	1,330	1,330
<b>Total</b>	<b>970,730</b>	<b>142,165</b>	<b>11,497</b>	<b>1,124,392</b>	<b>954,513</b>	<b>2,078,905</b>
<b>Liabilities</b>						
Amounts due to banks	5,855	4,373	66	10,294	16	10,310
Deposits	666,684	125,141	14,791	806,616	300,702	1,107,318
Loans payable	30,536	-	-	30,536	-	30,536
Interest payable and other liabilities	116	-	-	116	11,215	11,331
<b>Total</b>	<b>703,191</b>	<b>129,514</b>	<b>14,857</b>	<b>847,562</b>	<b>311,933</b>	<b>1,159,495</b>
<b>Net currency position</b>	<b>267,539</b>	<b>12,651</b>	<b>(3,360)</b>	<b>276,830</b>	<b>642,580</b>	<b>919,410</b>

## 29. Capital adequacy

The capital adequacy rules require a minimum amount of capital to cover credit and market risk exposures. For the calculation of the capital required for credit risk, assets are weighted according to broad categories of notional credit risk, being assigned risk weighting according to the amount of capital deemed to be necessary to support

them. The Bank's Risk Based Capital Adequacy Ratio was computed based on the Bank's financial statements and in accordance with the relevant guidelines issued by the National Bank of the Republic of Macedonia. As of 31 December 2003, the Bank's Risk Based Adequacy Ratio was 61% (2002: 77 %).

## 30. Exchange rates

Official exchange rates for major currencies used in the translation of the balance sheet items denominated in foreign currencies were as follows (in Denars):

	31 December 2003	31 December 2002
1 EUR	61.2931	61.0707
1 USD	49.0502	58.5979
1 CHF	39.3056	41.9788

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