

# ALPHA BANK SKOPJE



ANNUAL REPORT  
2004

ALPHA BANK AD SKOPJE

ANNUAL REPORT 2004





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## Bank's Network

### **HEAD OFFICE IN SKOPJE**

Dame Gruev 1  
MK-1000 Skopje  
P. O. Box. 564  
Tel.: +389 2 3289 400  
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 Hadzijanov, 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**

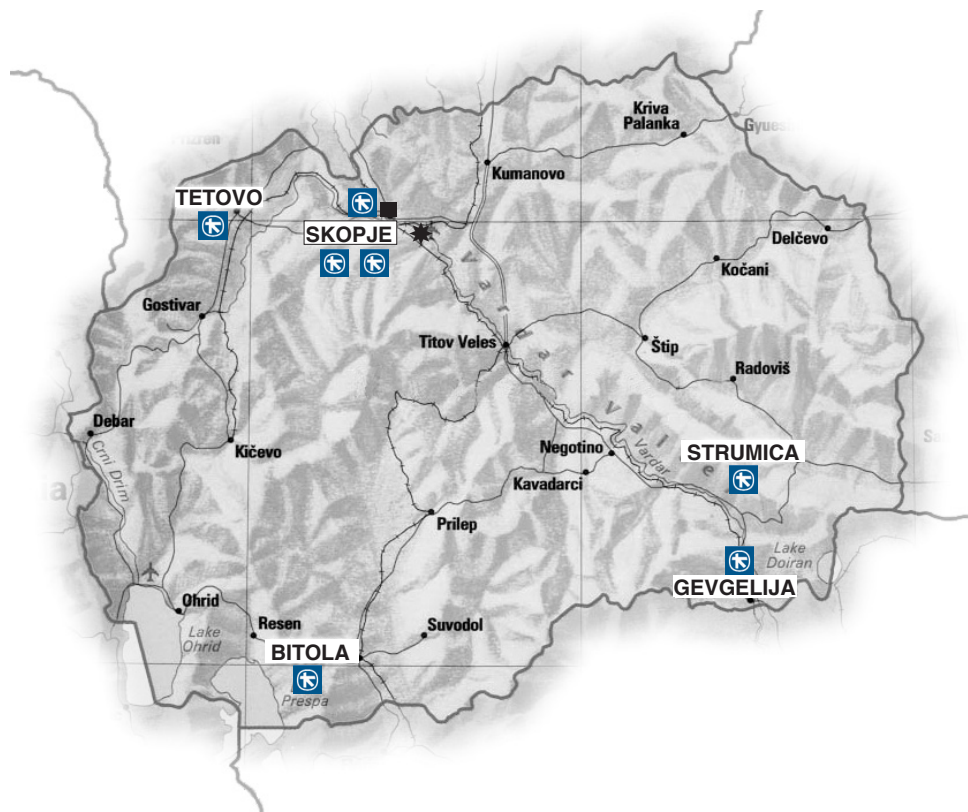
Leninova 100  
MK-2400 Strumica  
Tel.: + 389 34 330 250  
Fax: + 389 34 344 940

### **BITOLA BRANCH**

Ignatija 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

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

Dushan Tudzarov  
Replek Makedonija AD, Skopje

### Managing Board

#### **Chairman**

Spyros N. Filaretos  
Executive General Manager  
Alpha Bank A.E., Athens

#### **Members**

Vassilios I. Karaindros  
Manager  
Alpha Bank A.E., 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 A.E., 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 (until June 2004)

Sub-Division for Legal and Personnel  
Matters  
Vanco Z. Andonovski



## Financial Statement



**MACEDONIAN  
AUDIT  
CENTER  
LTD - SKOPJE**

## **AUDITOR'S REPORT**

### **TO THE MANAGEMENT AND SHAREHOLDERS OF ALPHA BANK AD SKOPJE**

According to your request, we have audited the financial statements of Alpha Bank AD Skopje ("the Bank") as at 31. December 2004. The Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity as well as the accompanying notes to the financial statements are considered under financial statements.

These financial statements are responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

The financial statements of the Bank as of 31. December 2003, were audited by another auditor whose report dated 2 March 2004 expressed an unqualified opinion on those statements.

We have conducted our audit in accordance to International Auditing Standards. 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 examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Bank as of December 31, 2004, and of the results of its operations, cash flows and its changes in equity for the year then ended in accordance with the International Financial Reporting Standards.

Skopje, 10 February 2005

**Certified Auditor**

Antonio Veljanov



**Director**

Antonio Veljanov

## Income Statement

For the year ended 31 December 2004

*In thousands of denars*

	<b>Note</b>	<b>2004</b>	<b>2003</b>
Interest income	4	154,598	147,898
Interest expense	4	(17,808)	(20,869)
<b>Net interest income</b>		136,790	127,029
Fee and commissions income	5	90,951	87,816
Fee and commissions expense	5	(5,681)	(5,575)
<b>Net fee and commissions income</b>		85,270	82,241
Dividends income	6	-	1,330
Net gain (loss) on foreign exchange	7	17,730	27,658
Other non-interest income	8	6,721	7,636
Administrative expenses	9	(53,565)	(52,009)
Depreciation	20	(21,557)	(22,205)
Other expenses	10	(26,778)	(29,181)
Provision for loan losses	11	(3,942)	(20,673)
<b>Profit before taxation</b>		140,669	121,826
Income tax	12	(20,831)	(18,421)
<b>Net profit for the year</b>		119,838	103,405

Skopje, 10 February 2005

Authorized by,

First General Manager

Pavlina D. Cerepnalkovska (Ms.)

Second General Manager

Zacharias G. Charpidis



## Balance Sheet

As at 31 December 2004

In thousands of denars

	Note	2004	2003
<b>Assets</b>			
Cash and cash equivalents	13	306,367	334,261
Treasury bills	14	387,343	308,618
Placements with, and loans to banks	15	603,512	1,143,146
Loans to customers	16	1,404,334	995,221
Interest receivables	17	11,577	11,176
Other current assets	18	3,444	3,143
Investments available-for-sale	19	2,660	2,660
Assets acquired through foreclosure procedures	20	5,049	1,962
Intangible assets	21	5,549	3,853
Property and equipment	21	128,184	145,344
<b>Total assets</b>		<b>2,858,019</b>	<b>2,949,384</b>
<b>Liabilities and equity</b>			
Bank and other financial institutions deposits	22	1,801	964
Customers deposits	23	1,538,063	1,752,169
Borrowings		-	-
Interest liabilities	24	1,668	3,745
Other current liabilities	25	5,757	1,056
Provision for off balance sheet commitments	26	1,618	2,176
<b>Total liabilities</b>		<b>1,548,907</b>	<b>1,760,110</b>
Shareholders' capital	27	185,760	185,760
Share premium		337,169	337,169
Reserves	27	619,871	220,787
Revaluation reserves	27	43,674	43,674
Accumulated profit (loss)		2,800	298,479
Profit (loss) for the year		119,838	103,405
<b>Total equity</b>		<b>1,309,112</b>	<b>1,189,274</b>
<b>Total liabilities and equity</b>		<b>2,858,019</b>	<b>2,949,384</b>
<b>Commitments and contingencies</b>	28	<b>280,795</b>	<b>217,986</b>

