

Capital Bank AD, Skopje

FINANCIAL STATEMENTS  
for the year ended at  
December 31, 2010

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## **Independent Auditors' report to the shareholders of Capital bank AD, Skopje**

We have audited the accompanying financial statements of Capital bank AD, Skopje ("the Bank"), which comprise the balance sheet as at 31 December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulations prescribed by the National Bank of Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the regulations prescribed by the National Bank of Republic of Macedonia.

*KPMG Macedonia DOO*

KPMG Macedonia DOO Skopje

29 April 2011

Skopje

Capital Bank AD, Skopje – Financial Statements

**Income Statement**

**for the period 01.01.2010 - 31.12.2010**

		<i>in MKD thousand</i>	
	Note	Current year 2010	Previous year 2009
Interest income		47,739	39,344
Interest expense		(6,671)	(5,183)
NET INTEREST INCOME/(EXPENSES)	6	41,068	34,161
Fee and commission income		10,217	8,660
Fee and commission expense		(4,361)	(4,849)
NET FEE AND COMMISSION INCOME/(EXPENSES)	7	5,856	3,811
Net trading income	8	-	-
Net income from other financial instruments carried at fair value	9	-	-
Net foreign exchange gain/loss	10	361	1,628
Other operating income	11	7,066	11,907
Profit – sharing of associates entities	24		
Net impairment losses on financial assets	12	5,609	464
Net impairment losses on non-financial assets	13	-	-
Personnel expenses	14	(40,154)	(37,089)
Depreciation and amortization	15	(11,584)	(4,806)
Other operating expenses	16	(53,674)	(47,334)
Loss sharing of associates entities	24		

Capital Bank AD, Skopje – Financial Statements

<b>PROFIT/ (LOSS) BEFORE TAX</b>		<b>(45,452)</b>	<b>(37,258)</b>
Income tax	17	-	(182)
<b>PROFIT/ (LOSS) FOR THE YEAR</b>		<b>(45,452)</b>	<b>(37,440)</b>
Profit / (loss) from the group of assets and liabilities held for sale *		-	-
<b>Profit / (loss) for the year</b>		-	-
<b>Profit / (loss) for the period, attributable to*:</b>			
Equity holders of the Bank			
Minority interest			
<b>Earnings per share</b>	41		
Basic loss per share (in denars)		(1,726)	(1,421)
Diluted loss per share in (denars)		(1,726)	(1,421)

\*Only for the consolidated financial statement

The notes set out on pages 11 to 131 form an integral part of these financial statements.

The Financial statements presented on the pages 1 to 131 have been approved by the Supervisory Board on 29 April 2011 and signed in its behalf by:

Borislav Zahariev  
Management Board President



Aco Ilieski  
Management Board Member

Capital Bank AD, Skopje – Financial Statements

**Balance Sheet**

**as at 31 December 2010**

		<i>in MKD thousand</i>	
	Note	Current year 2010	Previous year 2009
<b>ASSETS:</b>			
Cash and cash equivalents	18	270,131	189,095
Trading assets	19	-	-
Financial assets at fair value through profit and loss designated upon initial recognition	20	-	-
Derivative assets held for risk management	21	-	-
Loans and advances to banks	22.1	42	-
Loans and advances to customers	22.2	229,229	107,789
Investment securities	23	9,083	33,440
Investments in associates entities (carried at "equity method")	24	-	-
Current tax receivables	30.1	-	664
Other assets	25	35,374	6,247
Pledged assets	26	-	-
Assets acquired through foreclosure procedures	27	98,069	107,658
Intangible assets	28	33,449	18,760
Property and equipment	29	38,371	14,853
Deferred tax assets	30.2	-	-
Non-current assets held for sale and group for disposal	31	-	-
<b>TOTAL ASSETS</b>		<b>713,748</b>	<b>478,506</b>
<b>LIABILITIES</b>			
Trading liabilities	32	-	-
Financial liabilities at fair value through profit and loss designated upon initial recognition	33	-	-
Derivative liabilities held for risk management	21	-	-
Deposits from banks	34.1	6,992	-
Deposits from customers	34.2	385,405	107,479
Debt securities issued	35	-	-
Borrowings	36	-	-

Capital Bank AD, Skopje – Financial Statements

Subordinated liabilities	37	-	-
Provisions	38	538	1,172
Current tax liabilities	30.1	-	-
Deferred tax liabilities	30.2	-	-
Other liabilities	39	7,442	11,251
Liabilities directly attributable to group of assets for disposal	31	-	-
<b>Total liabilities</b>		<b>400,377</b>	<b>119,902</b>
<b>EQUITY</b>			
Issued capital	40	782,489	782,489
Share premium			
Treasury shares			
Capital component of the hybrid financial instruments			
Other equity instruments			
Revaluation reserves	40.1	601	382
Other reserves			
Retained earnings/(Accumulated losses)	40.2	(469,719)	(424,267)
<b>Total equity attributable to equity holders</b>		<b>313,371</b>	<b>358,604</b>
Minority interest*		-	-
<b>Total equity</b>		<b>313,317</b>	<b>358,604</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>713,748</b>	<b>478,506</b>
Contingent liabilities	42.1	27,377	29,395
Contingent assets	42.1	-	-

\* only for consolidated financial statements

*The notes set out on pages 11 to 131 form an integral part of these financial statements.*



Capital Bank AD, Skopje – Financial Statements

**Statement of changes in equity**  
**For the period 01.01.2010 – 31.12.2010**

<i>In thousand MKD</i>	Equity		Other reserves			Revaluation reserves			Retained earnings			Total equity attributable to equity holders	Minority interest	Total equity			
	Issued Capital	Share premium	Treasury shares	Capital component of the hybrid financial assets	Other equity instruments	Statutory reserve	Other reserve	Reserves from revaluation on available-for-sale securities	Risk management reserve	Translation difference reserve	Reserves from revaluation				Available for distribution	Restricted for distribution	Accumulated loss
Balance at January 1, 2009	782,489							368						(386,827)	396,030		396,030
Impact of transition to new Accounting Methodology																	
Balance at January 1, 2009 adjusted	<b>782,489</b>							<b>368</b>						<b>(386,827)</b>	<b>396,030</b>		<b>396,030</b>
Change in revaluation of available-for-sale securities								14							14		14
Change in fair value of derivatives in cash flow hedging																	
Change in revaluation for hedges of net-investments in foreign currency																	
Foreign currency translation difference recognized in equity																	
Deferred tax asset/liability recognized in equity																	
Other (listed in details)																	
<b>UNREALIZED GAINS/LOSSES RECOGNISED INTO EQUITY</b>								<b>14</b>							<b>14</b>		<b>14</b>
Capital issued in the period																	
Profit / (loss) for the financial year														(37,440)	(37,440)		(37,440)
Statutory reserve fund																	
Other reserve fund																	
Dividends																	
Purchase of own shares																	
Sale of own shares																	
Other changes in equity (listed details)																	
<b>Balance at December 31, 2009 (previous year/ January 1 2010 (current year))</b>	<b>782,489</b>							<b>382</b>						<b>(424,267)</b>	<b>358,604</b>		<b>358,604</b>

*The notes set out on pages 11 to 131 form an integral part of these financial statements.*

Capital Bank AD, Skopje – Financial Statements

**Statement of Changes in Equity (continue)**  
**For the period 01.01.2010 – 31.12.2010**

In thousand MKD	Equity			Other reserves			Revaluation reserves			Retained earnings			Total equity attributable to equity holders	Minority interest	Total equity		
	Issued Capital	Share premium	Treasury shares	Capital component of the hybrid financial assets	Other equity instruments	Statutory reserve	Other reserve	Reserves from revaluation on available-for-sale securities	Risk management reserve	Translation difference reserve	Reserves from revaluation	Available for distribution				Restricted for distribution	Accumulated loss
Change in revaluation of available-for-sale securities							219								219		219
Change in fair value of derivatives in cash flow hedging																	
Change in revaluation for hedges of net-investments in foreign currency																	
Foreign currency translation difference recognized in equity																	
Deferred tax asset/liability recognized in equity																	
Other (listed in details)																	
<b>UNREALIZED GAINS/LOSSES RECOGNISED INTO EQUITY</b>							<b>219</b>								<b>219</b>		<b>219</b>
Capital issued in the period																	
Profit/ (loss) for the financial year														(45,452)	(45,452)		(45,452)
Statutory reserve fund																	
Other reserve fund																	
Dividends																	
Purchase of own shares																	
Sale of own shares																	
Other changes in equity (listed details)																	
<b>Balance at December 31, 2010 (current year)</b>	<b>782,489</b>						<b>601</b>							<b>(469,719)</b>	<b>313,371</b>		<b>313,371</b>

The notes set out on pages 11 to 131 form an integral part of these financial statements.

Capital Bank AD, Skopje – Financial Statements

<b>Statement of Cash Flows</b>			
<b>For the period 01.01.2010 – 31.12.2010</b>			
		<i>in MKD thousand</i>	
	Note	Current year 2010	Previous year 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		(45,452)	(37,258)
ADJUSTMENT FOR NON-CASH ITEMS:			
Minority shares included in the consolidated Income Statement*			
Depreciation and amortization of:			
Intangible assets	15	4,727	699
Property and equipment	15	6,857	4,107
Capital gains from:			
Sale of intangible assets			
Sale of property and equipment		(26)	
Sale of foreclosed assets		(527)	
Capital loss from:			
Sale of intangible assets			
Sale of property and equipment			
Sale of foreclosed assets		581	
Interest income	6	(47,739)	(39,344)
Interest expenses	6	6,671	5,183
Net trading income			
Impairment of financial assets (on net basis)			
Additional impairment	12		
Release of impairment		(5,609)	(464)
Impairment loss of non-financial assets on net bases			
Additional impairment loss	13		
Release of impairment loss			
Special reserve			
Additional provision			
Release of provision	38	(634)	(626)
Dividend income	11	(59)	(98)
Share in the gain/(loss) of associates entities			
Profit/(loss) sharing of associates entities			
Other adjustments		32	665
Interest received		47,877	39,376
Interest paid		(5,983)	(5,894)
<b>Profit from operating activities before changes in the</b>		<b>(39,284)</b>	<b>(33,654)</b>

Capital Bank AD, Skopje – Financial Statements

**operating assets**

*(Increase)/decrease of operating assets:*

Trading assets		
Derivatives held for risk hedging		
Loans to and receivables from banks	(42)	
Loans to and receivables from other clients	(110,740)	9,175
Pledged assets		
Foreclosed assets	9,535	
Mandatory reserve in foreign currency	35,267	(39,858)
Mandatory deposit with NBRM according specific provisions		-
Other receivables	(28,200)	(5,637)
Deferred tax assets		
Non-current assets held for trading		
<i>Increase/ (decrease) of liabilities:</i>		
Trading liabilities		
Derivative liabilities held for risk management		
Deposits from banks	6,990	
Deposits from other clients	277,240	31,448
Other liabilities	(3,809)	1,258
Liabilities attributable to group of assets for disposal		
<b>Net cash flows from operating activities before tax</b>	<b>146,957</b>	<b>(37,268)</b>
(Paid)/return income tax		
<b>Net cash flow from operating activities</b>	<b>146,957</b>	<b>(37,268)</b>
<b>Cash flow from investment activities</b>		
(Security investments)		(11,950)
Proceeds from sale of investment securities	18,931	
(Outflows from investments in subsidiaries and associated entities)		
Proceeds from sale of investments in subsidiaries and associated entities		
(Purchase of intangible assets)	(19,416)	(15,653)
Proceeds from sale of intangible assets		
(Purchase of property and equipment)	(30,451)	(5,108)
Proceeds from sale of property and equipment	102	
(Outflow for non-current assets held for sale)		
Proceeds from non-current assets held for sale		
(Other outflows from investment activities)		
Other proceeds from investment activities	59	98
<b>Net cash flows from investment activities</b>	<b>(30,775)</b>	<b>(32,613)</b>

<b>Cash flow from financing activities</b>			
(Payment of debt securities issued)			
Proceeds from debt securities issued			
(Payment of borrowings)			
Increase of borrowings			
(Payment of issued subordinated liabilities)			
Proceeds from issued subordinated liabilities			
Proceeds from issued shares/ equity instruments in the period			
(Purchase of own shares)			
Sold own shares			
(Paid dividends)			
(Other outflows from financing activities)			
Other proceeds from financing activities			
<b>Net cash flow from financing activities</b>			-
Effect from impairment of cash and cash equivalents		134	165
Effect from foreign currency differences of cash and cash equivalents		(13)	
<b>Net – increase/ (decrease) of cash and cash equivalents</b>		<b>116,303</b>	<b>(69,716)</b>
Cash and cash equivalents at January 1		147,600	217,316
<b>Cash and cash equivalents at December 31</b>	<b>18</b>	<b>263,903</b>	<b>147,600</b>

\* only for the consolidated financial statements

*The notes set out on pages 11 to 131 form an integral part of these financial statements.*

## **1. Introduction**

### **a) General**

Capital Bank AD, Skopje (hereinafter referred to as “the Bank”) is a joint stock company incorporated and domiciled in the Republic of Macedonia. The address of the bank’s registered head office is st. Moshka Pijade no.4, 1000 Skopje, Republic of Macedonia.

The Bank is licensed by the National Bank of the Republic of Macedonia (“NBRM”) for performing domestic and payment operations abroad, including mediation in foreign currency exchange, loan and deposit activities as well as credit card operations on the territory of the Republic of Macedonia and abroad. As at 31 December 2010 and 2009, the total number of Bank’s employees is 57 i.e. 59, respectively.

The Bank has no investments in subsidiaries or associated entities.

The Bank is listed at the Macedonian Stock Exchange AD, Skopje. The Bank’s shares are traded at the free market with a symbol INTP and ISIN code (MKINTP101015).

### **b) Basis of preparation**

#### **Statement of compliance**

These financial statements have been prepared in accordance with the Accounting standards as adopted by the Methodology for recording and valuation of the accounting items and preparation of financial statements (“Official Gazette of the RM” No.118/2007) and Manual for the types and the content of the Bank’s financial statements (“Official Gazette of the RM” No.118/2007, 80/2009 and 157/2009) (hereinafter referred to as “the Methodology”).

The financial statements represent individual financial statements.

#### **Basis of measurement**

The financial statements have been prepared using the basis for measurement specified in the Methodology for each separate type of asset, liability, income or expenses. The bases for their measurement are described in details in the note, below.

The financial statements have been prepared on the historical cost basis except for:

- The assets available for sale measured at fair value;

The preparation of these financial statements in conformity with NBRM’s Methodology requires usage of certain critical accounting estimates. It also requires the Bank’s management to make judgment that affects the application of the accounting policies. The areas that involve a higher level of judgment or complexity, or areas where the assumptions and estimates are significant to the financial statements are disclosed in Note d: Use of estimates and judgments.

#### **Functional and reporting currency**

The financial statements have been prepared as at and for the year ended 31 December 2010. Except as indicated the current and the comparative data reported in these financial statements are presented in denar thousand (“MKD” or “Denar”). The Denar is the Bank’s functional currency.

**c) Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**c.1) Foreign currency transactions**

Transactions in foreign currencies are translated into denars at the official exchange rates of NBRM at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Macedonian denars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in denars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the spot exchange rate at the end of the period.

Foreign currency differences arising on retranslation of the amounts in foreign currencies are recognized in profit or loss. The middle exchange rates used for translation were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
1 EUR	61.5050 denar	61.1732 denar
1 USD	46.3140 denar	42.6651 denar
1 CHF	49.3026 denar	41.1165 denar

**c.2) Interest**

Interest income and expense are recognized in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The effective interest rate is determined at the initial recognition of the asset or liability and shall not be subsequently changed.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include:

- interest on financial assets and liabilities measured at amortized cost calculated on an effective interest rate basis;
- interest on available-for-sale investment calculated on an effective interest rate basis.

**c.3) Fees and commissions**

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including financial services provided by the Bank in respect of foreign currency settlements, domestic and foreign payment operations, guarantees, letters of credit, credit card

operations and other services, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to financial service that Bank received, which are expensed as the services are received.

#### **c.4) Dividends**

Dividend income is recognized when the right to receive income is established.

#### **c.5) Lease payments made**

Payments made under operating leases are recognized in the income statement as expense over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

#### **c.6) Income tax expense**

In the Republic of Macedonia a new tax regime had become effective according which the base for income tax computation had been shifted from the profit before taxes to the income “distribution” concept. “Distributions” are split into two components:

- Tax on any dividend distribution – i.e. the tax base is the dividend paid;
- Tax on non deductible items – i.e. the tax base is the non deductible items specified in the tax rulebook less any allowable tax credits. The tax on non deductible items is paid each month in monthly advance installments based on the previous fiscal year computation of such non deductible differences. At year end a final tax computation is prepared with a final tax settlement.

As such, the new income tax regime provokes certain implications on the presentation of the tax in the financial statements which are summarized below:

(i) Tax on dividend distribution:

Tax on dividend distribution is considered to be income tax within scope of International Accounting Standards - Tax on Income adopted in Republic of Macedonia (“IAS 12”).

The timing of recognition of this type of income tax is to be consistent with the underlining dividend liability recognition (i.e., recognized when the dividend is paid and/or declared). As such no provisions are required for income tax arising from dividend distribution until the dividend is declared and/or paid.

When the tax on dividend distribution arises on interim (advance) dividend paid before the year end, the income tax charge is recognized and presented in the income statement after profit and loss before tax as income tax expense.

When the tax on dividend distribution arises from retained earnings, it is recognized and presented in the Statement of changes in equity.

(ii) Tax on non deductible items:

Tax on non deductible items is not income tax and is out of scope of IAS 12. Accordingly, such tax expense is presented within the operating results, and related tax payable/receivable is presented within the other assets/other liabilities in the balance sheet.

Recognition of tax provisions:



In case of tax contingencies, provisions are made in line with International Accounting Standards – Provisions, Contingent Liabilities and Contingent Assets adopted in the Republic of Macedonia (“IAS 37”).

Such provisions are not presented as deferred tax assets or deferred tax liabilities, but as other assets or other liabilities.

Recognition/reversal of such tax provisions (that is not income taxes) is presented within the other expenses/other income.

### **c.7) Financial assets and liabilities**

#### ***(i) Recognition***

The Bank initially recognizes loans and advances, deposits and borrowed funds on the date at which they are originated, at cost. All other financial assets and liabilities are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

#### ***(ii) Classification***

The Bank classifies its financial assets in the following categories: loans and advances, available for sale financial assets and financial assets held to maturity. The Management classifies its investments at initial recognition.

#### ***(iii) Derecognition***

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes financial liabilities when its contractual obligations are settled, cancelled or expired.

#### ***(iv) Offsetting***

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the accounting standards, or for gains and losses arising from a group of similar transactions.

#### ***(v) Amortized cost measurement***

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

#### ***(vi) Fair value measurement***

The fair values of the quoted investments in an active market are based on the currently quoted prices. If a market for a certain financial instrument is not active (and for unquoted securities), the fair value is

determined by the Bank using the valuation techniques. The valuation techniques include net present value techniques, discounted cash flow method, comparison with the similar instruments for which the market prices is available and pricing models.

### **c.8) Identification and measurement of impairment**

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Bank determines impairment losses according the Decision for credit risk management (Official Gazette nr. 17/2008 and 31/2009). According this decision, the Bank classifies all individually active balance and off-balance positions by grouping together according the level of the credit risk and estimates the impairment losses.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### Available for sale investments

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized directly in equity to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in equity.

### **c.9) Cash and cash equivalents**

Cash and cash equivalents include cash balance on hand, demand deposits with banks, time deposits with banks with original maturity of less than three months, cash deposited with the National Bank of the Republic of Macedonia (“NBRM”) and highly liquid financial assets with original maturities of less than

three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

#### **c.10) Non current assets classified as held for sale**

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are re-measured in accordance with the Bank's accounting policies.

Afterwards the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

#### **c.11) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank approves cash or services directly to the customers without intend for exchange of receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

#### **c.12) Investments**

Investment securities are initially measured at fair value plus direct transaction costs, and subsequently accounted for depending on their classification.

##### Held to maturity financial assets

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. If the Bank sale significant amount of financial assets held-to-maturity before its mature, it would result in the reclassification of all financial assets available for sale, and would prevent the Bank from classifying investment held to maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

##### Available for sale financial assets

Financial assets available-for-sale are those that are not held for trading, that are not approved by the Bank, or are held to maturity. Available for sale financial assets are those intended to be held for an undefined

period of time and can be sold if the Bank has a liquidity gap or there is a change in the interest rate, foreign exchange rate or market prices.

Available for sale investments are carried at fair value except the unquoted equity securities whose fair value cannot be reliably measured, that are carried at cost less impairment loss.

Fair value changes are recognized directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in equity are recognized in profit or loss. However, the interest calculated by using the effective interest rate method, as well as the foreign exchange gains and losses of monetary assets classified as available for sale are recognized in the profit or loss. The dividends on available for sale securities are recognized in the profit or loss when the Bank becomes entitled to the dividend.

### **c.13) Property and equipment**

#### ***(i) Recognition and measurement***

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditures that are directly attributed to the acquisition of the asset. The software necessary for normal functioning of certain property or equipment is recognized as part of that property or equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognized within other income or other expenses in profit or loss.

#### ***(ii) Subsequent costs***

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

#### ***(iii) Depreciation***

Depreciation is calculated on straight-line bases in order to allocate the cost of the property and equipment over the useful lives of each part of an item of property and equipment.

Depreciation rates, based on the estimated useful lives for the current and comparative periods are as follows:

	<b>2010</b>	<b>2009</b>
	%	%
Computer equipment	20	20
Telecommunication equipment	15	15

Office furniture	20	20
Vehicles	25	25
Investments in property under lease	25	25
Other equipment	10	10

Depreciation methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.

#### **c.14) Intangible assets**

##### ***(i) Recognition and measurement***

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and the accumulated impairment loss.

Cost related to development of new products that are based on a contracted relations and are expected to generate future economic benefits for the Bank, and in the same time are clearly included in internal projects with determined characteristics such as duration, goals, expected market segments that will be covered with that products and which can be reliably measured, are capitalized.

Initially, they are measured at cost, and subsequently are amortized over their useful life.

##### ***(ii) Subsequent expenditure***

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed in the profit or loss as incurred.

##### ***(iii) Amortization***

Amortization is recognized on straight-line bases over the estimated useful life of the intangible assets.

The amortization rates based on the estimated useful lives for the current and comparative periods are as follows:

	<b>2010</b>	<b>2009</b>
	%	%
Purchased software	15	15
Other intangible assets	10-20	10-20

Amortization methods, useful lives and residual value are reviewed at each financial year-end and adjusted if appropriate.

#### **c.15) Leased assets – lessee**

Leased assets are classified as:

- a) Finance lease – when substantially all risks and rewards of the ownership of the asset are transferred, regardless of whether the ownership has been transferred or is planned to be transferred, and
- b) Operating lease – all other assets taken under lease. These leased assets are not recognized in the Bank's balance sheet.

Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Currently, the Bank has only operating lease and the payments are recognized as expense, or income in case of sublease, in the income statement.

#### **c.16) Impairment of non – financial assets**

The carrying amounts of the Bank's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. For an asset that does not generate significant independent cash flows, the recoverable amount is determined for the cash-generating unit, to which the asset belongs.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

#### **c.17) Deposits, borrowed funds, debt securities issued and subordinated liabilities**

Deposits, debt securities issued and the subordinated liabilities are the Bank's source of debt funding.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Deposits, debt securities issued subordinated liabilities and borrowed funds are initially measured at fair value plus incremental direct transaction costs related to the acquisition or issue of the financial liability. Subsequently they are measured at their amortized cost using the effective interest method.

#### **c.18) Provisions**

A provision is recognized in the balance sheet if, as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

This item includes the long term provision and other long term liabilities not related to the deferred income tax or derive from borrowings or other financial activities. Types of items mostly included in this category are the calculation and provisions for:

- Off balance sheet credit exposures
- Settlement of court and other Bank's disputes
- Restructuring plans
- Onerous agreements

In general, provision should be recognized if and only if:

- The Bank has a current liability (legal or constructive) towards other party (identified party or the public) as a result of a past event.
- There is a probability (over 50%) that the Bank will face a resource outflow in order to settle certain liability
- The Bank can reliably estimate the amount of the liability.

The provisions presenting hidden reserves or are not economically justified shall not be recognized.

#### Valuation

An inherent characteristic of the long term provisions is that the amount at which the liability will be settled and the time of settlement very often shall be estimated. The carrying amount of these liabilities is determined based on the best estimation of the amount and the time of the expected settlement of the liability. When the effect of the time is significant, the provision amount is the present value (discounted based on the long term rate of the borrowing funds of the Bank) of the expected costs for liability settlement.

In case when the expenses necessary for settlement of the liability is expected to be paid by other parties, the payment shall be treated as a separate asset. In the income statement, the costs related to the provisions should be presented net of the recognized payment.

Provisions shall be subject to review at each reporting date and shall be adjusted in order to reflect the most appropriate current estimation. The change of the liability from one period to another shall include the change in the estimated amount or the settlement period, change in the applied discount rate and the different exchange rate used. The increase of the provision as a result of discounting is recognized as expense. The other net liability change which is presented at the previous reporting date is presented as increase or decrease of the expense regarding the liability.

### **c.19) Employee benefits**

#### ***(i) Defined contribution plans***

The Bank contributes to its employees' post retirement plans as prescribed by the national legislation for social security. Contributions, based on salaries, are made to the national Pension Fund and the mandatory private pension funds, responsible for the payment of pensions. There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are calculated.

#### ***(ii) Short-term benefits***

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### ***(iii) Other long-term employee benefits***

In accordance with local regulations the Bank pays two average salaries to its employees at the moment of retirement and a jubilee awards according the terms determined with the General collective agreement. The long-term employee benefits are discounted to determine their present value. There is no additional liability in respect of post retirement. The Bank has not calculated provision for calculated minimum amount for retirement of the employees and jubilee awards, as these amounts are not material for the financial statements.

### **c.20) Share capital, reserves and dividends**

#### ***(a) Ordinary shares***

Ordinary shares are classified as equity.

#### ***(b) Incremental costs***

Incremental costs directly attributable to the issue of equity instruments are recognised as a deduction from equity.

#### ***(d) Repurchase of share capital***

When share capital recognized as equity is repurchased, the contributions paid, including the directly attributable costs is recognizes as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as deduction from total equity. When treasury shares are sold subsequently the amount received is recognizes as an increase on equity, and the resulting surplus or deficit of the transaction is transferred to/from share premium.



***(e) Fair value reserve for available for sale investments***

The fair value reserve includes the change in the fair value of available-for-sale investments, until the investment is derecognized.

***(f) Retained earnings***

Retained earnings include the retained earnings from current and previous periods.

***(g) Dividends***

Dividends are recognized as a liability in the period in which they are declared by the Company's shareholders.

**c.21) Earnings per share**

The Bank presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**c.22) Segment reporting**

An operating segment is a component of the Bank that can be identified or that is engaged in providing products or services (business segment) or in providing products and services in a specific area (geographic segment) and is subject to risks and awards different from those in the other segments. The Bank primarily reports by business segments.

#### **d) Use of estimates and judgments**

Preparation of financial statements requires managerial judgments, estimates and assumptions that impact the application of policies and the presentation of assets and liabilities, income and expenses. The actual results might differ from these estimates.

The estimates and assumptions are constantly reviewed. The changes of the accounting estimations are recognized in the period in which the change of the estimations is performed and in the future periods if the change influences the future periods.

Information related to managerial judgments and critical estimates in application of the accounting standards that has significant influence to the financial statements is presented below:

#### **Impairment of loans and advances**

Assets accounted for at amortized cost are assessed for impairment on a basis described in accounting policy c.8.

The Bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the profit and loss the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a group.

The Bank's Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

#### **Allowance for impairment of available for sale equity investments**

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### **Determining the fair values**

The determination of fair value for financial assets and liabilities for which there is no observable market price, and which fair value cannot be reliably measured, requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### **Critical accounting judgments in applying the Bank's accounting policies**

Critical accounting judgments made in applying the Bank's accounting policies are presented below:

#### **Classification of financial assets and liabilities**

Bank's accounting policies enable certain financial assets and liabilities to be classified by categories at initial recognition:

- When classifying certain asset as held to maturity, the Bank has determined that there is a positive intention as well as possibility for holding the asset till maturity, as required with the accounting policy c.12.

#### **e) Changes in accounting policies, accounting estimates and adjustments**

During the year ended 31 December 2010, the Bank has not made any changes in the accounting policies, accounting estimates and adjustments.

#### **f) Compliance with the positive regulation**

The Bank has reconciled its activities with the regulation enacted by the National Bank of Republic of Macedonia.

## **2. Risk management**

### **Introduction**

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.

### **Risk management framework**

Bank's business activities are exposed to different types of financial risks. The risk management of financial activities includes analyses, estimation, acceptance and management of these risks. The Bank is focused towards achieving a certain balance between the risk and the rewards and minimizing of the potential negative effect to the financial result of the Bank.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate limits and controls, as well as to monitor risks and adherence to limits through reliably and modern information system. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and best practice.

The risk management is performed by the Risk Management Committee in accordance with the policies adopted by the Management Board and approved by the Bank's Supervisory Board. This Committee identifies and evaluates the risks related to financing, in close cooperation with the other Bank's departments. The Management Board adopts written policies for entire risk management, as well as procedures for specific types of risk such as foreign exchange risk management, interest rate risk management and credit risk management.

The Risk Management Committee is responsible for monitoring the compliance of the Bank with the policies and procedures for risk management, for monitoring the adequacy of the risk management framework in relation to the risks faced by the Bank as well as the compliance of Bank's operations with the NBRM requirements referring to risk management. The Internal Audit Department supports the Risk Management Committee in performing its functions. The Internal Audit performs regular and periodic audit of the internal risk management controls and procedures and the findings are presented to the Audit Committee.

## **2.1 Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks issued letter of guarantees and credits and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk and associates entities, country and industry risk).

### **Credit risk management**

The Management Board delegates its responsibility for credit risk management to the Credit Committee which approves all loan exposures up to EUR 75 thousand.

All credit exposures over EUR 75 thousand are approved by the Supervisory Board.

Different Bank's departments and divisions (Corporate Division, Retail Division), Legal department in close cooperation with the Risk Management Division are responsible for control of the Bank's credit risk, including:

- *Preparation of credit policies* including collateral requirements, credit worthiness assessment, risk category classification and reporting, documenting and legal procedure and compliance with regulatory and statutory requirements.
- *Control and assessment of the credit risk.* Corporate Division, Retail Division and the Risk management Division monitor all risk exposures in relation to the prescribed limits, prior to loan approval to the customer.

- *Monitoring the concentration exposure* to geographic and industrial segments (for loans and advances), and by issuer, by credit rating from institutions, markets and country's liquidity (for investments).
- *Classification of Bank's credit exposure* based on the risk of financial loss faced by the Bank and focusing to risk management. The risk classification system is used in determining whether impairment losses may be required. The current risk classification framework includes five grades reflecting different levels of risk and the available collateral.
- *Monitoring the compliance with the determined limits*, including those for country risk and types of products. Risk Management Division prepares monthly reports for Bank's credit risk exposure:
  - Balance and off-balance credit risk exposure by segments and credit cards, corporative clients, physical persons, banks and financial institutions
  - Impairment loss by segments
  - Non-performing portfolio by segments
  - Analysis of the exposure structure by risk categories
  - Comparative analysis of Bank's exposure by risk category with the available information of the banking sector (small banks)
  - Bank's credit risk exposure by countries and cities
  - Bank's biggest exposures by different portfolio types
  - Capital investments in non-financial institutions
  - Top 10 non-performing receivables

Regular reports for credit exposure, risk grading and the allowance for impairment are provided to the Risk Management Committee. On the basis of the reports and their analysis the Risk Management Committee gives recommendations for appropriate corrective actions.