## Cash flows statement

For the year ended 31 December 2004

In thousands of denars

	Note	2004	2003
<b>Cash flows from operating activities</b>			
Profit (loss) before taxation		140,669	121,826
Adjusting for:			
Depreciation of property and equipment	21	19,125	19,686
Amortization of intangible assets	21	2,432	2,428
Revaluation of depreciation		-	91
Income from collected off-balance sheet receivables with acquired assets	8; 20	(3,087)	-
Dividends income		-	(1,330)
Provision for loan losses	11	3,942	20,673
<b>Profit (loss) before changes in working capital</b>		163,081	163,374
Net inflows (outflows) from loans to banks	15	539,634	(171,084)
Net inflows (outflows) from loans to customers	16	(414,286)	(431,871)
Net inflows (outflows) from interest receivables	17	279	375
Net inflows (outflows) from other current assets	18	(691)	1,815
Net inflows (outflows) from bank deposits	22	837	(9,346)
Net inflows (outflows) from customer deposits	23	(214,106)	639,498
Net inflows (outflows) from interest liabilities	24	(2,077)	2,125
Net inflows (outflows) from other current liabilities	25	124	(3,303)
<b>Net cash flows from operating activities before taxation</b>		72,795	191,583
Received (paid) income tax		(17,063)	(16,823)
<b>Net cash flows from operating activities</b>		55,732	174,760
<b>Cash flows from investing activities</b>			
Net inflows (outflows) from treasury bills	14	(78,725)	(41,915)
Purchase of computer software	21	(2,936)	(747)
Purchase of equipment	21	(1,965)	(1,318)
<b>Net cash flows from investing activities</b>		(83,626)	(43,980)
<b>Cash flows from financing activities</b>			
Paid-in capital		-	-
Net inflows (outflows) from borrowings		-	(30,536)
<b>Net cash flows from financing activities</b>		-	(30,536)
Net increase (decrease) of cash and cash equivalents		(27,894)	100,244
<b>Cash and cash equivalents at 1 January</b>	13	334,261	234,017
<b>Cash and cash equivalents at 31 December</b>	13	306,367	334,261



## Statement of changes in equity

For the year ended 31 December 2004

<i>In thousands of denars</i>	Shareholders Capital	Share premium	Legal reserves	Revaluation reserves	Accumulate profit (loss)	Total equity
Balance as at 1 January 2003	185,760	337,169	220,787	43,581	298,479	1,085,776
Profit (loss) for the year	-	-	-	-	103,405	103,405
Revaluation reserve for the year	-	-	-	93	-	93
Balance as at 31 December 2003	185,760	337,169	220,787	43,674	401,884	1,189,274
Profit (loss) for the year	-	-	-	-	119,838	119,838
Appropriation to legal reserves	-	-	399,084	-	(399,084)	-
Revaluation reserve for the year	-	-	-	-	-	-
Balance as at 31 December 2004	185,760	337,169	619,871	43,674	122,638	1,309,112

## Notes to the financial statements

### 1. Activity

Alpha Bank AD Skopje ("herein after the Bank") was founded by decision of the Council of the Governors of the National Bank of Republic of Macedonia in 1993. Based on the license above, the Bank is registered at the due venue court in Skopje under No. 6032/93 from 15 April 1993.

The Bank is wholly owned by Alpha Bank A.E. Athens, which is the parent company of the Alpha Group.

The Bank is registered as universal type of commercial bank according to the Macedonian Law on Banks, with license of foreign payment operations. Basic activities of the Bank are as follows:

- Receiving of all kind of money deposits (depository activities);
- Lending and borrowing funds (funding activities);
- Foreign exchange deals;
- Issuance of money cards;
- Domestic and foreign payment operations activities, according to law;
- Economic and financial consulting;
- Services about collection of invoices and keeping records;
- Other financial services (renting safe-deposit boxes)
- Issuance of guaranties and other guaranty instruments (guaranty activities);
- Trading with securities (effects activities);
- Trading with receivables;

According to the local Law on banks, the total equity of banks licensed for performing domestic business activities can not be less than 3,500,000 EUR (214,585 thousands of denars) and 9,000,000 EUR (551,790 thousands of denars) for business activities abroad. All banks are obliged to keep the required level of equity.

The Bank's head office is at Str. Dame Gruev 1, Skopje Republic of Macedonia.

### 2. Basis of preparation of the financial statements

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

The financial statements shown on pages 2 to 28 are prepared in accordance with the International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the Standing Interpretation Committee of the IASB.

The Bank is keeping records and preparing financial statements in conformity with the Macedonian regulations. Where needed, certain adjustments and reclassifications were made in order to be in conformity with International Financial Reporting Standards.

In addition, for a more appropriate and consequently presentation, certain adjustments and reclassifications were made on the previous year balances. Current and comparative figures in the financial statements and in the notes to the financial statements are presented in thousands of Macedonian Denars, unless otherwise stated.

#### b) Accounting methods

The financial statements are prepared based on the principal of historical prices, adjusted with the revaluation of the intangible assets and property and equipment as it is described in notes 3(k) and 21. The purpose of revaluation is to mitigate the influence on the revenues and the expenses, as well as on the financial result and the equity of the Bank, from the inflation, by creating revaluation reserves. The application of this principal is according to the Macedonian regulations.

### 3. Principal accounting policies

#### a) Interest income

Interest income is recognized in the income statement on accrual basis, according to the agreements between lenders and borrowers. Interest income is recognized when there is a probability for future inflows for the Bank and when it can be measured.

The accrued interest is calculated by the agreed interest rate, for the period that

can not exceed the financial statements period. The basis for calculation of interest is the nominal value of the loan.

Where interest collection is considered doubtful, provision on interest is made and shown as loss on loans in the income statement. Further interest income is not recognized.

#### **b) Interest expense**

Interest expenses are recognized in the income statement on accrual basis. The accrued interest is calculated by the agreed interest rate, for the period that can not exceed the financial statements period. The basis for calculation of interest is the nominal value of the borrowings and of the deposits, increased for the amount of the capitalized interest from the period preceding the financial statements period.

#### **c) Fee and commission income and expense**

Fee and commission income and expense are recognized as it accrues for the financial statements period, arising from financial services provided by the Bank including foreign currency settlements, guarantees, letters of credit and other services.

#### **d) Gain (loss) on foreign exchange**

All foreign currency transactions are translated and shown in the financial statements in denars, according to the exchange rate of the National bank of the RM ruling at the transaction date.