Collateral represents one of the most traditional and most frequently used instruments for decrease of the credit risk. The Bank applies guidelines related to acceptability of certain classes of collateral. The basic types of collateral for loans and advances are the following:

- Mortgage over apartment and business premises,
- Pledge over business assets such as equipment, inventories and receivables, and
- Pledge over financial instrument, such as shares.

The Bank's departments are obliged to implement and monitor the Bank's credit policies and procedures. In cooperation with the Risk Management Division they are responsible for the quality of the loan portfolio, as well as for monitoring and control of all credit risks.

The Internal audit department regularly controls the operations of the Corporate Division and the Retail Division.

### **Impairment and provision policies**

The provision regarding the impairment at the end of the year arises at each individual level of internal rating, as described above in the credit risk measurement policy.

Internal rating helps Bank's management in determining the existence of objective evidence of impairment loss, according IAS 39, on the basis of the following criteria set by the Bank:

- Payment failure of the contractual provisions for principal and interest payment;
- Cash flow difficulties of the borrower;
- Contract or credit terms violations;
- Entrance into bankruptcy;
- Deterioration of the lenders competitiveness;
- Decrease of the value of the issued guaranties – collateral.

## Capital Bank AD, Skopje – Financial Statements

### 2.1 Credit Risk

#### A Analysis of maximum exposure of credit risk

	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets held for trading		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Fees and commissions receivables		Other receivables		Off balance exposure		Total		
	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	current year	previous year	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
<i>in MKD thousand</i>																					
<b>Carrying amount of individually significant exposures, before impairment on individual basis</b>																					
risk category A	42		209,041	52,498			6,345	5,821			182,200	12,177	177	24	27,965	953	20,503	2,512	446,273	73,985	
risk category B			21,337	972				3,515					19	2	-	30	1,913	30	23,269	4,549	
risk category C			2,422	3,767									9	181	8		83		2,522	3,948	
risk category D			3,822	3,470			5,821						3	38	1	-	41	60	9,688	3,568	
risk category E			12,794	48,428			3,515						265	1,718	18	3	35	-	16,627	50,149	
	42	-	249,416	109,135	-	-	15,681	9,336	-	-	182,200	12,177	473	1,963	27,992	986	22,575	2,602	498,379	136,199	
Allowance for impairment			(20,187)	(53,317)			(6,598)	(953)				(121)	(276)	(1,832)	(340)	(13)	(538)	(121)	(27,939)	(56,357)	
<b>Carrying amount of individually significant exposures, less allowance for impairment</b>	42	-	229,229	55,818	-	-	9,083	8,383	-	-	182,200	12,056	197	131	27,652	973	22,037	2,481	470,440	79,842	
<b>Carrying amount of collectively impaired exposures, before impairment on collective basis</b>																					
Individually non-significant exposures (small loan portfolio)				55,565														24,328			
Individually significant exposures not individually impaired																					
	-	-	-	55,565	-	-	-	-	-	-	-	-	-	-	-	-	-	24,328	-	79,893	-
Allowance for impairment				(3,594)														(1,051)			(4,645)
<b>Carrying amount of collectively impaired exposures, less allowance for impairment</b>	-	-	-	51,971	-	-	-	-	-	-	-	-	-	-	-	-	-	23,277	-	75,248	-
<b>Carrying amount of due receivables - not impaired</b>																					
Aging structure of due receivables - not impaired																					
30 days																					
Carrying amount of due receivables - not impaired																					
Not due receivables - not impaired																					
Restructured receivables																					
Other receivables							25,057				87,931	177,039		111	7,525	5,032	5,346	3,637	100,802	210,876	
<b>Carrying amount of not due receivable - not impaired</b>	-	-	-	-	-	-	25,057	-	-	-	87,931	177,039	-	111	7,525	5,032	5,346	3,637	100,802	210,876	
<b>Total carrying amount of receivables with credit risk before allowance for impairment</b>	42	-	249,416	164,700	-	-	15,681	34,393	-	-	270,131	189,216	473	2,074	35,517	6,018	27,921	30,567	599,181	426,968	
(Total allowance for impairment)	-	-	(20,187)	(56,911)	-	-	(6,598)	(953)	-	-	-	(121)	(276)	(1,832)	(340)	(13)	(538)	(1,172)	(27,939)	(61,002)	
<b>Total carrying amount of receivables with credit risk, less allowance for impairment</b>	42	-	229,229	107,789	-	-	9,083	33,440	-	-	270,131	189,095	197	242	35,177	6,005	27,383	29,395	571,242	365,966	

## Capital Bank AD, Skopje – Financial Statements

### 2.1 Credit Risk

#### B Collateral value (fair value)

<i>in MKD thousands</i>	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets held for trading		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Other receivables		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
<i>Credit exposure that is assessed for individually impairment</i>																
First class collateral cash deposits (in depot and/or restricted to the bank's accounts)			5,898	2,204											5,898	2,204
Government securities			131												131	-
Public unconditional guarantees															-	-
Bank guarantees															-	-
Guarantees from insurance companies and insurance policies															-	-
Corporate guarantees (except banking and insurance)															-	-
Guarantees from individuals															-	-
Mortgage of property																
Property for its own usage (apartments, houses)			167,478	37,683											167,478	37,683
business property			235,312	196,552											235,312	196,552
Mortgage on movable property			10,216	4,280											10,216	4,280
Other types of collateral			300	268											300	268
<b>Total credit exposure that is assessed for individually impairment</b>	-	-	<b>419,335</b>	<b>240,987</b>											<b>419,335</b>	<b>240,987</b>
<i>Credit exposures assessed for collectively impairment</i>																
First class collateral instruments for cash deposits (in depot and/or restricted to the bank's accounts)				334											-	334
Government securities															-	-
Government unconditional guarantees															-	-
bank guarantees															-	-
guarantees from insurance companies and insurance policies															-	-
Corporate guarantees (except banking and insurance)															-	-
Guarantees from individuals															-	-
Mortgage on property																
Property for its own usage (apartments, houses)															-	-
Business property															-	-
Mortgage on movable property															-	-
Other types of collateral				324											-	324
<b>Total credit exposure assessed for collectively impairment</b>	-	-	-	<b>658</b>	-	-	-	-	-	-	-	-	-	-	-	<b>658</b>



## Capital Bank AD, Skopje – Financial Statements

### 2.1 Credit Risk

#### C Concentration of credit risk by industry and geographic location

<i>in thousand MKD</i>	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets available for sale		Cash and cash equivalents		Fees and commissions receivables		Other receivables		Off balance exposure		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
	<b>Industry</b>															
Nonresidents															-	-
Agriculture, hunting and forestry											6					6
Fishing															-	-
Mining															-	-
Manufacturing			29,409	24,421	1,226	3,017			66	9	7				30,708	27,447
Electricity, gas and water										3		3				6
Construction			2,660		1,155	4,112									3,815	4,112
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household use			59,321		357	1,264			5	20	202		564	4,382	60,449	5,666
Hotels and restaurants			974							9					974	9
Traffic, storage and communications			591	5,929											591	5,929
Financial intermediation	42						270,131	189,095			23,246	1,939			293,419	191,034
Activities relating to real estate, rent and business activities				4,248							8,062	4,057			8,062	8,305
Public administration and defense, compulsory social security					6,345	25,047									6,345	25,047
Education			1,903						15						1,918	-
Health and social work															-	-
Other communal, cultural, general and personal service activities			27,563	2,170					19	68	508		8,278		36,368	2,238
Private households with employed persons															-	-
Ex-territorial organizations and bodies															-	-
Individuals			106,808	71,021					92	133	3152		18,535	25,013	128,587	96,167
Sole proprietors and individuals who are not considered as traders															-	-
<b>Total</b>	<b>42</b>	<b>-</b>	<b>229,229</b>	<b>107,789</b>	<b>9,083</b>	<b>33,440</b>	<b>270,131</b>	<b>189,095</b>	<b>197</b>	<b>242</b>	<b>35,177</b>	<b>6,005</b>	<b>27,377</b>	<b>29,395</b>	<b>571,236</b>	<b>365,966</b>

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**2.1 Credit Risk**  
**Concentration of credit risk by industry and geographic location (continued)**

	Loans and advances to banks		Loans and advances to other customers		Investments in financial assets held for trading		Investments in financial assets available for sale		Investments in financial assets held to maturity		Cash and cash equivalents		Fees and commissions receivables		Other receivables		Off balance exposures		Total	
	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009	current year 2010	previous year 2009
	<i>In thousands MKD</i>																			
<b>Geographical location</b>																				
Republic of Macedonia	42	-	229,229	107,786	-	-	9,083	33,440	-	-	263,707	187,535	197	242	35,177	6,005	27,377	29,395	564,812	364,403
EU Member States											6,424	1,560							6,424	1,560
Europe (other)				3															-	3
Member countries of OECD (excluding European countries members of OECD)																			-	-
Other (detailed separately the exposure that represents more than 10% from the total credit exposure)																			-	-
																			-	-
																			-	-
																			-	-
<b>Total</b>	<b>42</b>	<b>-</b>	<b>229,229</b>	<b>107,789</b>	<b>-</b>	<b>-</b>	<b>9,083</b>	<b>33,440</b>	<b>-</b>	<b>-</b>	<b>270,131</b>	<b>189,095</b>	<b>197</b>	<b>242</b>	<b>35,177</b>	<b>6,005</b>	<b>27,377</b>	<b>29,395</b>	<b>571,236</b>	<b>365,966</b>

## **2.2 Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulties in meeting its financial liabilities.

### **Management of liquidity risk**

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Head of Assets, liquidity and trade department receives information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Assets, liquidity and trade department then maintains a portfolio of short-term liquid assets, comprised of short-term liquid investment securities, to ensure appropriate liquidity of the Bank.

The daily liquidity position and market conditions are regularly monitored. Policies and procedures for liquidity risk management are prepared by the Risk Management Division in cooperation with the Assets, liquidity and trade department and are subject to review by the Risk Management Committee and approval by the Supervisory Board. Daily reports cover the liquidity position of the Bank. Regulatory and liquidity reports are submitted to the NBRM on a monthly basis.

### **Exposure to liquidity risk**

The Bank has access to diverse sources of funds. Funds are provided using a wide range of instruments including deposits and share capital. This increases the funding flexibility, limits the dependence from the separate source of funds and generally decreases the cost of funds. The Bank intends to maintain a balance between the continuity of funding and flexibility through the usage of liabilities with a different period of maturities. The Bank continually assesses the liquidity risk by identifying and monitoring the changes in funding required for meeting the operating goals and targets set in the Bank strategy.

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

**2.2 Liquidity Risk****Analysis according the maturity of financial assets and liabilities (residual maturity)**

	in MKD thousand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>2010(current year)</b>								
<b>Financial assets</b>								
Cash and cash equivalents		270,131						270,131
Trading assets								-
Financial assets at fair value through profit and loss designated upon initial recognition								-
Derivative assets held for risk management								-
Loans and advances to banks					42			42
Loans and advances to customers		13,383	21,809	65,672	48,053	55,794	24,518	229,229
Investment securities		9,083						9,083
Investment in associated entities								-
Income tax receivables (current)								-
Other receivables		35,374						35,374
Pledged assets								-
Deferred tax assets								-
<b>Total financial assets</b>		<b>327,971</b>	<b>21,809</b>	<b>65,672</b>	<b>48,095</b>	<b>55,794</b>	<b>24,518</b>	<b>543,859</b>

<b>2.2 Liquidity Risk</b>								
<b>Analyses according the maturity of financial assets and liabilities (residual maturity) (continued)</b>								
<i>In MKD thousand</i>	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total	
<b><i>Financial liabilities</i></b>								
Trading liabilities								
Financial liabilities at fair value through profit and loss designated upon initial recognition								
Derivative liabilities held for risk management								
Deposits from banks	6,992						6,992	
Deposits from customers	279,112	12,480	89,980	143	3,690		385,405	
Debt securities issued							-	
Borrowings							-	
Subordinated liabilities							-	
Income tax liabilities (current)							-	
Deferred tax liabilities							-	
Other liabilities	7,442						7,442	
<b><i>Total financial liabilities</i></b>	<b>293,546</b>	<b>12,480</b>	<b>89,980</b>	<b>143</b>	<b>3,690</b>	<b>-</b>	<b>399,839</b>	
<b>GAP</b>	<b>34,425</b>	<b>9,329</b>	<b>(24,308)</b>	<b>47,952</b>	<b>52,104</b>	<b>24,518</b>	<b>144,020</b>	

**2.2 Liquidity Risk****Analyses of the maturity of financial assets and liabilities (residual maturity) (continued)**

<i>In MKD thousand</i>	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
<b>2009(previous year)</b>							
<b>Financial assets</b>							
Cash and cash equivalents	108,909			80,186			189,095
Trading assets							-
Financial assets at fair value through profit and loss designated upon initial recognition							-
Derivative assets held for risk management							-
Loans and advances to banks							-
Loans and advances to other customers	11,682	37,120	21,025	5,882	13,317	18,763	107,789
Investments securities			33,440				33,440
Investments in associated entities							-
Income tax receivables (current)	664						664
Other receivables	6,247						6,247
Pledged assets							-
Deferred tax assets							-
<b>Total financial assets</b>	<b>127,502</b>	<b>37,120</b>	<b>54,465</b>	<b>86,068</b>	<b>13,317</b>	<b>18,763</b>	<b>337,235</b>

**2.2 Liquidity Risk****Analyses of the maturity of financial assets and liabilities (residual maturity) (continued)*****Financial liabilities***

Trading liabilities								-
Financial liabilities at fair value through profit and loss designated upon initial recognition								-
Derivatives held for risk management								-
Deposits from banks								-
Deposits from other customers	38,598	116	68,153		612			107,479
Debt securities issued								-
Borrowings								-
Subordinated liabilities								-
Income tax liabilities (current)								-
Deferred tax liabilities								-
Other liabilities	11,251							11,251
<b><i>Total financial liabilities</i></b>	<b>49,849</b>	<b>116</b>	<b>68,153</b>	<b>-</b>	<b>612</b>	<b>-</b>		<b>118,730</b>
<b>GAP</b>	<b>77,653</b>	<b>37,004</b>	<b>(13,688)</b>	<b>86,068</b>	<b>12,705</b>	<b>18,763</b>		<b>218,505</b>

### **2.3 Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit margin (not relating to changes in the debtor's / security issuer's credit capability) will affect the Bank's income or the value of its financial instruments. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return.

#### **Exposure to interest rate risk – non-trading portfolios**

The Bank is exposed to the risk of interest rate fluctuations as a result that the interest-bearing assets and interest-bearing liabilities are due or their interest rate is changed in different period of time or in different amounts. In case of assets and liabilities with floating interest rate, the Bank is also exposed to basic risk, arising from the different changing of the floating interest rate, such as the savings interest rate, LIBOR and different types of interest.

Risk management activities are intended to optimize net interest income, with market interest rates, which are consistent with the Bank's business strategies.

Asset and liabilities risk management activities are conducted in the aspect of the Bank's sensitivity to interest rate changes. In general, the Bank is asset sensitive because of the major part of the interest - bearing assets and liabilities the Bank holds the right for simultaneously changing the interest rates. In the circumstances when the interest rates are decreasing, the interest margins will be decreased also, as a result that the liabilities interest rates will decrease with a lower percentage compared to assets interest rates. However the actual effect will depend on various factors, including stability of the economy, environment and level of the inflation.



**2.3 Market risk**

**2.3.1 Analysis of reconciliation of the interest rates of financial assets and liabilities (without trading portfolio and derivatives)**

	<i>In MKD thousand</i>	Weighted effective interest rate (in%)	Instruments with variable interest rate *	Instruments with fixed interest rate, including instruments with variable interest rate, subject to the decisions of the Bank bodies						Non interest bearing	Total
				Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years		
<b>2010(current year)</b>											
<b>Financial assets</b>											
Cash and cash equivalents		3.24%	223,496						46,635	270,131	
Financial assets at fair value through profit and loss designated upon initial recognition										-	
Loans and advances to banks							42			42	
Loans and advances to other customers		8.94%	5,764	6,041	21,809	65,672	48,053	55,794	24,518	229,229	
Investment in securities		2,00%		6,344						9,083	
Investment in related entities										-	
Other liabilities									35,374	35,374	
Pledged assets										-	
		<b>0</b>	<b>5,764</b>	<b>235,881</b>	<b>21,809</b>	<b>65,672</b>	<b>48,095</b>	<b>55,794</b>	<b>24,518</b>	<b>543,859</b>	

**2.3 Market risk**

**2.3.1 Analysis of compliance in the interest rates of financial assets and liabilities (without trading portfolio and derivatives)**

	Weighted effective interest rate (in%)	Instruments with variable interest rate *	Instruments with fixed interest rate, including instruments with variable interest rate, subject to the decisions of the Bank bodies					Non interest bearing	Total	
			Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years			Over 5 years
<i>In MKD thousand</i>										
<b>2010(current year)</b>										
<b>Financial liabilities</b>										
Financial assets at fair value through profit and loss designated upon initial recognition										
Deposits from banks	1,00%		6,992						6,992	
Deposits from other customers	4,20%		240,069	12,480	89,980	143	3,690	39,043	385,405	
Debt securities issued										
Borrowings										
Subordinated liabilities										
Other liabilities								7,442	7,442	
	<b>0</b>	<b>-</b>	<b>247,061</b>	<b>12,480</b>	<b>89,980</b>	<b>143</b>	<b>3,690</b>	<b>-</b>	<b>399,839</b>	
<b>Interest rate gap</b>		5,764	(11,180)	9,329	(24,308)	47,952	52,104	24,518	39,841	144,020

<b>2.3 Market risk</b>											
<b>2.3.1 Analysis of compliance in the interest rates of financial assets and liabilities (without trading portfolio and derivatives)</b>											
	<i>In MKD thousand</i>	Weighted effective interest rate (in%)	Instruments with variable interest rate *	Instruments with fixed interest rate, including instruments with variable interest rate, subject to the decisions of the Bank bodies						Non interest bearing	Total
				Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Over 5 years		
<b>2009 (previous year)</b>											
<b>Financial assets</b>											
Cash and cash equivalents		3,20%	75,615				80,186			33,294	189,095
Financial assets at fair value through profit and loss designated upon initial recognition											-
Loans and advances to banks											-
Loans and advances to other customers		12,10%	10,219	37,120	15,326	8,096	13,317	18,763	4,948		107,789
Investment in securities		3,90%			24,963				8,477		33,440
Investment in associated entities											-
Other receivables									6,247		6,247
Pledged assets		0	85,834	37,120	40,289	88,282	13,317	18,763	52,966		336,571

**2.3 Market risk**

**2.3.1 Analysis of compliance in the interest rates of financial assets and liabilities (without trading portfolio and derivatives) (continued)**

*Financial liabilities*

Financial assets at fair value  
through profit and loss  
designated upon initial  
recognition

Deposits from banks

Deposits from other  
customers

5,90%

23,558

116

68,153

-

612

15,040

107,479

Debt securities issued

Borrowings

Other liabilities

11,251

11,251

**23,558**

**116**

**68,153**

**612**

**-**

**26,291**

**118,730**

**Interest rate gap**

**62,276**

**37,004**

**(27,864)**

**88,282**

**12,705**

**18,763**

**26,675**

**217,841**

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**2.3 Market risk**  
**2.3.2 Currency risk**

list separately the currencies that represent more than 10% of the total monetary assets / liabilities

<i>in MKD thousand</i>	MKD	EUR	USD					Other currencies	Total
<b>2010(current year)</b>									
<b>Monetary assets</b>									
Cash and cash equivalents	236,418	14,872	16,751					2,090	270,131
Trading assets									-
Financial assets at fair value through profit and loss designated upon initial recognition									-
Derivative assets held for risk management									-
Loans and advances to banks	42								42
Loans and advances to other customers	87,027	141,023	1,179						229,229
Investment securities	2,739	6,344							9,083
Investment in associated entities									-
Income tax receivables (current)									-
Other receivables	35,019	57	298						35,374
Pledged assets									-
<b>Total monetary assets</b>	<b>361,245</b>	<b>162,296</b>	<b>18,228</b>	-	-	-	-	<b>2,090</b>	<b>543,859</b>

**2.3 Market risk**  
**2.3. 2 Currency risk (continued)**

Monetary liabilities	MKD	EUR	USD	list separately the currencies that represent more than 10% of the total monetary assets / liabilities					Other currencies	Total
Trading liabilities										-
Financial liabilities at fair value through profit and loss designated upon initial recognition										-
Derivative liabilities held for risk management										-
Deposits from banks		43	6,949							6,992
Deposits from other customers	254,400	117,471	13,452					82		385,405
Debt securities issued										-
Borrowings										-
Subordinated liabilities										-
Liabilities for income tax (current)										-
Deferred tax liabilities										-
Other liabilities	7,442									7,442
<b>Total monetary liabilities</b>	<b>261,842</b>	<b>117,514</b>	<b>20,401</b>	-	-	-	-	-	<b>82</b>	<b>399,839</b>
<b>Net position</b>	<b>99,403</b>	<b>44,782</b>	<b>(2,173)</b>	-	-	-	-	-	<b>2,008</b>	<b>144,020</b>

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**2.3 Market risk**

**2.3.2 Currency risk (continued)**

list currencies that represent more than 10% of the total monetary assets / liabilities

	<i>In MKD thousand</i>	MKD	EUR	USD					Other currency	Total
<b>2009 (previous year)</b>										
<b>Monetary assets</b>										
Cash and cash equivalents		130,754	45,218	12,532					591	189,095
Trading assets										-
Financial assets at fair value through profit and loss designated upon initial recognition										-
Derivative assets held for risk management										-
Loans and advances to banks										-
Loans and advances to other customers		52,150	52,978	2,661						107,789
Investment securities		8,478	24,962							33,440
Investment in associated entities										-
Income tax receivables (current)		664								664
Other receivables		5,760	57	430						6,247
Pledged assets										-
Deferred tax assets										-
<b>Total monetary assets</b>		<b>197,806</b>	<b>123,215</b>	<b>15,623</b>	-	-	-	-	<b>591</b>	<b>337,235</b>

**2.3 Market risk**

**2.3.2 Currency risk (continued)**

	MKD	EUR	USD	list currencies that represent more than 10% of the total monetary assets / liabilities					Other currency	Total
<b>Monetary liabilities</b>										
Liabilities for trading									-	
Financial liabilities at fair value through profit and loss designated upon initial recognition									-	
Derivative liabilities held for risk management									-	
Deposits from banks									-	
Deposits from other customers	64,923	35,213	7,343						107,479	
Debt securities issued									-	
Borrowings									-	
Subordinated liabilities									-	
Liabilities for income tax (current)									-	
Deferred tax liabilities									-	
Other liabilities	11,251								11,251	
<b>Total monetary liabilities</b>	<b>76,174</b>	<b>35,213</b>	<b>7,343</b>	-	-	-	-	-	<b>118,730</b>	
<b>Net position</b>	<b>121,632</b>	<b>88,002</b>	<b>8,280</b>	-	-	-	-	<b>591</b>	<b>218,505</b>	



## 2. Capital adequacy

The Bank's lead regulator NBRM sets and monitors capital adequacy for the Bank as a whole. The Bank is directly supervised by the local regulators.

In implementing capital adequacy requirements NBRM requires the Bank to maintain a prescribed ratio of 8% of own funds to sum of total risk-weighted assets. Total risk-weighted assets are sum of credit risk-weighted assets and sum of capital requirements for currency risk.

Bank's own funds are a sum of core capital, additional capital, less deductions, as follows:

- Core capital, which includes ordinary and non cumulative preference shares, share premium, bank reserves allocated from net profit that serve for covering losses arising from risks the Bank faces in its operations, retained earnings not encumbered by any future obligations, stated in the balance sheet and confirmed by a Decision of the Bank's Shareholders' Assembly or accumulated loss from previous period, profit for the year if confirmed by the certified auditor, after deductions for loss for the year, licenses, patents, goodwill and other trademarks, treasury shares and the difference between the amount of the required allowance for impairment in accordance with the risk classification and allocated allowance for impairment and allowance for impairment calculated according the Decision for credit risk management.
- Additional capital, which includes cumulative preference shares, share premium less the amount of purchased treasury cumulative preference shares, hybrid capital instruments and subordinated liabilities issued by the Bank.
- The total of core capital and additional capital is reduced by the Bank's capital investments in banks and financial institutions exceeding 10% of the capital of such institutions, subordinated instruments and other investments in other banks or other financial institutions where the Bank holds more than 10% of the capital and other deductions.

When determining the amount of own funds, the bank shall observe the following restrictions:

- The amount of the additional capital cannot exceed the amount of the core capital.
- The sum of the nominal value of subscribed and paid-in ordinary shares, the share premium of such shares and the amount of reserves and the retained earnings, less the deductions from the core capital and additional capital previously described, should exceed the sum of other positions which are part of the Bank's core capital.

The amount of subordinated instruments which are part of the additional capital is not to exceed 50% of the amount of core capital.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There were no significant changes in the Bank's approach to capital management during the year.

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4 Segment reporting							
A Primary business segments							
<i>In MKD thousand</i>	Retail banking	Corporate banking	Investment banking	Other (listed in details)		Non-allocated	Total
<b>2010(current year)</b>							
Net – interest income/ (expense)	26,477	7,489	-	7,102			41,068
Net fee and commission income/ (expense)	6,099	3,345	-	(3,588)			5,856
Net trading income							-
Net income from other financial instruments carried at fair value						-	-
Other operating income						7,394	7,394
Intersegment revenue							-
<b>Total segment revenue</b>	<b>32,576</b>	<b>10,834</b>	<b>-</b>	<b>3,514</b>	<b>-</b>	<b>-</b>	<b>54,318</b>
Segment financial result	44,064	10,409	(5,645)	3,648	-	-	(97,928)
Income tax							-
<b>Profit / (loss) for the year</b>	<b>44,064</b>	<b>10,409</b>	<b>(5,645)</b>	<b>3,648</b>	<b>-</b>	<b>-</b>	<b>(97,928)</b>
Total segment assets	110,132	122,674	2,739	276,393			511,938
Non-allocated assets per segments						201,810	201,810
<b>Total assets</b>	<b>110,132</b>	<b>122,674</b>	<b>2,739</b>	<b>276,393</b>	<b>-</b>	<b>-</b>	<b>713,748</b>
Total segment liabilities	60,113	227,996	-	107,642			395,751
Non-allocated liabilities per segments						4,626	4,626
<b>Total liabilities</b>	<b>60,113</b>	<b>227,996</b>	<b>-</b>	<b>107,642</b>	<b>-</b>	<b>-</b>	<b>400,377</b>
Net impairment of financial assets	11,488	(425)	(5,645)	134		57	5,609
Net impairment of non-financial assets							-
Depreciation and amortization						(11,584)	(11,584)
Restructuring costs							-
Capital expenditure							-
Other expenses						(93,795)	(93,795)

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4 Segment reporting							
A Primary business segments							
<i>In MKD thousand</i>	Retail banking	Corporate banking	Investment banking	Other (listed in details)	Non-allocated	Total	
<b>2009(previous year)</b>							
Net – interest income/ (expense)	14,642	6,024		13,495			34,161
Net fee and commission income/ (expense)	5,380	2,213		(3,782)			3,811
Net trading income							
Net income from other financial instruments carried at fair value			6,048				6,048
Other operating income					7,487		7,487
Intersegment revenue							
<b>Total segment revenue</b>	<b>20,022</b>	<b>8,237</b>	<b>6,048</b>	<b>9,713</b>	<b>7,487</b>		<b>51,507</b>
Segment financial result	22,268	6,786	5,941	9,878	(82,131)		(37,258)
Income tax					(182)		(182)
<b>Profit /(loss) for the year</b>	<b>22,268</b>	<b>6,786</b>	<b>5,941</b>	<b>9,878</b>	<b>(82,313)</b>		<b>(37,440)</b>
Total segment assets	76,954	37,154	8,983	213,455			336,546
Non-allocated assets per segments					141,960		141,960
<b>Total assets</b>	<b>76,954</b>	<b>37,154</b>	<b>8,983</b>	<b>213,455</b>	<b>141,960</b>		<b>478,506</b>
Total segment liabilities	45,665	22,123		46,107			113,895
Non-allocated liabilities per segments					6,007		6,007
<b>Total liabilities</b>	<b>45,665</b>	<b>22,123</b>		<b>46,107</b>	<b>6,007</b>		<b>119,902</b>
Net impairment of financial assets	2,246	(1,451)	(107)	165	(389)		464
Net impairment of non-financial assets							
Depreciation and amortization					(4,806)		(4,806)
Restructuring costs							
Capital expenditure							
Other expenses					(84,423)		(84,423)

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<b>4</b>	<b>Segment reporting</b>							
<b>B</b>	<b>Secondary geographic segments</b>							
	Republic of Macedonia	Member countries of the EU	Europe (rest)	Member countries of OECD	Other		Non-allocated	Total
<i>In MKD thousand</i>								
<b>2010 (current year)</b>								
Net – interest income/ (expense)	41,380	(312)						41,068
Net fee and commission income/ (expense)	5,271	585						5,856
Net trading income								-
Net income from other financial instruments carried at fair value								-
Other operating income	7,394							7,394
Intersegment revenue								-
<b>Total segment revenue</b>	<b>54,045</b>	<b>273</b>	-	-	-	-	-	<b>54,318</b>
Segment financial result	(45,725)	273	-	-	-	-	-	(45,452)
<b>Income tax</b>								
<b>Profit / (loss) for the year</b>	<b>(45,452)</b>	<b>273</b>	-	-	-	-	-	<b>(45,452)</b>
Total segment assets	505,514	6,424						511,938
Non-allocated assets by segments	201,810							201,810
<b>Total assets</b>	<b>707,324</b>	<b>6,424</b>	-	-	-	-	-	<b>713,748</b>
Total segment liabilities	383,294	12,457						395,751
Non-allocated liabilities by segments	4,626							4,626
<b>Total liabilities</b>	<b>387,920</b>	<b>12,457</b>	-	-	-	-	-	<b>400,377</b>
Net impairment of financial assets	5,609							5,609
Net impairment of non-financial assets								
Amortization and depreciation	(11,584)							(11,584)
Restructuring costs								
Capital expenditure								
Other expenses	<b>(93,795)</b>							<b>(93,795)</b>