Monetary assets and liabilities in foreign currencies at the balance sheet date are translated to denars at the foreign exchange rate ruling at that date.

The foreign currencies the Bank deals with are predominantly Euro (EUR) and United States Dollars (USD) based. The exchange rates ruling at 31 December 2004 and 2003 are as follows:

*In denars*

	<b>2004</b>	<b>2003</b>
1 EUR	61.3100	61.2931
1 USD	45.0676	49.0502

#### **e) Dividend income**

Dividend income is recognized in the income statement on the date that the

dividend is declared.

#### **f) Income tax**

Income tax is calculated according to Macedonian fiscal regulations. The calculation of income tax is carrying out on a basis of income before taxation, adjusted for certain exempt revenues and non-deductible expenses according to regulations, by applying the rate of 15%.

#### **g) Cash and cash equivalents**

Cash and cash equivalents are carried out in the balance sheet at cost. For the purposes of these financial statements, cash and cash equivalents comprise cash on hand in denars and foreign currency, cheques as well as demand deposits with National Bank of Republic of Macedonia and domestic and foreign banks.

#### **h) Loans and provision for losses on loans**

Loans are comprised of short-term and long-term loans to customers and banks and are stated under their nominal value at the payment date, less for provision on risk loans to reflect their recoverable amount.

The Bank is obliged to make special reserve for potential losses for risk balance sheet and off balance sheets items upon to their degree of risk. For that purpose, the Bank makes specific allowances against the carrying amount of the loans that are identified as impaired based on regular reviews of outstanding balances to reduce these loans to their recoverable amount.

Basic criteria for loan impairment are client's credit ability and collateral value (level of secured Bank loans).

According to the above criteria, all loans classified in high-risk group of loans and for interest which is not collected more than 90 days from the due date, the Bank is obliged to record on separate account as non-functional loans.

Increases of provision for loan losses is recognized in the income statement.

Subsequently, each decrease of provision for loan losses are reversed through the income statement.

According to IFRS, the balance sheet items in this report are shown in net amount (less for provision for loan losses).

#### **i) Investments available-for-sale**

Investments available-for-sale are comprised of investments in securities issued by other companies, banks or other financial institutions, stated at their nominal value at the transfer of funds date.

Subsequently, all investments in securities that are regularly traded in an active market are measured at fair value, which is the last quoted market price at the balance sheet date. Investments in securities that are not traded and do not have a quoted market price in an active market are measured at cost, less provision for losses.

During the period the Bank held only available-for-sale investments.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates are classified as available-for-sale investments.

Due to the fact there is no market value of the Bank's investments and whose fair value cannot be reliably measured, they are stated at cost less provision for losses.

#### **j) Assets acquired through foreclosure procedures**

Assets acquired through foreclosure procedures and which are aimed for sale are measured lower of cost or net realizable value (fair value) at the balance sheet date.

Initially, these assets are stated at cost which represents all costs to bring the assets in to present condition and location. These costs are equal to Banks receivables in the foreclosure procedure. Subsequently, these assets are revalued by local authorized valuers. Provision for losses is made through the income statement when they are identified as impaired.

#### **k) Property and equipment and intangible assets - fixed assets**

##### **(I) Basic presentation**

Fixed assets are stated at cost at the purchasing date, or at valuation less accumulated depreciation.

Cost represents the prices billed up by suppliers including all costs incurred for bringing new assets into use.

The revaluation is carried out by using uniformed revaluation index number based on the manufacturer's price increase index, which is applied to historical cost or later valuations and to the accumulated depreciation. The effects of revaluation of fixed assets are credited to revaluation reserves.

Disposed fixed assets are eliminated from the balance sheet. Profits or losses on disposals of fixed assets are credited directly to other income or other expenses.

The Bank has not recognized any adjustment on fixed assets due to the fact that there is no material difference between the fair and accounting value of the assets, according to the revaluation made by local authorized valuers at the balance sheet date.

Intangible assets are comprised of computer software used for Bank activities.

##### **(II) Depreciation**

The estimation of the useful life and the depreciation rate of the fixed assets is a matter of estimation based on the Bank's experience in working with similar assets. Depreciation method is according to the constant method.

The basic depreciation annual rates used in 2004 compare to 2003 are:

	<b>2004</b>	<b>2003</b>
Buildings	2.5%	2.5%
Computers	25%	25%
Furniture	20%	20%
Means of transportation	25%	25%
Leasehold improvements	20%	20%
Intangible assets	25%	25%

#### **l) Deposits**

Customer and bank and other financial institutions deposits are stated at their nominal value, increased for the capitalized interest.

#### **m) Provision for off balance sheet commitments**

During its operations, the Bank is involved in transactions that represent commitments and contingencies and which are recorded as off balance sheet items, such as guarantees and letters of credit (Note 28). Provision for off balance sheet commitments is made on same basis as provision for other bank loans as it is described in note 3(h).

#### **n) Other short-term liabilities**

Other short-term liabilities consist of liabilities to suppliers for fixed and current assets and are shown according their nominal value in the moment of their appearance.

#### **o) Shareholders equity**

The Bank's equity consists of shareholders capital registered in the trade register of the court in charge, as well as reserves and accumulated profit. Issued ordinary and preference non-redeemable shares are classified as equity. Treasury shares are classified as decrease of Bank's equity. Dividends are recognized as a liability in the period in which they are declared by the Bank's Shareholders Assembly.

#### **p) Leases**

##### **l) A Bank is lessee**

##### **a) Finance leases**

Leases where the Bank has substantially all the risks and rewards of ownership are classified as finance lease. Ownership can be, or not transferred in finance lease. The lessee is recognizing finance lease as assets and liabilities in the balance sheet at the lower of the fair value or present value of the minimum lease payments. The property or equipment acquired under finance lease is depreciated

consequently as other fixed assets over the shorter of the useful life or the lease term.

During the period the Bank was not engaged in any kind of transactions that are finance lease.

##### **b) Operating leases**

Leases were a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease (Note 10).

##### **q) Post balance sheet events**

Post balance sheet events are events occurring after the balance sheet date, but before the date when the financial statements are issued and the date of the auditors report. There are two types of events that may have effect the financial statements:

##### **(I)**

Events that provide further evidence of conditions that existed at period end and for which adjustments can be made and presented in the financial statements, and

##### **(II)**

Events that are indicative of conditions that arose subsequent to period end and for which adjustments cannot be made, but are disclosed in the notes to the financial statements.

#### 4. Interest income and expense

For the year ended 31 December 2004	<b>2004</b>		<b>2003</b>	
<i>In thousands of denars</i>	Income	Expense	Income	Expense
Interest income and expense from:				
Non-financial sector	90,840	14,288	75,261	16,346
Public sector	-	-	-	-
Financial sector	39,012	24	51,008	397
Other	-	-	-	-
Citizens	24,746	3,154	21,629	3,742
Non-residents	-	342	-	384
<b>Total income and expense</b>	154,598	17,808	147,898	20,869
<b>Net interest income</b>	136,790		127,029	

#### 5. Fee and commissions income and expense

For the year ended 31 December 2004	<b>2004</b>		<b>2003</b>	
<i>In thousands of denars</i>				
Income from:				
Non-financial sector	72,550		67,557	
Public sector	-		-	
Financial sector	1,797		2,039	
Other	4,193		4,646	
Citizens	5,055		5,592	
Non-residents	7,356		7,982	
<b>Total income</b>	90,951		87,816	
Expenses from:				
National Bank	-		-	
Commercial banks	103		120	
Clearing House system	3,793		3,242	
Exchange offices	-		-	
Other	1,785		2,213	
<b>Total expenses</b>	5,681		5,575	
<b>Net fee and commission income</b>	85,270		82,241	

#### 6. Dividends income

For the year ended 31 December 2004		
<i>In thousands of denars</i>		
Dividends from share investment in:		
Clearing House AD Skopje	-	1,330
<b>Total dividends income</b>	-	1,330



## 7. Gain (loss) on foreign exchange

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Gains from foreign exchange currency business	587,431	677,092
Losses from foreign exchange currency business	(569,701)	(649,434)
<b>Net gain (loss)</b>	<b>17,730</b>	<b>27,658</b>

## 8. Other non-interest income

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Income from renting safe-deposit boxes	547	513
Income from collected bad and doubtful loans	379	5,000
Income from collected off-balance sheet receivables with acquired assets	3,087	-
Other non-interest income	2,708	2,123
<b>Total other non-interest income</b>	<b>6,721</b>	<b>7,636</b>

## 9. Administrative expenses

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Gross wages of employees	46,028	43,987
Other employees expenses	4,290	4,066
Rewards to employees	2,800	3,600
Travel expenses	447	356
<b>Total administrative expenses</b>	<b>53,565</b>	<b>52,009</b>
Total number of Banks employees as at 31 December	83	79

## 10. Other expenses

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Deposit insurance expenses	2,122	2,663
Material expenses	5,234	5,399
Service expenses	9,219	10,371
Expenses for computer maintenance	2,134	1,799
Renting of buildings (operating lease)	4,576	4,903
Representation and advertising expenses	933	1,054
Capital loss	-	-
Other expenses	2,560	2,992
<b>Total other expenses</b>	<b>26,778</b>	<b>29,181</b>

## Notes to the financial statements

### 11. Provision for loan losses

#### a) Type analysis

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Provision for:		
Non-functional interest	674	6,563
Receivables for loans, interest and off balance sheet commitments	3,268	14,110
<b>Total provision</b>	<b>3,942</b>	<b>20,673</b>

#### b) Changes for the period

<i>In thousands of denars</i>	Loans	Interest	Other receivables	Off balance sheet commitments	Total
Balance at the beginning of the year	59,385	12,074	47	2,176	73,682
Provision for the year	3,866	627	7	(558)	3,942
Written off loans previously reserved	(4,341)	-	-	-	(4,341)
Collected bad and doubtful interest (non-functional), net	-	(1,307)	-	-	(1,307)
<b>Balance at the end of year</b>	<b>58,910</b>	<b>11,394</b>	<b>54</b>	<b>1,618</b>	<b>71,976</b>

#### c) Appropriation of the provision

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Provision for:		
Loans to banks	-	-
Short-term loans to customers	53,804	57,885
Long-term loans to customers	5,106	1,500
Interest	11,394	12,074
Investments available-for-sale	-	-
Other receivables	54	47
Off balance sheet commitments	1,618	2,176
<b>Total provision</b>	<b>71,976</b>	<b>73,682</b>

### 12. Income tax

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Income tax recognized in the Income statement	20,831	18,421
<b>Total income tax</b>	<b>20,831</b>	<b>18,421</b>

	<b>31.12.2004</b>	<b>31.12.2004</b>	<b>31.12.2003</b>	<b>31.12.2003</b>
	<b>%</b>	<b>Den. 000</b>	<b>%</b>	<b>Den.000</b>
Reconciliation of effective tax rate				
Profit before taxation	-	140,669	-	121,826
Profit tax	15.00	21,100	15.00	18,274
Tax exempt revenues	- 0.52	(735)	- 0.38	(465)
Non-deductible expenses	0.33	466	0.50	612
<b>Profit effective tax</b>	<b>14.81</b>	<b>20,831</b>	<b>15.12</b>	<b>18,421</b>

### 13. Cash and cash equivalents

For the year ended 31 December 2004		
<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Balance with National Bank of Republic of Macedonia (NBRM):		
a) in denars	63,923	60,466
b) in foreign currencies	58,150	93,732
Cash in hand in denars	14,314	17,659
Cash in hand in foreign currencies	80,949	39,523
Current accounts in foreign currencies at:		
a) local banks	8,540	3,661
b) foreign banks	76,291	115,404
Cheques in foreign currencies	570	1,665
Other short term highly liquid investments	1,484	-
Letter of credits in foreign currencies	2,146	2,151
<b>Total cash and cash equivalents</b>	<b>306,367</b>	<b>334,261</b>

As at 31 December 2004 balances with NBRM include amount of 42,222 thousands of denars (31 December 2003: 32,896 thousands of denars) as obligatory reserve requirement in MKD and amount of 58,150 thousands of denars (31 December 2003: 93,732 thousands of denars) as obligatory reserve requirement in foreign currency. Obligatory reserve in foreign currency is not available for daily Bank operations.

Obligatory reserves in MKD and in foreign currency represent 7.5% from the average monthly amount of denar and foreign currency Banks liabilities.

Interest from 4% to 2% per annum is accrued on the obligatory reserve in MKD (2003: from 4% to 6% per annum) and interest equal to 1% per annum (2003: 1% per annum) is accrued on the obligatory reserve in foreign currency. Income from obligatory reserve interest is recognized in interest income.

As at 31 December 2004, current accounts in foreign currencies at foreign

banks are concentrated in sixteen banks with total amount of 76,291 thousands denars (31 December 2003: in sixteen banks, with total amount of 115,404 thousands denars).

### 14. Treasury bills

Treasury bills in amount of -387,343 thousands denars (31 December 2003: 308,618 thousands denars) arise from purchased bills, which are issued by the National Bank of Republic of Macedonia with maturity of one month (2003: period of maturity: one month) and interest rate from 5% to 10% per annum (2003: from 5.8% to 15.93% per annum). Treasury bills are classified as investments held to maturity as there is no active market for their sale and transfer into cash.

Income from treasury bills in amount of 20,094 thousands denars (2003: 24,981 thousands denars) is recognized as interest income.