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<i>In MKD thousand</i>	Republic of Macedonia	Member countries of the EU	Europe (rest)	Member countries of OECD	Other	Non- allocated	Total
<b>2009 (previous year)</b>							
Net – interest income/ (expense)	35,657	(1,496)					34,161
Net fee and commission income/ (expense)	5,170	(1,359)					3,811
Net trading income							-
Net income from other financial instruments carried at fair value	6,048						6,048
Other operating income	7,487						7,487
Intersegment revenue							-
<b>Total segment revenue</b>	<b>54,362</b>	<b>(2,855)</b>	-	-	-	-	<b>51,507</b>
Segment financial result	(34,403)	(2,855)					(37,258)
<b>Income tax</b>						(182)	(182)
<b>Profit (loss) for the year</b>	<b>(34,403)</b>	<b>(2,855)</b>	-	-	-	-	<b>(37,440)</b>
Total segment assets	476,946	1,560					478,506
Non-allocated assets by segments							
<b>Total assets</b>	<b>476,946</b>	<b>1,560</b>	-	-	-	-	<b>478,506</b>
Total segment liabilities	119,902						119,902
Non-allocated liabilities by segments							
<b>Total liabilities</b>	<b>119,902</b>	-	-	-	-	-	<b>119,902</b>
Net impairment of financial assets	464						464
Net impairment of non-financial assets							
Amortization and depreciation	(4,806)						(4,806)
Restructuring costs							
Capital expenditure							
Other expenses	<b>(84,423)</b>						<b>(84,423)</b>

## 5 Fair value of financial assets and financial liabilities

<i>In MKD thousand</i>	Current year 2010		Previous year 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	270,131	270,131	189,095	189,095
Trading assets				
Financial assets at fair value through profit and loss, designated upon initial recognition				
Derivatives held for risk management				
Loans and advances to banks	42	42		
Loans and advances to other clients	229,229	229,229	107,789	107,789
Investment securities	9,083	9,083	33,440	33,440
Investment in associated entities				
Income tax receivables (current)			664	664
Other receivables	35,374	35,374	6,247	6,247
Pledged assets				
Deferred tax assets				
<b>Financial liabilities</b>				
Trading liabilities				
Financial liabilities at fair value through profit and loss, designated upon initial recognition				
Derivative liabilities held for risk management				
Deposits from banks	6,992	6,992		
Deposits from other clients	385,405	385,405	107,479	107,479
Debt securities issued				
Borrowings				
Subordinated liabilities				
Income tax liabilities (current)				
Deferred tax liabilities				
Other liabilities	7,442	7,442	11,251	11,251

**6 Net interest income/ (expenses)**

*A Structure of the interest income and expenses according the type of the financial instrument*

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Interest income</b>		
Cash and cash equivalents	11,118	14,861
Financial assets at fair value through profit and loss, designated upon initial recognition	-	-
Derivative assets held for risk management	-	-
Loans and advances to banks	146	2,616
Loans and advances to customers	18,414	14,920
Investment securities	418	3,008
Other receivables	-	-
(Net impairment of interest income)	12,516	(789)
Collected previously written off interest	5,127	4,728
<b>Total interest income</b>	<b>47,739</b>	<b>39,344</b>
<b>Interest expense</b>		
Financial liabilities at fair value through profit and loss, designated upon initial recognition	-	-
Derivative liabilities held for risk management	-	-
Deposits from banks	38	1,629
Deposits from customers	6,623	3,550
Debt securities issued	-	-
Borrowings	10	4
Subordinated liabilities	-	-
Other liabilities	-	-
<b>Total interest expense</b>	<b>6,671</b>	<b>5,183</b>
<b>Net interest income/(expense)</b>	<b>41,068</b>	<b>34,161</b>

**6 Net interest income/ (expenses)**

***B Sector analyses of the interest income and expenses***

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Interest income</b>		
Non-financial entities	8,198	3,270
Government	418	3,008
Non-profit institutions serving the households		
Banks	11,264	17,477
Other financial institutions (non banking)		
Households	10,216	11,649
Non-resident		0
(Net impairment of interest income)	12,516	(788)
Collected previously written off interest	5,127	4,728
<b>Total interest income</b>	<b>47,739</b>	<b>39,344</b>
<b>Interest expenses</b>		
Non-financial entities	589	247
Government	562	
Non-profit institutions serving the households	1	8
Banks	48	1,633
Other financial institutions	4,090	2,348
Households	1,381	947
Non-resident		
<b>Total interest expense</b>	<b>6,671</b>	<b>5,183</b>
<b>Net – interest income/(expense)</b>	<b>41,068</b>	<b>34,161</b>



**7 Net fee and commission income/ (expense)**

*A Structure of the fee and commission income and expenses according the type of financial activities*

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Fee and commission income</b>		
Loans	2,459	278
Payment operations		
domestic	1,741	695
abroad	822	191
Guarantees and letters of credit	741	
Brokerage		
Asset management		
Trust and other fiduciary activities		
Issued securities		
Credit cards		
Other (list separately income over 10% of the total fee and commission income)		
<i>Credit cards</i>	4,412	6,857
<i>other</i>	42	639
<b>Total fee and commission income</b>	<b>10,217</b>	<b>8,660</b>
<b>Fee and commission expenses</b>		
Loans		94
Payment operations		
domestic	1,638	2,666
abroad	236	
Guarantees and letters of credit		
Brokerage		
Asset management		
Trust and other fiduciary activities		
Issued securities		
Interbank operations	1,702	
Credit cards		
Other (list separately income over 10% of the total fee and commission expenses)		
<i>Card operations</i>	663	1,359
<i>other</i>	122	730
<b>Total</b>	<b>4,361</b>	<b>4,849</b>
<b>Net fee and commission income/(expenses)</b>	<b>5,856</b>	<b>3,811</b>

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**7 Net fee and commission income/ (expense)**

**B Sector analyses of the fee and commission income and expenses**

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Fee and commission income</b>		
Non-financial entities	3,405	2,307
Government	2	
Non-profit institutions serving the households	6	
Banks		
Other financial institutions	687	639
Households	6,093	5,381
Non-resident	24	333
<b>Total fee and commission income</b>	<b>10,217</b>	<b>8,660</b>
<b>Fee and commission expenses</b>		
Non-financial entities	62	94
Government		
Non-profit institutions serving the households	2,425	2,666
Banks	1,638	2,089
Non-resident	236	
<b>Total fee and commission expenses</b>	<b>4,361</b>	<b>4,849</b>
<b>Net fee and commission income/(expenses)</b>	<b>5,856</b>	<b>3,811</b>

**8 Net trading income**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<i>Trading assets</i>		
Net income / (loss) from changes in fair value of debt securities		
realized	-	
unrealized	-	
Net income /(loss) from changes in fair value of equity instruments		
realized	-	
unrealized	-	
Dividend income from trading assets	-	
Interest income from trading assets	-	
<i>Trading liabilities</i>		
Net income / (loss) from changes in fair value of debt securities		
realized	-	
unrealized	-	
Net income /(loss) from changes in fair value of the trading deposits		
realized	-	
unrealized	-	
Net income /(loss) from changes in fair value of the other trading financial liabilities		
realized	-	
unrealized	-	
Interest expenses from financial liabilities held for trading	-	
<i>Net income / (loss) from changes in fair value of derivatives held for trading</i>		
realized	-	
unrealized	-	
<b>Net trading income</b>	<b>-</b>	<b>-</b>

\*As at 31 December 2010, the Bank does not have net trading income

**9 Net income from other financial instruments carried at fair value**

	<i>In MKD thousand</i>	
	Current year 2010	Current year 2009
<i>Financial asset at fair value through profit or loss, designated upon initial recognition</i>		
Net income / (loss) from changes in fair value of debt securities		
realized	-	
unrealized	-	
Net income / (loss) from changes in fair value of equity instruments		
realized	-	
unrealized	-	
Dividend income from trading assets at fair value through profit or loss	-	
Net income / (loss) from changes in fair value of the loans and advances at fair value through profit or loss		
realized	-	
unrealized	-	
<i>Financial liabilities at fair value through profit or loss designated upon initial recognition</i>		
Net income / (loss) from changes in fair value of debt securities		
realized	-	
unrealized	-	
Net income / (loss) from changes in fair value of the deposits at fair value through profit or loss		
realized	-	
unrealized	-	
Net income / (loss) from changes in fair value of the borrowings at fair value through profit or loss		
realized	-	
unrealized	-	
Income / (loss) from changes in fair value of the other financial liabilities at fair value through profit or loss		
realized	-	
unrealized	-	
<i>Net income / (loss) from changes in fair value of the derivatives held for risk management at fair value through profit or loss</i>		
realized	-	
unrealized	-	
<b>Net income from other financial instruments carried at fair value</b>		

\* As at 31 December 2010 the Bank does not have net income from other financial instruments carried at fair value

**10 Net foreign exchange gains/ (losses)**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
Realized net foreign exchange gains/losses	864	417
Unrealized net foreign exchange gains/losses	(543)	1,856
Net foreign exchange gains/ losses on impairment of financial assets	40	(645)
Other net foreign exchange gains/ losses		
<b>Net foreign exchange gains/ (losses)</b>	<b>361</b>	<b>1,628</b>

**11 Other operating income**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
Income from sale of assets available-for-sale	-	6,048
Dividends from equity securities available-for-sale	59	98
Net income from investments in subsidiaries and associates	-	-
Capital gain from sale of:		
Property and equipment	26	-
Intangible assets		
Foreclosed assets	527	
Non-current assets held for trading and disposal group		
Rental income	5,814	4,526
Income from won court cases	-	-
Collected previously written off receivables	-	-
Release of provision for:		
Off balance credit exposure	634	626
Contingent liabilities related to court cases	-	-
Pension and other employee benefits	-	-
restructuring	-	-
Onerous agreements	-	-
other provisions	-	-
Other (list separately all income presenting over 10% of the total other operating income)		
<i>Other</i>	3	609
<i>Income from previous years</i>	3	-
<b>Total other operating income</b>	<b>7,066</b>	<b>11,907</b>

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**12 Net impairment loss on financial assets**

<i>In MKD thousand</i>	Loans and advances to banks	Loans and advances to customers	Investment in financial assets available for sale	Investment in financial assets held to maturity	Cash and cash equivalents	Fee and commission receivables	Other receivables	Total
<b>2010 (current year)</b>								
<b><i>Individually impaired</i></b>								
Additional impairment	300	8,857	5,645		229	424	969	16,424
(Release of impairment)	(300)	(16,120)			(363)	(1,012)	(644)	(18,439)
	-	<b>(7,263)</b>	<b>5,645</b>	-	<b>(134)</b>	<b>(588)</b>	<b>325</b>	<b>(2,015)</b>
<b><i>Collectively impaired</i></b>								
Additional impairment								
(Release of impairment)		(3,594)						(3,594)
	-	<b>3,594</b>	-	-	-	-	-	<b>(3,594)</b>
<b>Total net impairment of financial assets</b>	-	<b>(10,857)</b>	<b>5,645</b>	-	<b>(134)</b>	<b>(588)</b>	<b>325</b>	<b>(5,609)</b>

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**12 Net impairment loss on financial assets (continue)**

<i>In MKD thousand</i>	Loans and advances to banks	Loans and advances to customers	Investment in financial assets available for sale	Investment in financial assets held to maturity	Cash and cash equivalents	Fee and commission receivables	Other receivables	Total
<b>2009 (previous years)</b>								
<i>Individually impaired</i>								
Additional impairment	70	6,084	181		2,052	451	113	8,951
(Release of impairment)	(70)	(10,473)	(74)		(2,217)	(27)	(148)	(13,009)
	-	<b>(4,389)</b>	<b>107</b>	-	<b>(165)</b>	<b>424</b>	<b>(35)</b>	<b>(4,058)</b>
<i>Collectively impaired</i>								
Additional impairment		12,186						12,186
(Release of impairment)		(8,592)						(8,592)
	-	<b>3,594</b>	-	-	-	-	-	<b>3,594</b>
<b>Total net impairment of financial assets</b>	-	<b>(795)</b>	<b>107</b>	-	<b>(165)</b>	<b>424</b>	<b>(35)</b>	<b>(464)</b>



**13 Net impairment loss on non-financial assets**

<i>In MKD thousand</i>	Property and equipment	Intangible assets	Foreclosed assets	Noncurrent assets held for sale	Other non financial assets	Goodwill	Total
<b>2010 (current year)</b>							
Additional impairment loss							-
(Release of impairment loss)							-
<b>Total net impairment loss of non-financial assets</b>	-	-	-	-	-	-	-
<b>2009 (previous year)</b>							
Additional impairment loss							-
(Release of impairment loss)							-
<b>Total net impairment loss of non-financial assets</b>	-	-	-	-	-	-	-

**14 Personnel expenses**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
Short-term employee benefits		
Wages and salaries	30,051	24,477
Compulsory social security obligations	9,771	12,055
Short term compensated absence	137	267
Temporary employment costs	-	-
Profit sharing and bonuses	-	-
Non-monetary benefits	-	-
	<b>39,959</b>	<b>36,799</b>
Post-employment benefits		
Contributions to defined contribution plans	-	-
Retirement benefits	-	-
Increase in liability for long service-leave	-	-
Increase in liability for other long term benefits	-	-
Other benefits at employment termination	-	-
	-	-
Termination benefits	-	-
Equity-settled share-based payments	-	-
Cash-settled share-based payments	-	-
<i>Collective agreement benefits</i>	195	290
<b>Total personnel expenses</b>	<b>40,154</b>	<b>37,089</b>

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**15 Depreciation and amortization**

*In MKD thousand*

Current year  
2010

Previous year  
2009

Amortization of intangible assets

Internally developed software	-	-
Purchased software from external suppliers	2,780	404
Other internally developed intangible assets	1,615	-
Other intangible assets	303	295
Investments in leased intangible assets	29	-
	<b>4,727</b>	<b>699</b>

Depreciation of property and equipment

Buildings	-	-
Vehicles	145	-
Office equipment and furniture	3,672	3,408
Other equipment	441	281
Other property and equipment	22	6
Leasehold improvements	2,577	412
	<b>6,857</b>	<b>4,107</b>
<b>Total depreciation and amortization</b>	<b>11,584</b>	<b>4,806</b>

**16 Other operating expenses**

*In MKD thousand*

	Current year 2010	Previous year 2009
Loss from sale of assets available-for-sale		
Software licensing cost		
Deposit insurance premium	287	481
Premium for insurance of property and employees	485	
Materials and services	29,007	25,241
Administrative and marketing expenses	3,961	2,725
Other taxes and contributions	1,331	3,017
Rents	15,375	13,569
Expenses for litigations and claims		
Provision for off balance exposure, net		
Provision for pension and other employment benefits, net		
Provision for contingent liabilities related to court cases, net		
Other provisions net		
Capital loss on sale of:		
Property and equipment		
Intangible assets		
Foreclosed assets	581	
Noncurrent assets held for sale		
Other ( list in details all expenses over 10% of the other operating expenses)		
<i>Business trips</i>	1,447	1,476
<i>other</i>	1,200	825
<b>Total other operating expenses</b>	<b>53,674</b>	<b>47,334</b>

**17 Income tax**

**A Expenses/ income on current and deferred tax**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<b>Current income tax</b>		
Expenses / (income) for current income tax	-	182
Adjustments for previous year	-	-
Benefits from previously unrecognized tax losses, tax loans and temporary differences from previous years	-	-
Changes in the accounting policies and errors	-	-
Other	-	-
	-	<b>182</b>
<b>Deferred income tax</b>		
Deferred income tax arising from temporary differences for the year	-	-
Recognition of previously unrecognized tax losses	-	-
Changes in the tax rate	-	-
Introduction of new taxes	-	-
Benefits of previously non recognized tax losses, tax loans and temporary differences from previous years	-	-
Other	-	-
<b>Total expense / (return) on income tax</b>	-	-

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<b>Current income tax</b>		
Recognized in the income statement	-	182
Recognized in equity	-	-
		<b>182</b>
<b>Deferred income tax</b>		
Recognized in the income statement	-	-
Recognized in equity	-	-
	-	<b>0</b>
<b>Total expense/ (return) on income tax</b>	-	<b>182</b>

**B. Reconciliation of the average effective tax rate and the applicable tax rate**

	<i>in %</i>	<i>In MKD thousand</i>	<i>in %</i>	<i>In MKD thousand</i>
	Current year 2010		Previous year 2009	
Gain / (loss) before tax		(45,452)		(37,258)
Income tax using the applicable tax rate			0%	
Effect of tax rates in foreign jurisdiction				
Adjustments for previous years and changes in the tax rate				
Taxed income abroad				
Non deductible expenses	0,00%		0,49%	182
Tax exempt income				
Tax exemptions not recognized in the profit and loss				
Recognition of previously non-recognized tax losses				
Benefits from previously non recognized tax losses, tax credits and temporary differences from previous years				
Change in the deferred tax				
Other				
<b>Total expense / (return) of income tax</b>				<b>182</b>
<b>Average effective tax rate</b>	<b>(0,00%)</b>		<b>(0,49%)</b>	

**18 Cash and cash equivalents**

*In MKD thousand*

Current year 2010      Previous year 2009

Cash in hand	15,201	13,315
Cash and balances with NBRM, except obligatory deposits in foreign currency	66,543	26,873
Current accounts and deposits with foreign banks	6,424	1,560
Current accounts and deposits with domestic banks	12,952	12,176
Treasury bills tradable at the secondary market	162,783	93,773
Government bills tradable at the secondary market		
Time deposits with maturity of up to three months		
Other short term highly liquid assets		
Interest receivables		24
(Allowances for impairment)		(121)
<b><i>Included in the cash and cash equivalents for the purposes of Statement of cash flow</i></b>	<b>263,903</b>	<b>147,600</b>
Mandatory deposits in foreign currency	6,228	41,495
Restricted deposits		
(Allowances for impairment)		
<b>Total</b>	<b>270,131</b>	<b>189,095</b>

*In MKD thousand*

Current year 2010      Previous year 2009

**Specific allowances for impairment**

Balance at 1 January	121	287
Impairment loss for the year		
additional impairment	229	2,052
(release of impairment)	(363)	(2,217)
Effect of foreign currency movements	13	(1)
(Written off receivables)		
<b>Balance at 31 December</b>	<b>-</b>	<b>121</b>

As at 31 December 2010 the cash and cash equivalents includes the amount of MKD 35,110 thousand (2009: MKD 20,534 thousand) representing the obligatory reserve in MKD.

The Bank is obliged to maintain obligatory reserve in MKD at its account with National Bank of Republic of Macedonia, calculated at the rate of 10% (2009: 10%) to the Bank's liabilities towards the residents and non-residents, legal entities and individuals based on the average daily amounts on these accounts at each calendar day during the previous month, as well as the obligatory reserve in the amount of 20% (2009: 20%) on the amount of liabilities denominated in MKD with foreign currency clause. Also the Bank is obliged to maintain obligatory reserve in foreign currency at a special accounts with National Bank of Republic of Macedonia, calculated at a rate of 13% (2009: 13%) on the average daily amounts of the accounts for liabilities in foreign currency towards residents and non residents, legal entities and individuals at each calendar day during the previous month. During 2010 and 2009 the Bank has meet the obligations for maintaining the required level of obligatory foreign currency reserve. These assets are not available for performance of the Bank's daily operating activities.

The interest rate on the obligatory reserve in MKD during 2010 and 2009 was 2% annually. The interest rate on the obligatory reserve in foreign currency during 2010 was 0,1% annually and in 2009 with the changes in July was 0,1% annually.

Treasury bills issued by the NBRM are with maturity of 27 to 28 days (2009: 27 to 28 days) and have interest rate of 4% up to 8% annually (2009: 7,5% up to 9% annually).



**19 Trading assets**

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Trading securities</b>		
<i>Debt trading securities</i>		
Treasury bills		
Government bills		
Other money market instruments		
Governments bonds		
Corporate bonds		
Other debt securities		
	-	-
Listed		
Non-listed		
<i>Trading equity securities</i>		
Equity securities issued by banks		
Other equity instruments		
	-	-
Listed		
Non-listed		
<b>Trading derivatives</b>		
Contracts that depends on the change of the interest rate		
Contracts that depends on the foreign exchange rate		
Contracts that depends on the equity price		
Other contracts that fulfill the IAS 39 requirements		
	-	-
<b>Total trading assets</b>	-	-

\*As at 31 December 2010 the Bank does not have a trading portfolio

**20 Financial assets at fair value through profit and loss, designated upon initial recognition**

*In MKD thousand*

	Current year 2010	Previous year 2009
<i>Debt securities</i>		
Treasury bills		
Government bills		
Other money market instruments		
Governments bonds		
Corporate bonds		
Other debt securities		
	-	-
Listed		
Non-listed		
<i>Equity securities</i>		
Equity securities issued by banks		
Other equity instruments		
	-	-
Listed		
Non-listed		
<i>Loans and advances to banks</i>		
<i>Loans and advances to other customers</i>		
<b>Total financial assets at fair value through profit and loss, designated upon initial recognition</b>	<b>-</b>	<b>-</b>

\* As at 31 December 2010 the Bank does not have financial assets at fair value through profit and loss, recognized at initial recognition

**21 Derivative assets and liabilities held for risk management**

		<i>In MKD thousand</i>			
		Current year 2010		Previous year 2009	
		Derivative assets	(Derivative liabilities)	Derivative assets	(Derivative liabilities)
<b>Derivatives hedges /Derivatives held for risk management</b>					
A	<b>Derivatives held for risk management</b>				
A.1	<b>Instrument type</b>				
	<b>Derivatives held for risk management</b>				
	Contracts that depend on the change of the interest rate				
	Contracts that depend on the change of the foreign exchange rate				
	Contracts that depends on the equity price change				
	Other contracts that fulfill the IAS 39 requirements				
	<b>Total derivatives held for risk management</b>	-	-	-	-
A.2	<b>Hedges type</b>				
	Fair value hedge				
	Cash flow hedge				
	Net investment hedge in foreign operation				
	<b>Total derivatives held for risk management</b>	-	-	-	-
B	<b>Embedded derivatives</b>				
	Contracts that depend on the change of the interest rate				
	Contracts that depend on the change of the foreign exchange rate				
	Contracts that depends on the equity price change				
	Other contracts that fulfill the IAS 39 requirements				
	<b>Total embedded derivatives</b>	-	-	-	-
	<b>Total derivatives held for risk management</b>	-	-	-	-

\* As at 31 December 2010 the Bank does not have derivative assets and liabilities held for risk management

**22 Loans and advances**

**22.1 Loans and advances to banks**

	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
Loans to banks				
Domestic banks		42		
Foreign banks				
Term deposits, with maturity over three months				
Domestic banks				
Foreign banks				
Repo				
Domestic banks				
Foreign banks				
Other receivables				
Domestic banks				
Foreign banks				
Current maturity				
<b>Total loans and advances to banks before allowances for impairment</b>		<b>42</b>		
Allowances for impairment				
<b>Total loans and advances to banks less allowances for impairment</b>		<b>42</b>		

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<b>Specific allowances for impairment</b>		
Balance at January 1	-	-
Impairment loss for the year		
Additional impairment	300	70
(release of impairment)	(300)	(70)
FX effect		
(Receivables written off)		
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>

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**22.2** *Loans and advances to customers*

**A** *Portfolio of loans and advances to customers according the type of the debtor*

	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
Non-financial entities				
Principle	30,901	96,899	27,098	27,161
Interest receivable	735		193	
Government				
Principal				
Interest receivable				
Non-profit institutions serving to the households				
Principle				
Interest receivable				
Financial institutions, except banks				
Principle				
Interest receivable				
Household				
Principle				
Housing loans	2,562	6,174	760	594
Consumer loans	16,021	53,391	42,592	22,087
Car loans				
Mortgage loans				
Credit cards	42,730		42,719	
Other loans	160		211	
Interest receivable	843		1,265	
Non-residents				
Principle			20	
Interest receivable	-		-	
Current maturity	37,150	(37,150)	10,197	(10,197)
<b><i>Total loans and advances to customers before allowances for impairment</i></b>	<b>131,102</b>	<b>118,314</b>	<b>125,055</b>	<b>39,645</b>
(Allowances for impairment)	(15,063)	(5,124)	(55,228)	(1,683)
<b><i>Total loans and advances to customers less allowances for impairment</i></b>	<b>116,039</b>	<b>113,190</b>	<b>69,827</b>	<b>37,962</b>

**22.2 Loans and advances to customers**

**A Portfolio of loans and advances to customers according the type of the debtor**

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Specific allowances for impairment</b>		
Balance at 1 January	53,317	58,832
Impairment loss for the year		
Additional impairment	8,857	6,084
(release of impairment)	(16,120)	(10,473)
FX effect	19	(1.126)
(Receivables written off)	(25,886)	
<b>Balance of 31 December</b>	<b>20,187</b>	<b>53,317</b>
<b>Collective allowances for impairment</b>		
Balance at January 1	3,594	
Impairment loss for the year		
Additional impairment		12,186
(release of impairment)	(3,594)	(8,592)
FX effect		
(Receivables written off)		
<b>Balance at 31 December</b>		<b>3.594</b>
<b>Total allowances for impairment of loans and advances to customers</b>	<b>20,187</b>	<b>56,911</b>

## 22.2 Loans and advances to customers

### B Portfolio of loans and advances to customers according the type of the collateral

*In MKD thousand*

	Current year 2010	Previous year 2009
<i>(current carrying amount of loans and advances)</i>		
First class collateral		
Cash deposits (depo and or/ restricted at bank's accounts)	4,364	2,213
Government securities	4	
Government unconditional guarantees		
Bank guarantees		
Guarantees issued by insurance companies and insurance policies		
Corporate guarantees (except from banks and insurance companies)		
Guarantees from individuals	153,963	48,618
Pledge on property		
Property for its own use (apartments and houses)	55,883	8,157
Business property	6,327	30,461
Pledge on movable lien	5,263	
Other types of collateral	9	
Unsecured loans	3,416	18,340
<b>Total loans and advances to customers less allowance for impairment</b>	<b>229,229</b>	<b>107,789</b>

**23 Investment securities**  
**23.1 Investments in financial assets available for sale**
*In MKD thousand*

	Current year 2010	Previous year 2009
<i>Debt securities</i>		
Treasury bills		
Government bills		17,996
Other money market instruments		
Government bonds	6,345	7,061
Corporate bonds		
Other debt instruments		
	<b>6,345</b>	<b>25,057</b>
Listed	<b>6,345</b>	<b>7,061</b>
Non-listed		<b>17,996</b>
<i>Equity instruments</i>		
Equity instruments issued by banks		
Other equity instruments	9,336	9,336
	<b>9,336</b>	<b>9,336</b>
Listed	9,336	9,336
Non-listed	-	-
<b>Total investments in available for sale instruments before allowances for impairment</b>	<b>15,681</b>	<b>34,393</b>
(Allowances for impairment)	(6,598)	(953)
<b>Total investments in available for sale instruments less allowances for impairment</b>	<b>9,083</b>	<b>33,440</b>
<b>Specific allowances for impairment</b>	Current year 2010	Previous year 2009
Balance at 1 January	953	58,593
Impairment loss for the year		
Additional impairment	5,645	181
(release of impairment)		(74)
FX effect		390
(Receivables written off)		(58,137)
<b>Balance at 31 December</b>	<b>6,598</b>	<b>953</b>



As at 31 December 2010 the government bonds for denationalization issued by the Ministry of Finance of Republic of Macedonia are comprised of:

- Government bonds from the fifth issue in 2006, with maturity of 10 years and annual interest rate of 2% (2009: 2%), which at 31 December 2010 are in the amount of MKD 4,312 thousand (2009: MKD 4,814 thousand);
- Government bonds from the sixth issue in 2007, with maturity of 10 years and annual interest rate of 2% (2009: 2%), which at 31 December 2010 are in the amount of MKD 195 thousand (2009: MKD 212 thousand); and
- Government bonds from the seventh issue in 2008, with maturity of 10 years and with an annual rate of 2% (2009: 2%), which at 31 December 2010 are in the amount of MKD 1,754 thousand (2009: MKD 1,940 thousand).

**23.2 Investments in financial assets held to maturity**

		<i>In MKD thousand</i>	
		Current year 2010	Previous year 2009
<i>Debt securities</i>			
Treasury bills			
Government bills			
Other money market instruments			
Government bonds			
Corporate bonds			
Other debt instruments			
Listed			
Non-listed			
<i>Equity instruments</i>			
Equity instruments issued by banks			
Other equity instruments			
Listed			
Non-listed			
<b><i>Total investments in financial instruments held to maturity before allowances for impairment</i></b>			
<i>(Allowances for impairment)</i>			
<b><i>Total investments in financial instruments held to maturity less allowances for impairment</i></b>			
<b>Specific allowances for impairment</b>		Current year 2010	Previous year 2009
Balance at 1 January			
Impairment loss for the year			
Additional impairment			
(release of impairment)			
FX effect			
(Receivables written off)			
<b>Balance at 31 December</b>			

\*As at 31 December 2010 the Bank does not investments in financial assets held to maturity.

**24 Investments in subsidiaries and associated entities**

**A Proportion of participation on the bank in subsidiaries and associates entities**

Name of subsidiaries and associated entities	Country	<i>in %</i>			
		Proportion of interest ownership		Proportion of voting power	
		Current year 2010	Previous year 2009	Current year 2010	Previous year 2009
		-	-	-	-

**B Financial information for the associated entities - 100%**

Name of associated entities	Total assets	Total liabilities	<i>In MKD thousand</i>		
			Total capital and reserves	Revenue	Profit/(loss) for the year
Current year 2010	-	-	-	-	-
Previous year 2009	-	-	-	-	-

\* As at 31 December 2010 the Bank does not have investments in subsidiaries and associated entities.