## 15. Placements with, and loans to banks

### a) Type of banks analysis

	31.12.2004		31.12.2003	
<i>In thousands of denars</i>	Short-term	Long-term	Short-term	Long-term
Deposits with foreign banks				
Banca Intesa Italy	164,445	-	214,526	-
Bank Austria	128,751	-	245,172	-
Alpha Bank A.E.	111,583	-	96,512	-
LHB International	88,317	-	116,481	-
American Express Bank	65,348	-	-	-
BNP Paribas Paris	45,068	-	263,576	-
Commerzbank FFM	-	-	183,879	-
	603,512	-	1,120,146	-
Loans to domestic banks	-	-	-	-
Placements with domestic banks	-	-	23,000	-
<b>Total placements with, and loans to banks</b>	603,512	-	1,143,146	-
Provision for loan losses to banks	-	-	-	-
<b>Net placements with, and loans to banks</b>	603,512	-	1,143,146	-

### b) Currency and interest analysis

	31.12.2004		31.12.2003	
<i>In thousands of denars</i>	Short-term	Long-term	Short-term	Long-term
MKD placements	-	-	23,000	-
	-	-	23,000	-
EUR deposits	199,257	-	931,655	-
USD deposits	155,483	-	122,625	-
GBP deposits	13,983	-	-	-
DKK deposits	181,339	-	65,866	-
AUD deposits	43,249	-	-	-
SEK deposits	10,201	-	-	-
<b>Total placements with, and loans to banks</b>	603,512	-	1,120,146	-
Provision for loan losses to banks	-	-	-	-
<b>Net placements with, and loans to banks</b>	603,512	-	1,143,146	-

As at 31 December 2004, deposits with foreign banks and with maturity of 30 days are concentrated in six foreign banks with total amount of 603,512 thousands denars (31 December 2003: in six banks, with total amount of 1,120,146 thousands denars). Interest from 1.80% to 4.85% per

annum are accrued on these deposits (2003: from 0.84% to 2.78 per annum). As at 31 December 2003, placements with domestic banks are comprised of short-term loans to one local bank, with maturity of one month and fixed rate of 6% per annum.

## 16. Loans to customers

### a) Type of customers analysis

	31.12.2004		31.12.2003	
<i>In thousands of denars</i>	Short-term	Long-term	Short-term	Long-term
Companies - in denars	463,164	108,149	542,503	62,411
Companies - in foreign currency	257,057	381,097	100,320	185,084
Government companies - in denars	-	-	-	-
Government companies - in foreign currency	-	-	-	-
Citizens current accounts	1,185	-	1,115	-
Citizens	4,358	248,234	11,039	152,134
	725,764	737,480	654,977	399,629
Current maturity	265,636	(265,636)	121,043	(121,043)
	991,400	471,844	776,020	278,586
Provision for loan losses to customers	(53,804)	(5,106)	(57,885)	(1,500)
<b>Net loans to customers</b>	<b>937,596</b>	<b>466,738</b>	<b>718,135</b>	<b>277,086</b>

Bank accounts interest rate from 8% to 19% per annum (2003: 7% to 19% per annum), for the short and long term loans to companies. Also, Bank accounts interest rate from 8% to 19% per annum (2003: 10% to 19% per annum) for the

loans to citizens and penalty interest for the citizens current accounts. Long term loans to companies are mainly in foreign currency or with foreign currency clause and with variable interest rate ranging from 9% to 14% per annum.

### b) Sector analysis

<i>In thousands of denars</i>	31.12.2004	31.12.2003
Production industry	548,470	418,025
Foodstuff industry	138,234	333,971
Commerce	388,064	105,572
Business and other services	-	26,730
Construction	23,717	3,000
Transport	-	2,200
Catering and tourism	110,982	820
Citizens	253,777	164,288
Other	-	-
	1,463,244	1,054,606
Provision for loan losses to customers (Note 11)	(58,910)	(59,385)
<b>Net loans to customers</b>	<b>1,404,334</b>	<b>995,221</b>

## 17. Interest receivables

<i>In thousands of denars</i>	31.12.2004	31.12.2003
Interest receivables from:		
Non-financial sector	19,037	20,266
Public sector	-	-
Banks and other financial institutions	1,133	1,033
Citizens	2,801	1,951
	22,971	23,250
Provision for interest receivables losses (Note 11)	(11,394)	(12,074)
<b>Net interest receivables</b>	<b>11,577</b>	<b>11,176</b>

## 18. Other current assets

For the year ended 31 December 2004

*In thousands of denars*

	<b>2004</b>	<b>2003</b>
Fee and commission receivables	1,255	831
Income tax receivable	-	383
Prepaid expenses	756	1,081
Other current assets	1,487	895
<b>Total gross other current assets</b>	<b>3,498</b>	<b>3,190</b>
Provision for other current assets losses (Note 11)	(54)	(47)
<b>Net other current assets</b>	<b>3,444</b>	<b>3,143</b>

## 19. Investments available-for-sale

For the year ended 31 December 2004

*In thousands of denars*

	<b>2004</b>	<b>2003</b>
Investments in:		
a) Banks	-	-
b) Other financial institutions	2,660	2,660
c) Companies	-	-
<b>Total gross investments</b>	<b>2,660</b>	<b>2,660</b>
Provision for investments available-for-sale losses (Note 11)	-	-
<b>Net investments available-for-sale</b>	<b>2,660</b>	<b>2,660</b>

Investments available-for-sale represent investments in securities (shares) issued by other companies in Republic of Macedonia and are classified as available-for-sale investments as they can be held for an indefinite period of time, but which may be sold in response to needs for liquidity.

Available-for-sale investments are classified as non-current assets due to the fact there is no active market for its sales and transfer into cash and the fact that

they were not purchased for trading with them.

As at 31 December 2004, available-for-sale investments in other financial institutions are comprised of investment in 266 issued ordinary shares of the Clearing House AD Skopje, which represents minority participation of 2.23% in the shareholders capital of the company. The Bank recognizes dividend income for the investment, when it is declared.

## 20. Assets acquired through foreclosure procedures

*In thousands of denars*

	<b>31.12.2004</b>	<b>31.12.2003</b>
Changes in the period:		
<b>Balance at the beginning of the year</b>	<b>1,962</b>	<b>-</b>
New acquired assets	3,087	1,962
Sold assets	-	-
<b>Balance at the end of year</b>	<b>5,049</b>	<b>1,962</b>



The assets received in exchange for non-performing loans include apartments and business premises which are not used by the Bank for its regular operations. The Bank plans to dispose these assets as soon as possible.

As at 31 December 2004, these assets

were revalued by a local authorized valuers. The Bank has not recognized any provision for losses of these assets due to the fact that there is no material difference between the fair and accounting value of the assets.

## 21. Intangible assets and property and equipment

<i>In thousands of denars</i>	Buildings	Leashold Improvements	Equipment	Intangible assets	Total
Cost or valuation					
<b>Balance as at 1 January</b>	109,850	18,880	87,244	15,599	231,573
Additions	-	-	1,965	4,128	6,093
Disposals	-	-	(2,440)	-	(2,440)
Revaluation	-	-	-	-	-
<b>Balance as at 31 December</b>	109,850	18,880	86,769	19,727	235,226
Accumulated depreciation					
<b>Balance as at 1 January</b>	7,062	7,566	56,002	11,746	82,376
Depreciation/Amortization	2,746	3,776	12,603	2,432	21,557
Disposals	-	-	(2,440)	-	(2,440)
Revaluation	-	-	-	-	-
<b>Balance as at 31 December</b>	9,808	11,342	66,165	14,178	101,493
Carrying amount					
As at 31 December 2004	100,042	7,538	20,604	5,549	133,733
As at 31 December 2003	102,788	11,314	31,242	3,853	149,197

As at 31 December 2004, the carrying amount of the buildings in amount of 100,042 thousands of denars represent cost less accumulated depreciation, revaluated at the year end by applying official indices in the Republic of Macedonia. The Bank has not recognized any adjustment on these assets due to the fact that there is no material difference between the fair and accounting value of the assets, according to the revaluation made by a local authorized valuers at the balance sheet date.

As at 31 December 2004, the carrying amount of the leasehold improvements in amount of 7,538 thousands of denars (2003: 11,314 thousands of denars) represent cost less accumulated depreciation of the Bank's investment in improvements of the assets which are under operating lease. The depreciation rate of these assets is 20% per year (2003: 20% per year). All buildings are occupied by the Bank for its own activities.

## 22. Bank and other financial institutions deposits

	31.12.2004		31.12.2003	
<i>In thousands of denars</i>	Short-term	Long-term	Short-term	Long-term
Demand deposits in denars	-	-	-	-
Demand deposits foreign currency	1,801	-	964	-
Time deposits in denars	-	-	-	-
Time deposits in foreign currency	-	-	-	-
<b>Total bank deposits</b>	1,801	-	964	-

Bank and other financial institutions deposits consist of amounts at the current accounts of these financial institutions that are recorded

by the Bank as at 31 December. These deposits are non-interest bearing deposits.

## 23. Customer deposits

	31.12.2004		31.12.2003	
<i>In thousands of denars</i>	Short-term	Long-term	Short-term	Long-term
Demand deposits				
Non-financial sector				
- in denars	467,715	-	418,819	-
- in foreign currency	313,103	-	286,780	-
	780,818	-	705,599	-
Public sector				
- in denars	-	-	-	-
- in foreign currency	-	-	-	-
	-	-	-	-
Citizens				
- in denars	18,576	-	23,995	-
- in foreign currency	165,967	-	170,692	-
	184,543	-	194,687	-
<b>Total demand deposits</b>	965,361	-	900,286	-
Time deposits				
Non-financial sector				
- in denars	132,247	-	8,889	-
- in foreign currency	320,897	-	713,088	-
	453,144	-	721,977	-
Public sector				
- in denars	-	-	-	-
- in foreign currency	-	-	-	-
	-	-	-	-
Citizens				
- in denars	6,417	46	4,456	75
- in foreign currency	91,391	21,704	98,162	27,213
	97,808	21,750	102,618	27,288
<b>Total time deposits</b>	550,952	21,750	824,595	27,288
Total customer deposits	1,516,313	21,750	1,724,881	27,288
Total customer deposits	1,538,063	-	1,752,169	-

The Bank calculates interest on companies demand deposits with interest rate of 1% per annum (2003: 2.50% per annum). The bank calculates interest on companies time deposits in denars and foreign currency with interest rates from 2% to 8.52% per annum and from 0.49% to 1.85% per annum (2003: from 3% to 9.52% per annum and from 0.59% to 1.95% per annum).

The Bank calculates interest on citizens

demand deposits in denars and foreign currency with interest rates of 1% per annum and from 0.10% to 0.80% per annum (2003: 2% and from 0.20% to 1.00% per annum).

The bank calculates interest on citizens time deposits in denars and foreign currency with interest rates from 4.50% to 6% per annum and from 0.40% to 1.70% per annum (2003: from 4.50% to 11.00% per annum and from 0.40% to 2.00% per annum).

## 24. Interest liabilities

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Interest liabilities to:		
Non-financial sector	1,405	3,380
Public sector	-	-
Financial sector	-	-
Citizens	257	358
Other	6	7
<b>Total interest liabilities</b>	<b>1,668</b>	<b>3,745</b>

## 25. Other current liabilities

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
Net wages and allowances to employees	-	-
Income tax liabilities	3,385	-
Liabilities to domestic suppliers	475	666
Liabilities to foreign suppliers	1,192	-
Liabilities for fees and commissions	-	2
Liabilities for rewards to employees	400	-
Other current liabilities	305	388
<b>Total other current liabilities</b>	<b>5,757</b>	<b>1,056</b>

## 26. Provision for off balance sheet commitments

For the year ended 31 December 2004

<i>In thousands of denars</i>	<b>2004</b>	<b>2003</b>
<b>Balance at the begging of the year</b>	<b>2,176</b>	<b>2,877</b>
Provision made (released) for the period	(558)	(701)
<b>Balance at the end of year</b>	<b>1,618</b>	<b>2,176</b>

## 27. Capital and reserves

### a) Shareholders capital

	<b>31.12.2004</b>	<b>31.12.2003</b>	<b>31.12.2004</b>	<b>31.12.2003</b>
	No. of Shares	No. of Shares	Den. 000	Den. 000
Ordinary shares	1,548	1,548	185,760	185,760
Priority shares	-	-	-	-

Ordinary shares are authorized, issued and fully paid. They have par value of 120,000 Denars. Ordinary shares owners have right to received dividends when they are declared and right to vote in the Banks Shareholders Assembly. The Bank is owned 100% by Alpha Bank A.E. Athens, Republic of Greece.

#### b) Legal reserves

Under the local statutory legislation, the Bank is required to set aside 15% of its net profit for the year in a legal reserve until the level of the reserve reaches 20% of the shareholders capital. Until the reserve reaches the required minimum level, it can be used only for loss recovery. When the minimum level is reached legal reserves can also be used for distribution of dividends, based on a decision of the Shareholders' Assembly. During 2004, the Bank has made appropriation of the retained earnings to legal reserve in amount of 399,084 thousands of denars, according to the Shareholders Assembly decision from March 2004.

#### a) Litigations

The Bank is involved in several routine legal proceedings with its clients. According to Bank management estimations, there is no probability for liabilities or losses arising from the final outcome of these proceedings as the litigations are purely formal in order to postpone the process of activation of mortgages. Therefore, no contingent liabilities or losses are recorded or shown in these financial statements.