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**25 Other receivables**

*In MKD thousand*

	Current year 2010	Previous year 2009
Trade receivables	20,600	-
Prepayments	4,626	608
Deferred income	-	1.350
Fee and commission receivables	461	2.071
Receivables from employees	32	3
Advances for intangible assets	2,557	1.690
Advances for property and equipment	211	
Other (list in details all receivables over 10% of the total other receivables)		
<i>material expenses</i>	3,008	1.165
<i>numismatics</i>	155	155
<i>leasing</i>	643	968
<i>receivables from payments on behalf of customers</i>	72	33
<i>credit cards operations</i>	2,837	
<i>other</i>	776	49
<b>Total other receivables before allowances for impairment</b>	<b>35,978</b>	<b>8.092</b>
(Allowances for impairment)	(604)	(1.845)
<b>Total other receivables less allowances for impairment</b>	<b>35,374</b>	<b>6.247</b>

*In MKD thousand*

	Current year 2010	Previous year 2009
<b>Specific allowances for impairment</b>		
Balance at 1 January	1,845	15.997
Impairment loss for the year		
Additional impairment	1,393	564
(release of impairment )	(1,656)	(175)
FX effect		1.382
(Receivables written off)	(978)	(15.923)
<b>Balance at 31 December</b>	<b>604</b>	<b>1.845</b>



**27 Foreclosed assets**

<i>In MKD thousand`</i>	Land	Buildings	Equipment	Apartments	Other	Total
<b>Cost</b>						
Balance at 1 January 2009 (previous year)		65.234	5.236	37,884		108,354
foreclosed during the year						-
(sold during the year)						-
(transferred to own assets)						-
<b><i>Balance at 31 December 2009 (previous year)</i></b>	<b>-</b>	<b>65.234</b>	<b>5.236</b>	<b>37.884</b>	<b>-</b>	<b>108.354</b>
Balance at 1 January 2010 (current year)	-	65.234	5.236	37.884	-	108.354
foreclosed during the year						
(sold during the year)				(9,589)		(9,589)
(transferred to own assets)						-
<b><i>Balance at 31 December 2010 (current year)</i></b>	<b>-</b>	<b>65.234</b>	<b>5.236</b>	<b>28,295</b>	<b>-</b>	<b>98,765</b>
<b>Allowances for impairment</b>						
Balance at 1 January 2009 (previous year)						-
Impairment loss for the year		223	406	67		696
(transferred to own assets)						

**27 Foreclosed assets (continued)**

<i>Balance at 31 December 2009 (previous year)</i>	-	223	406	67	-	696
Balance at 1 January 2010 (current year)	-	223	406	67	-	696
Impairment for the year (transferred to own assets)						-
						-
<i>Balance at 31 December 2010 (current year)</i>	-	223	406	67	-	696
<b>Carrying amount</b>						
at 1 January 2009 (previous year)	-	65.011	4,830	37,817	-	107,658
<i>at 31 December 2009 (previous year)</i>	-	65.011	4.830	37.817	-	107.658
<i>at 31 December 2010 (current year)</i>	-	65.011	4.830	28,228	-	98,069

**28 Intangible assets****A Reconciliation of the carrying amount**

<i>In MKD thousand</i>	Internally developed software	Purchased software from external suppliers	Other internally developed intangible assets	Other intangible assets	Investment in intangible assets under lease	Goodwill	Total
<b>Cost</b>							
Balance at 1 January 2009 (previous year)		4,426		6,906	-		11,332
Increase through new purchases		8,302		215			8,517
Increase through internal development			7,136				7,136
Increase through business combination (disposals and write-offs)							-
(disposals through business combination)							-
(transfers to non-current assets held for sale)							-
transfer from non-current assets held for sale							-
<b>at 31 December 2009 (previous year)</b>	<b>-</b>	<b>12,728</b>	<b>7,136</b>	<b>7,121</b>	<b>-</b>	<b>-</b>	<b>26,985</b>
Balance at 1 January 2010 (current year)	-	12,728	7,136	7,121	-	-	26,985
Increase through new purchases		17,966			283		18,249
Increase through internal development			1,167				1,167
Increase through business combination (disposals and write-offs)				(1,454)			(1,454)
(disposals through business combination)							-
(transfers to non-current assets held for sale)							-
transfer from non-current assets held for sale							-
<b>Balance at 31 December 2010 (current year)</b>	<b>-</b>	<b>30,694</b>	<b>8,303</b>	<b>5,667</b>	<b>283</b>	<b>-</b>	<b>44,947</b>
<b>Amortization and impairment losses</b>							
Balance at 1 January 2009 (previous year)		2.884		4.642	-		7.526
Amortization for the period		404		295			699
Impairment losses for the period							-



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(release of impairment losses for the year) (disposals and write-offs)							-
							-
<b>Balance at 31 December 2009 (previous year)</b>	-	<b>3,288</b>	-	<b>4,937</b>	-	-	<b>8,225</b>
Balance at 1 January 2010 (current year)		3,288	-	4,937	-	-	8,225
Amortization for the year		2,780	1,616	303	28		4,727
Impairment loss for the year							-
(release of impairment loss for the year) (disposals and write-offs)				(1,454)			(1,454)
<b>Balance at 31 December 2010 (current year)</b>	-	<b>6,068</b>	<b>1,616</b>	<b>3,786</b>	<b>28</b>	-	<b>11,498</b>
<b>Carrying amount</b>							
at 1 January 2009 (previous year)	-	1,542	-	2,264	-	-	3,806
<b>at 31 December 2009 (previous year)</b>	-	<b>9,440</b>	<b>7,136</b>	<b>2,184</b>	-	-	<b>18,760</b>
<b>at 31 December 2010 (current year)</b>	-	<b>24,626</b>	<b>6,687</b>	<b>1,881</b>	<b>255</b>	-	<b>33,449</b>

\* only for the consolidated financial statements

**B Carrying amount of the intangible assets where there is a restriction of the ownership and/or are pledge as collateral for the bank's liabilities**

	<i>In MKD thousand</i>	Internally developed software	Purchased software from external suppliers	Other internally developed intangible assets	Other intangible assets	Investment in intangible assets under lease	Total
Carrying amount:							
at 31 December 2009 (previous year)							-
at 31 December 2010 (current year)							-

**29 Property and equipment**

***A Reconciliation of the carrying amount***

<i>In MKD thousand</i>	Land	Buildings	Vehicles	Furniture and office equipment	Other equipment	Other items of property and equipment	Property and equipment under construction	Leasehold improvement	Total
<b>Cost</b>									
Balance at 1 January 2009 (previous year)			1,112	53,787	6,037	1,006		72,182	134,124
increase				1,872	1,589		1,098	549	5,108
increase through business combination									
(disposals and write-offs)									
(disposal through business combination)									-
(transfer to non-current assets held for sale)									-
transfer from non-current assets held for sale									-
Other transfers									-
<b><i>Balance at 31 December 2009 (previous year)</i></b>	<b>-</b>	<b>-</b>	<b>1,112</b>	<b>55,659</b>	<b>7,626</b>	<b>1,006</b>	<b>1,098</b>	<b>72,731</b>	<b>139,232</b>
Balance at 1 January 2010 (current year)	-	-	1,112	55,659	7,626	1,006	1,098	72,731	139,232
increase				5	1,459	194	10,762	18,031	30,451
Increase through business combination									-
(disposals and write-offs)			(1,112)	(19,968)	(4,518)	(542)		(70,122)	(96,262)
(disposals through business combination)									-
(transfer to non-current assets held for									-

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sale)									-
transfer from non-current assets held for sale									-
Other transfers		3,275	3,811	456	186	(7,733)	5		-
<b>Balance at 31 December 2010 (current year)</b>	-	-	<b>3,275</b>	<b>39,507</b>	<b>5,023</b>	<b>844</b>	<b>4,127</b>	<b>20,645</b>	<b>73,421</b>
<b>Depreciation and impairment losses</b>									
Balance at 1 January 2009 (previous year)		1,112	42,989	5,637	370		70,164		120,272
Depreciation for the year			3,408	281	6		412		4,107
Impairment losses for the year (release of impairment losses for the year)									-
(disposals and write-offs)									-
(transfer to non-current assets held for sale)									-
transfer from non-current assets held for sale									-
<b>Balance at 31 December 2009 (previous year)</b>	-	-	<b>1,112</b>	<b>46,397</b>	<b>5,918</b>	<b>376</b>	-	<b>70,576</b>	<b>124,379</b>
Balance at 1 January 2010 (current year)	-	-	1,112	46,397	5,918	376		70,576	124,379
Depreciation for the year		145	3,672	248	215		2,577		6,857
Impairment losses for the year (release of impairment losses for the year)									-
(disposals and write-offs)									-
(transfer to non-current assets held for sale)		(1,112)	(19,891)	(4,520)	(541)		(70,122)		(96,186)
transfer from non-current assets held for sale									-

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Other transfers									-
<b>Balance at 31 December 2010 (current year)</b>	-	-	145	30,178	1,646	50	-	3,031	35,050
<b>Carrying amount</b>									
at 1 January 2009 (previous year)	-	-	-	10,798	400	636	-	2,018	13,852
<b>at 31 December 2009 (previous year)</b>	-	-	-	9,262	1,708	630	1,098	2,155	14,853
<b>at 31 December 2010 (current year)</b>	-	-	3,130	9,329	3,377	794	4,127	17,614	38,371

<b>30</b>	<b><i>Current and deferred tax assets and liabilities</i></b>				
<b>30.1</b>	<b>Current tax assets and tax liabilities</b>				

*In MKD thousand*

	Current year 2010	Previous year 2009
--	----------------------	-----------------------

Income tax receivables (current)

-

664

Income tax liabilities (current)

-

-

**30.2 Deferred tax assets and tax liabilities**

**A Recognized deferred tax assets and deferred tax liabilities**

	<i>In MKD thousand</i>	Deferred tax assets	Current year 2010 (Deferred tax liabilities)	Net	Deferred tax assets	Previous year 2009 (Deferred tax liabilities)	Net
Derivative assets held for risk management				-			-
Loans and advances to banks				-			-
Loans and advances to other customers				-			-
Investment securities				-			-
Property and equipment				-			-
Intangible assets				-			-
Other receivables				-			-
Derivative liabilities held for risk management				-			-
Other liabilities				-			-
Unused tax losses and unused tax credits				-			-
Other				-			-
<b><i>Deferred tax assets/liabilities recognized in income statement</i></b>		-	-	-	-	-	-
Investments in financial assets available for sale				-			-
Cash flow hedges				-			-

*Deferred tax assets/liabilities recognized in equity*

**Total unrecognized deferred tax assets / liabilities**

-	-	-	-	-	-
-	-	-	-	-	-

**B**      *Unrecognized deferred tax assets*

*In MKD thousand*  
 Current year      Previous  
 2010                      year 2009

Tax losses  
 Tax credits


**Total unrecognized deferred tax assets**

-	-
---	---



**B**

**Reconciliation of the movements of the deferred tax assets and deferred tax liabilities during the year**

	<i>In MKD thousand</i>	Recognised during the year in:			at 31 December
		at 1 January	Income statement	Equity	
<b>Previous year 2009</b>					
Derivative assets held for risk management					-
Loans and advances to banks					-
Loans and advances to other customers					-
Investments in securities					-
Intangible assets					-
Property and equipment					-
Other receivables					-
Derivative liabilities held for risk management					-
Other liabilities					-
Unused tax losses and tax credits					-
Other					-
Investments in financial assets available for sale					-
Cash flow hedges					-
<b>Total recognised deferred tax assets / liabilities</b>		-	-	-	-

**Current year 2010**

Derivative assets held for risk management				-
Loans and advances to banks				-
Loans and advances to other customers				-
Investment in securities				-
Intangible assets				-
Property and equipment				-
Other receivables				-
Derivative liabilities held for risk management				-
Other liabilities				-
Unused tax losses and tax credits				-
Other				-
Investments in financial assets available for sale				-
Cash flow hedges				-
<b>Total recognized deferred tax assets / liabilities</b>	-	-	-	-

\* As at 31 December 2010 the Bank does not have differed tax assets and deferred tax liabilities.

**31 Non current assets held for sale**

**A Non current assets held for sale**

*In MKD thousand*

Current year 2010      Previous year 2009

Intangible assets		
Property and equipment		

**Total non current assets held for sale**

-      -

**B Disposal group**

*In MKD thousand*

Current year 2010      Previous year 2009

*Group of assets for disposal*

Financial assets		
Intangible assets		
Property and equipment		
Investment in associates entities		
Income tax receivables		
Other assets		

*Total group of asset for disposal*

-      -

*Liabilities directly attributable to the group of assets for disposal*

Financial liabilities		
Provision		
Income tax liabilities		
Other liabilities		

*Total liabilities directly attributable to the group of assets for disposal*

-      -

**B Gain / (loss) recognized from the sale of assets held for sale and disposal group**

*In MKD thousand*

Current year 2010      Previous year 2009

Gain/(loss) recognised from the sale of assets held for sale and disposal group		
---	--	--

\* As at 31 December 2010 the Bank does not have non current assets held for sale.

**32 Trading liabilities**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<i>Deposits form banks</i>		
Current accounts, demand deposits and deposits over night		
Term deposits		
Other deposits		
	-	-
<i>Deposits from other customers</i>		
Current accounts, demand deposits and deposits over night		
Term deposits		
Other deposits		
	-	-
<i>Debt securities issued</i>		
Money market instruments		
Deposit certificates		
Issued bonds		
Other		
	-	-
<i>Other financial liabilities</i>		
<i>Trading derivatives</i>		
Contracts that depends on the change of the interest rate		
Contracts that depends on the change of foreign exchange rate		
Contracts that depends on the change of equity price		
Other contracts that fulfill the IAS 39 requirements		
	-	-
<b>Total trading liabilities</b>	-	-

\* As at 31 December 2010 the Bank does not have trading liabilities

**33 Financial liabilities at fair value through profit or loss, designated upon initial recognitions**

*In MKD thousand*

	Current year 2010		Previous year 2009	
	Carrying amount	Contractual value, payable at maturity	Carrying amount	Contractual value, payable at maturity
<i>Deposits from banks</i>				
Current accounts, demand deposits and deposits over night				
Term deposits				
Other deposits				
	-	-	-	-
<i>Deposits from other customers</i>				
Current accounts, demand deposits and deposits over night				
Term deposits				
Other deposits				
	-	-	-	-
<i>Debt securities issued</i>				
Money market instruments				
Deposit certificates				
Issued bonds				
Other				
	-	-	-	-
<i>Subordinated liabilities</i>				
<i>Other financial liabilities</i>				
<b>Total financial liabilities at fair value through profit or loss, designated upon initial recognitions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* As at 31 December 2010 the Bank does not have financial liabilities at fair value through profit or loss, designated upon initial recognitions

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<b>34</b>	<b>Deposits</b>				
<b>34.1</b>	<b>Deposit from banks</b>				

	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
Current accounts				-
Domestic banks	43			
Foreign banks				
Demand deposits				
Domestic banks				
Foreign banks				
Term deposits				
Domestic banks	6,947			
Foreign banks				
Restricted deposits				
Domestic banks				
Foreign banks				
Other deposits				
Domestic banks				
Foreign banks				
Interest liabilities for deposits				
Domestic banks	2			
Foreign banks				
Current maturity				
<b>Total deposits to banks</b>	<b>6,992</b>	-	-	-

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**Deposits from other customers**

	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
<b>Non-financial entities</b>				
Current accounts	205,463		14,783	
Demand deposits	12,368		18	
Term deposits	7,848		5,000	
Restricted deposits				
Other deposits				
Interest liabilities	167		18	
	<b>225,846</b>	<b>-</b>	<b>19,819</b>	<b>-</b>
<b>Government</b>				
Current accounts				
Demand deposits				
Term deposits				
Restricted deposits				
Other deposits				
Interest liabilities				
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Non-profit institutions serving the households</b>				
Current accounts	30		6	
Demand deposits				
Term deposits				
Restricted deposits				
Other deposits				
Interest liabilities				
	<b>30</b>	<b>-</b>	<b>6</b>	<b>-</b>
<b>Financial institutions, except banks</b>				
Current accounts	25,335		2,797	
Demand deposits				
Term deposits	62,069		43,058	

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Restricted deposits				
Other deposits				
Interest liabilities	528		162	
	<b>87,932</b>	-	<b>46,017</b>	-
<b>Individuals</b>				
Current accounts	13,772		14,619	
Demand deposits	2		6	
Term deposits	37,884	4,448	23,735	612
Restricted deposits				
Other deposits				
Interest liabilities	552		380	
	<b>52,210</b>	<b>4,448</b>	<b>38,740</b>	<b>612</b>
<b>Non residents, except banks</b>				
Current accounts	<b>14,939</b>		<b>2,285</b>	
Demand deposits				
Term deposits				
Restricted deposits				
Other deposits				
Interest liabilities				
	<b>14,939</b>	-	<b>2,285</b>	-
Current maturity	<b>4,305</b>	<b>(4,305)</b>	-	-
<b>Total deposits from customers</b>	<b>385,262</b>	<b>143</b>	<b>106,867</b>	<b>612</b>



**35 Debt securities issued**

*In MKD thousand*

Current year 2010      Previous year 2009

Money market instruments		
Deposit certificates		
Issued bonds		
Other		
Interest liabilities for issued securities		
<b>Total debt securities issued</b>	-	-

\* As at 31 December 2010 the Bank does not have debt securities issued

**36 Borrowings**

**A Portfolio of the borrowings according the type of the liability and sector of the issuer**

	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
<b>Banks</b>				
<b>Residents</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Non residents</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Non financial entities</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Government</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Non profit organization serving the household</b>				
Borrowings				
Interest liabilities				
<b>Financial entities, except banks</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Non residents, except banks</b>				
<b>Non financial entities</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Government</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Non profit organization serving the household</b>				