#### b) Guarantees and letters of credit

For the year ended 31 December 2004

*In thousands of denars*

	<b>2004</b>	<b>2003</b>
Guarantees in Denars	123,725	70,624
Guarantees in foreign currency	86,443	87,122
Letters of credit	70,627	60,240
<b>Total</b>	<b>280,795</b>	<b>217,986</b>
Provision for off balance sheet commitments (Note 11)	(1,618)	(2,176)
<b>Total net guarantees and letters of credit</b>	<b>279,177</b>	<b>215,810</b>

#### c) Revaluation reserves

As at 31 December 2004, the revaluation reserve in amount of 43,674 thousands of denars represent revaluation of cost and accumulated depreciation of intangible assets and property and equipment from previous periods, revaluated at the year end by applying official indices in the Republic of Macedonia, based on the increase of the producers price index. The revaluation is allocated to the revaluation reserve as a part of the Bank's capital. This reserve is not applicable for distribution.

### 28. Commitments and contingencies

The commitments and contingencies are recorded and shown in the financial statements only if a probability for future outflows of funds that include economic benefits and a possibility for reasonable estimate of the amount exist.

These commitments and contingent liabilities have off balance sheet credit risk because only fees and provision for 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.

As at 31 December 2004, part of the guarantees and letters of credit are secured by customer deposits in amount of 26,300 thousands of denars (2003: 1,079 thousands of denars). These guarantees and letters of credit are not subject to provision for losses.

## 29. Trust activities

The Bank manages assets on behalf of third parties which 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, asset does not guarantee these investments.

As at 31 December 2004 the total assets held by the Bank on behalf of customers were 87,648 thousands of denars (2003: 113,986 thousands of denars).

## 30. Risk management

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 risk and equity price risk.

### a) 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 guaranties.

The credit risk arises from risk of uncollection of loans to customers and banks at the moment of its maturity. The Bank's credit risk management is made by separate credit ranking of its clients, according to the National Bank of the Republic of Macedonia methodology, by which each rank carries certain amount of provision for losses. The credit ranking is made according to the credit ability of the clients, sector risk and the adequate loan collateral. The Bank follows its credit risk on monthly, quarterly and annual basis.

Under the local statutory legislation (The Law on banks), there are legal limitations for Bank's credit risk to separate customers, which can not be more than 25% of the Banks guarantee capital, which at the balance sheet date is in amount of 1,306,452 thousands of denars, calculated on the financial statements figures. Also, the Banks credit risk to separate shareholder with interest more than 5% of the voting share, as well as to a separate company in which the Bank owns shares, can not be more than 10% of the Banks guarantee capital.

As at 31 December 2004, the Bank has no concentration of credit risk that are more than the previous described limitations. As at 31 December 2004, six Bank customers represent 70% of the total loans to customers (Note 16). These customers are dealing in different sectors.

To manage the level of credit risk, the Bank deals with counterparties of good credit standing and requires collateral.

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 rigorous credit assessments before being provided.

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

## b) Liquidity risk

Liquidity risk arises in the general funding of the Bank 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 broad range of instruments including deposits, borrowings and share capital. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of

liabilities with a range of maturities. Most of its operations, the Bank is funding through customer deposits and share capital, with daily borrowings from domestic banks in period of daily illiquidity. During 2004, the Bank has used short-term borrowings in amount of 68,000 thousands of denars (2003: 45,000 thousands of denars).

The following table provides an analysis of the assets and liabilities of the Bank as at 31 December 2004 and 2003, into relevant maturity grouping based on the original period to the repayment date:

For the year ended 31 December 2004

<i>In thousands of denars</i>	Up to 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 Years	Total
Cash and cash equivalents	306,367	-	-	-	-	306,367
Treasury bills	387,343	-	-	-	-	387,343
Loans to banks	603,512	-	-	-	-	603,512
Loans to customers	129,818	72,599	749,070	440,547	12,301	1,404,334
Interest receivables	11,577	-	-	-	-	11,577
Other current assets	2,838	297	309	-	-	3,444
Investments available-for-sale	-	-	-	-	2,660	2,660
Assets acquired	-	-	-	5,049	-	5,049
Intangible assets	-	-	-	-	5,549	5,549
Property and equipment	-	-	-	-	128,184	128,184
<b>Total assets</b>	<b>1,441,455</b>	<b>72,896</b>	<b>749,379</b>	<b>445,596</b>	<b>148,694</b>	<b>2,858,019</b>
Bank and other financial institutions Deposits	1,801	-	-	-	-	1,801
Customer deposits	1,442,698	80,158	15,207	-	-	1,538,063
Interest liabilities	880	788	-	-	-	1,668
Other liabilities	2,188	3,569	-	-	-	5,757
Provision for off balance sheet commitments	-	1,618	-	-	-	1,618
Capital and reserves	-	-	-	-	1,309,112	1,309,112
<b>Total liabilities and capital</b>	<b>1,447,567</b>	<b>86,133</b>	<b>15,207</b>	<b>-</b>	<b>1,309,112</b>	<b>2,858,019</b>
<b>Net liquidity gap</b>	<b>(6,112)</b>	<b>(13,237)</b>	<b>734,172</b>	<b>445,596</b>	<b>(1,160,418)</b>	<b>-</b>
<b>Commitments and contingencies</b>	<b>91,859</b>	<b>45,497</b>	<b>127,649</b>	<b>15,790</b>	<b>-</b>	<b>280,795</b>

For the year ended 31 December 2003

Total assets	1,932,101	79,497	508,843	275,193	153,750	2,949,384
Total liabilities and capital	1,618,650	87,549	26,623	27,288	1,189,274	2,949,384
Net liquidity gap	313,451	(8,052)	482,220	247,905	(1,035,524)	-
<b>Commitments and contingencies</b>	<b>91,094</b>	<b>44,582</b>	<b>77,310</b>	<b>5,000</b>	<b>-</b>	<b>217,986</b>



### c) Market risk

#### Equity price risk

Equity price risk is the possibility that equity prices will fluctuate affecting that fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The primary exposure to equity prices arise from equity investments that are not traded. The Bank owns investments in shares that are not traded (Note 19).

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. The Denar is pegged to Euro and the monetary projections envisage stability of the exchange rate of the Denar against Euro.

The following table provides an analysis of the assets and liabilities of the Bank as at 31 December 2004 and 2003, into relevant currency grouping:

#### Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank

For the year ended 31 December 2004

<i>In thousands of denars</i>	MKD	EUR	USD	Other	Total foreign curr.	Total
Cash and cash equivalents	78,237	169,124	19,600	39,406	228,130	306,367
Treasury bills	387,343	-	-	-	-	387,343
Loans to banks	-	199,258	155,483	248,771	603,512	603,512
Loans to customers	739,221	638,513	26,601	-	665,113	1,404,334
Interest receivables	9,160	2,318	93	5	2,417	11,577
Other current assets	3,444	-	-	-	-	3,444
Investments available-for-sale	2,660	-	-	-	-	2,660
Assets acquired	5,049	-	-	-	-	5,049
Intangible assets	5,549	-	-	-	-	5,549
Property and equipment	128,184	-	-	-	-	128,184
<b>Total assets</b>	<b>1,358,847</b>	<b>1,009,212</b>	<b>201,777</b>	<b>288,183</b>	<b>1,499,172</b>	<b>2,858,019</b>
Bank and other financial institutions deposits	-	656	1,145	-	1,801	1,801
Customer deposits	625,001	730,849	165,679	16,534	913,062	1,538,063
Interest liabilities	1,668	-	-	-	-	1,668
Other liabilities	5,757	-	-	-	-	5,757
Provision for off balance sheet commitments	1,618	-	-	-	-	1,618
Capital and reserves	1,309,112	-	-	-	-	1,309,112
<b>Total liabilities and capital</b>	<b>1,943,156</b>	<b>731,505</b>	<b>166,824</b>	<b>16,534</b>	<b>914,863</b>	<b>2,858,019</b>
<b>Net position</b>	<b>(584,309)</b>	<b>277,707</b>	<b>34,953</b>	<b>271,649</b>	<b>584,309</b>	<b>(0)</b>
<b>Commitments and contingencies</b>	<b>123,725</b>	<b>145,311</b>	<b>11,759</b>	<b>-</b>	<b>157,070</b>	<b>280,795</b>

For the year ended 31 December 2003

<i>In thousands of denars</i>	MKD	EUR	USD	Other	Total foreign curr.	Total
Total assets	1,230,662	1,440,780	167,038	110,904	1,718,722	2,949,384
Total liabilities and capital	1,651,672	1,126,481	155,308	15,923	1,297,712	2,949,384
<b>Net position</b>	<b>(421,010)</b>	<b>314,299</b>	<b>11,730</b>	<b>94,981</b>	<b>421,010</b>	<b>-</b>
<b>Commitments and contingencies</b>	<b>70,624</b>	<b>146,134</b>	<b>1,228</b>	<b>-</b>	<b>147,362</b>	<b>217,986</b>

## 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 of reprise at different times or in different 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, and three or six months EURIBOR/LIBOR and different types of interest.

The following table provides an analysis of the Banks interest rate risk, according to the assets and liabilities of the Bank as at 31 December 2004 and 2003:

### For the year ended 31 December 2004

<i>In thousands of denars</i>	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non interest bearing	Total
Cash and cash equivalents	211,104	-	-	-	95,263	306,367
Treasury bills	387,343	-	-	-	-	387,343
Loans to banks	603,512	-	-	-	-	603,512
Loans to customers	129,818	72,599	749,070	452,848	-	1,404,334
Interest receivables	11,577	-	-	-	-	11,577
Other current assets	2,838	297	309	-	-	3,444
Investments available-for-sale	-	-	-	-	2,660	2,660
Assets acquired	-	-	-	-	5,049	5,049
Intangible assets	-	-	-	-	5,549	5,549
Property and equipment	-	-	-	-	128,184	128,184
<b>Total assets</b>	<b>1,346,192</b>	<b>72,896</b>	<b>749,379</b>	<b>452,848</b>	<b>236,705</b>	<b>2,858,019</b>
Bank and other financial institutions deposits	1,801	-	-	-	-	1,801
Customer deposits	1,442,698	80,158	15,207	-	-	1,538,063
Interest liabilities	880	788	-	-	-	1,668
Other liabilities	2,188	3,569	-	-	-	5,757
Provision for off balance sheet commitments	-	-	-	-	1,618	1,618
Capital and reserves	-	-	-	-	1,309,112	1,309,112
<b>Total liabilities and capital</b>	<b>1,447,567</b>	<b>84,515</b>	<b>15,207</b>	<b>-</b>	<b>1,310,730</b>	<b>2,858,019</b>
<b>Asset liability gap</b>	<b>(101,375)</b>	<b>(11,619)</b>	<b>734,172</b>	<b>452,848</b>	<b>(1,074,025)</b>	<b>-</b>

### For the year ended 31 December 2003

Total assets	1,761,413	79,152	506,356	277,086	325,377	2,949,384
Total liabilities and capital	1,318,896	79,828	26,623	27,287	1,496,750	2,949,384
<b>Asset liability gap</b>	<b>442,517</b>	<b>(676)</b>	<b>479,733</b>	<b>249,799</b>	<b>(1,171,373)</b>	<b>-</b>

### 31. Related party transactions

According to the local Law on banks, related parties to the Bank are considered the following: parties with special rights and responsibilities in the Bank, shareholders who own more than 5% of the voting shares, parties related with previous mentioned parties and parties who have significant interest in other party in which the Bank has also significant interest.

During its daily operations, the Bank is engaged in different business transaction with its parent company and only shareholder, Alpha Bank A.E. Athens. These transactions are made under regular business conditions and market rates. The balances of the receivables and liabilities, as well as the connected income and expenses, are as follows:

For the year ended 31 December 2004

*In thousands of denars*

	<b>2004</b>	<b>2003</b>
Current accounts in foreign currency (Note 13)	8,309	15,541
Deposits with foreign banks (Note 15)	111,583	96,512
Interest receivable and other receivables	24	35
<b>Net receivables (liabilities)</b>	<b>119,916</b>	<b>112,088</b>
Interest income	2,081	1,511
Interest expense	(4)	(371)
Fee and commission income	5	-
Fee and commission expense	(68)	-
<b>Net income (expense)</b>	<b>2,014</b>	<b>1,140</b>
Nostro guarantees in foreign currency	39,773	44,568
Nostro letters of credit in foreign currency	902	6,186
Loro guarantees in foreign currency	(237,428)	(256,145)
	<b>(196,753)</b>	<b>(205,391)</b>

Also, the Bank has loans to parties in Bank and parties related to the previous in amount of 3,066 thousands of denars (2003: 2,000 thousands of denars). These loans are made under regular business conditions and market rates.

### 32. Off balance sheet receivables

According to local regulations of the NBRM, all banks in Macedonia are obliged to transfer to off balance sheet records, all receivables which have been classified as bad and doubtful receivables during two subsequent three-month period. Full provision for losses was made for these receivables.

For the year ended 31 December 2004

*In thousands of denars*

	<b>2004</b>	<b>2003</b>
Loans	77,490	76,147
Interest and other receivables	216,180	218,485
<b>Total</b>	<b>293,670</b>	<b>294,632</b>

Starting from March 2003, the banks are obliged all bad and doubtful receivables to be recorded in the balance sheet.

### 33. Post balance sheet events

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

## **ALPHA BANK AD SKOPJE**

Dame Gruev 1, 1000 Skopje

Republic of Macedonia

P. O. Box. 564

Tel.: 389 2 3289 400

Fax: 389 2 3135 206, 3116 830

Telex: 51758

SWIFT: KRSKMK2X

e-mail: [contact@alphabank.com.mk](mailto:contact@alphabank.com.mk)

**ALPHA BANK SKOPJE**

P.O. Box 564, Dame Gruev 1, 1000 Skopje