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Borrowings				
Repo transactions				
Interest liabilities				
<b>Financial entities, except banks</b>				
Borrowings				
Repo transactions				
Interest liabilities				
<b>Household</b>				
Borrowings				
Repo transactions				
Interest liabilities				
Current maturity				
<b>Total borrowings</b>	-	-	-	-
<b>B Borrowings according the borrower</b>				

*In MKD thousand*

	Current year 2010		Previous year 2009	
	Short term	Long term	Short term	Long term
<i>Domestic sources:</i>				
_____				
_____				
_____				
_____				
_____				
_____				
	-	-	-	-
<i>Foreign sources:</i>				
_____				
_____				
_____				
_____				
_____				
	-	-	-	-
Current maturity				
<b>Total borrowings</b>	-	-	-	-

\* As at 31 December 2010 the Bank does not have borrowings

**37 Subordinated liabilities**

*In MKD thousand*

Current year 2010      Previous year 2009

*Subordinated deposit*

(list separately:)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_


Interest liabilities

-      -

*Subordinated borrowings*

(list separately:)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_


Interest liabilities

-      -

*Subordinated debt securities issued*

(list separately:)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_


Interest liabilities

-      -

Redeemable preference shares


-      -

**Total subordinated liabilities**

-      -

**38 Provisions**

<i>In MKD thousand</i>	Off balance sheet credit exposure	Pending legal issues and litigations	Pensions and other employee benefits	Restructuring	Onerous contracts	Other provisions	Total
Balance at 1 January 2009 (previous year)	1,798						1,798
Charge during the year							-
(used during the year)							-
(release of provisions)	(626)						(626)
<b>Balance at 31 December 2009 (previous year)</b>	<b>1,172</b>	-	-	-	-	-	<b>1,172</b>
Balance at 1 January 2010 (current year)	1,172	-	-	-	-	-	1,172
Charge during the year	612						612
(used during the year)							-
(release of provisions)	(1,246)						(1,246)
<b>Balance at 31 December 2010 (current year)</b>	<b>538</b>	-	-	-	-	-	<b>538</b>

**39 Other liabilities**

*In MKD thousand*

	Current year 2010	Previous year 2009
Trade payables	3,609	3,568
Advances received	61	1,200
Fee and commission liabilities	198	105
Accrued expenses	-	1,084
Deferred income from previous year		
Short term employee liabilities		
Short term employee benefits		
Other (state in details liabilities over 10% of the total other liabilities)		
<i>VAT liabilities</i>	956	1,266
<i>Liabilities for credit cards operations</i>	1,272	3,874
<i>Received advances for loans</i>	268	154
<i>other</i>	1,078	
<b>Total other liabilities</b>	<b>7,442</b>	<b>11,251</b>

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**40 Issued capital**

**A Issued capital**

	<i>In MKD thousand</i>		<i>Number of issued shares</i>				<i>In MKD thousand</i>	
	Share nominal value		Ordinary shares		Irredeemable preference shares		Total issued capital	
	Ordinary shares	irredeemable preference shares	Current year 2010	Previous year 2009	Current year 2010	Previous year 2009	Current year 2010	Previous year 2009
Balance at 1 January	29,706		26,341	26,341			782,489	782,489
Shares issued during the year							-	-
Excercise of share options							-	-
Changes in the share nominal value							-	-
Other changes during the year (in details):							-	-
							-	-
							-	-
<b>Balance at 31 December – fully paid</b>	<b>29,706</b>	<b>-</b>	<b>26,341</b>	<b>26,341</b>	<b>-</b>	<b>-</b>	<b>782,489</b>	<b>782,489</b>

The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Bank (2009: one vote per share). All shares rank equally with regard to the Bank's residual assets.

***Statutory reserve***

Under local statutory legislation, the Bank is required to set aside 15 percent of its net profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the court registered capital. Until achieving the minimum required level the statutory reserve could only be used for loss recovery. When the statutory reserve exceeds the minimum required level and when all losses are covered, the statutory reserve can also be used for distribution of dividends, based on a decision of the shareholders' meeting, but only if the amount of the dividends for the current business year has not reached the minimum for distribution as prescribed in the Trade Company Law or by the Bank's Statute.

**Fair value reserve for assets available for sale**

The fair value reserve for assets available for sale includes the cumulative net effect of changes in the fair value of the investments available for sale until the investment is derecognized or impaired.



<b>B</b>	<b>Dividends</b>
<b>B.1</b>	<b>Declared dividends and dividends paid by the Bank</b>

	<i>In MKD thousand</i>	
	Current year	Previous year
	2010	2009
Declared dividends and dividends paid		

	<i>In MKD thousand</i>	
	Current year	Previous year
	2010	2009
Dividends per ordinary share		
Dividends per preference share		

**B.2** **Declared dividends after the reporting date (the dividend liabilities are not presented in the balance sheet)**

Remark: Draft – decision for the declared dividends for the year by the Supervisory board of the Bank, but up to the issuance of the Financial statements, the decision is not confirmed by the Shareholder’s Assembly of the Bank

	<i>In MKD thousand</i>	
	Current year	Previous year
	2010	2009
Declared dividends after 31 December		

	<i>In MKD thousand</i>	
	Current year	Previous year
	2010	2009
Dividends per ordinary share		
Dividends per preference share		

\* After the balance sheet date no dividends were proposed by the Supervisory Board of the Bank.

**B Shareholders' structure over 5% from the voting shares**

Shareholder name	<i>In MKD thousand</i>		<i>in %</i>	
	Current year 2010	Previous year 2009	Current year 2010	Previous year 2009
	Issued capital (nominal value)	Issued capital (nominal value)	Voting right	Voting right
Alfa Finance Holding, Bulgaria	769,108	769,108	98.29%	98.29%
_____				
_____				
_____				
_____				
_____				
<b>Total</b>	<b>769,108</b>	<b>769,108</b>	<b>98.29%</b>	<b>98.29%</b>

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<b>41 Earnings per share</b>		
<b>A Basic earnings per share</b>		
	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<i>Net-profit attributable to the ordinary shareholders</i>		
Net-profit for the year	(45,452)	(37,440)
Dividend for irredeemable preference shares		
Adjustments of the net-profit attributable to the ordinary share holders (list separately):		
_____		
_____		
_____		
_____		
_____		
<b>Net-profit attributable to the ordinary shareholders</b>	<b>(45,452)</b>	<b>(37,440)</b>
	<i>Number of share</i>	
	Current year 2010	Previous year 2009
<i>Weighted average number of ordinary shares</i>		
Issued ordinary shares on 1 January	26,341	26,341
Effects of changes in the number of ordinary shares for the year (list all items separately)		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
<b>Weighted average number of ordinary shares at 31 December</b>	<b>26,341</b>	<b>26,341</b>
<b>Basic earnings per share (in MKD)</b>	<b>(1,726)</b>	<b>(1,421)</b>

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**B Diluted earnings per share**

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<i>Net-profit attributed to the ordinary shareholders (diluted)</i>		
Net-profit for the year attributed to the ordinary shareholders	(45,452)	(37,440)
Adjustments of the net-profit belonging to the ordinary shareholders for the effect of all issued ordinary shares (in details)		
_____		
_____		
_____		
_____		
<b>Net-profit attributed to the ordinary shareholders (diluted)</b>	<b>(45,452)</b>	<b>(37,440)</b>
	<i>Number of shares</i>	
<i>Weighted average number of ordinary shares (diluted)</i>	Current year 2010	Previous year 2009
Issued ordinary shares at 1 January	26,341	26,341
Effects of the issuance of the potential ordinary shares (list in details)		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
_____		
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>26,341</b>	<b>26,341</b>
<b>Diluted earnings per share (in MKD)</b>	<b>(1,726)</b>	<b>(1.421)</b>

<b>42.0</b>	<b>Contingent assets and liabilities</b>		
<b>42.1</b>	<b>Contingent liabilities</b>		

	<i>In MKD thousand</i>	
	Current year 2010	Previous year 2009
<b>Uncovered payment letters of guarantees</b>		
In MKD		752
In foreign currency	1,230	
In MKD with a foreign currency clause		
<b>Performance uncovered letter of guarantees</b>		
In MKD	1,714	
In foreign currency		
In MKD with a foreign currency clause		
<b>Uncovered letters of credit</b>		
In MKD		
In foreign currency		
In MKD with a foreign currency clause		
<b>Unused credit card limits</b>	19,511	26,178
<b>Irrevocable credit lines and unused loan limits</b>	5,340	3,637
<b>Other uncovered contingent liabilities</b>	120	
<b>Issued covered letters of guarantees</b>		
<b>Covered letters of credit</b>		
Other covered contingent liabilities		
<b>Total contingent liabilities before provisions</b>	<b>27,915</b>	<b>30,567</b>
(Provisions)	(538)	(1,172)
<b>Total contingent liabilities less provisions</b>	<b>27,377</b>	<b>29,395</b>

**42.2 Contingent assets**

	<i>In MKD thousand</i>	
	Current year 2010	Current year 2009
List in details:		
_____		
_____		
_____		
_____		
<b>Total contingent assets</b>	-	-

### **Litigations and claims**

As at 31 December 2010 the litigations and claims against the Bank are in the amount of MKD 9,333 thousand. There is no provision recorded at the reporting date, as the professional legal consultations indicate that there is no possibility of significant losses. Besides that, various legal actions and claims might occur in the future against the Bank from the legal disputes, which might arise from the regular business operations. The related risks are analyzed with regard to their occurrence. Although the final outcome of the litigations and claims against the Bank cannot be determined, the management believes that those will not have a material effect on the Bank's financial position.

### **Tax risk**

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessment and penalties. The Bank's management is not aware of any additional circumstances, which may give rise to a potential significant liability in this respect.

**43 Trust activities**

*In MKD thousand*

	Current year 2010			Current year 2009		
	Assets	Liabilities	Net position	Assets	Liabilities	Net position
Assets taken into administration (trust activities)						
Deposits in denars			-			-
Deposits in foreign currency			-			-
Loans in denars			-			-
Loans in foreign currency			-			-
Other receivables in denars			-			-
Other receivables in foreign currency			-			-
Assets taken under management						
Deposits in denars			-			-
Deposits in foreign currency			-			-
Loans in denars			-			-
Loans in foreign currency			-			-
Other receivables in denars			-			-
Other receivables in foreign currency			-			-
Custody accounts			-			-
Other			-			-
<b>Total</b>	-	-	-	-	-	-

\* As at 31 December 2010 the Bank does not have trust activities

#### **44 Related parties transactions**

The Bank's ultimate parent is Alfa Finance Holding, Bulgaria.

According to the Banking law, the Bank's related parties are: individuals with special rights and responsibilities within the Bank and with them related persons, shareholders with qualified participation in the Bank (directly or indirectly owing at least 5% of the total number of shares or the issued voting shares or enabling significant influence to the Bank's management) and with them related persons, as well as the responsible persons of the shareholders – legal entities.

At the end of the year the transactions with the related parties are as follow:





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(Provisions)				(10)		(10)
<b>Total</b>	-	-		<b>688</b>		<b>688</b>

**Contingence assets**

Received guarantees						-
Other contingence assets						-
<b>Total</b>	-	-	-	-	-	-

	<i>In MKD thousand</i>	<b>Parent</b>	<b>Subsidiaries</b>	<b>Associates</b>	<b>Bank's management</b>	<b>Other related parties</b>	<b>Total</b>
<b>Balance at 31 December 2009 (previous year)</b>							
<b>Assets</b>							
Trading assets							-
Loans and advances							
mortgage loans					418		418
consumer loans							-
financial lease receivables							-
factoring and forfeiting							-
other loans and advances					576	2	578
Security investments							-
(Allowances for impairment)					(14)		(14)
Other assets							
<b>Total</b>		-	-	-	-	-	-
					980	2	982
<b>Liabilities</b>							
Trading liabilities							-
Deposits					5,963		5,963
Issued securities							-
Borrowings							-

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Subordinated liabilities						-
Other liabilities				755		755
<b>Total</b>	-	-	-	<b>6,718</b>	-	<b>6,718</b>
<b>Contingent liabilities</b>						
Issued letter of guarantees						-
Issued letters of credit						-
Other contingent liabilities				367	59	426
(Provisions)				(7)	(1)	(8)
<b>Total</b>	-	-	-	<b>360</b>	<b>58</b>	<b>418</b>
<b>Contingent assets</b>						
Received guarantees						-
Other contingent assets						-
<b>Total</b>	-	-	-	-	-	-

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**B Income and expenses arising from related parties transactions**

	<i>In MKD thousand</i>	Parent	Subsidiaries	Associates	Bank's management	Other related parties	Total
<b>2010 (current year )</b>							
<b>Revenue</b>							
Interest income					55		55
Fee and commission income		4			5	1	10
Net-trading income							-
Dividend income							-
Capital gain from sale of non current assets							-
Other income		141					141
Transfers between the entities							-
<b>Total</b>		<b>145</b>	<b>-</b>	<b>-</b>	<b>60</b>	<b>1</b>	<b>206</b>
<b>Expenses</b>							
Interest expense		630			255	1	886
Fee and commission expense							-
Net-trading losses							-
Expenses for acquisition of non current assets							-
Net impairment loss on financial assets					(43)		(43)
Other expenses							-
Transfers between the entities							-
<b>Total</b>		<b>630</b>	<b>-</b>	<b>-</b>	<b>212</b>	<b>1</b>	<b>843</b>

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	<i>In MKD thousand</i>	<b>Parent</b>	<b>Subsidiaries</b>	<b>Associates</b>	<b>Bank's management</b>	<b>Other related parties</b>	<b>Total</b>
<b>2009 (previous year)</b>							
<b>Revenue</b>							
Interest income					228		228
Fee and commission income					13		13
Net-trading income							-
Dividend income							-
Capital gain from sale of non current assets							-
Other income							-
Transfers between the entities							-
<b>Total</b>		-	-	-	<b>241</b>	-	<b>241</b>
<b>Expenses</b>							
Interest expense					236		236
Fee and commission expense							-
Net-trading losses							-
Expenses for acquisition of non current assets							-
Net impairment loss on financial assets					16		16
Other expenses					7		7
Transfers between the entities							-
<b>Total</b>		-	-	-	<b>259</b>	-	<b>259</b>

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**C Bank's key management personnel compensations**

*In MKD thousand*

	Current year 2010	Previous year 2009
Short term employee benefits	15,171	13,582
Post employment benefits		
Termination benefits		
Share based payments, paid with equity instruments		
Share based payments, paid in cash		
Other		
<b>Total</b>	<b>15,171</b>	<b>13,582</b>

**45 Leasing**

**A Lessor**

**A.1 Finance lease receivable**

	<i>In MKD thousand</i>	Total finance lease receivables	Maturity of the finance lease receivables		
			Up to 1 year	From 1 to 5 year	Over 5 year
<b>Balance at 31 December 2010 (current year)</b>					
<b>Carrying amount of the minimum lease payments</b>					
		-			
		-			
		-			
		-			
<b>Total</b>		-	-	-	-
<b>Balance at 31 December 2009 (previous year)</b>					
<b>Carrying amount of the minimum lease payments</b>					
		-			
		-			
		-			
		-			
<b>Total</b>		-	-	-	-

*A.2 Non cancelable operating lease receivables*

	<i>In MKD thousand</i>	Total operating lease receivables	Maturity of the operating lease receivables		
			Up to 1 year	From 1 to 5 year	Over 5 year
<b>Balance at 31 December 2010 (current year)</b>					
<b>Carrying amount of the minimum lease payment</b>					
		-			
		-			
		-			
		-			
<b>Total</b>		-	-	-	-
<b>Balance at 31 December 2009 (previous year)</b>					
<b>Carrying amount of the minimum lease payment</b>					
		-	-		
		-			
		-			
		-			
<b>Total</b>		-	-	-	-



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	<i>In MKD thousand</i>	Land	Buildings	Vehicle	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of the property under operating lease:								
Balance at 31 December 2010 (current year)								
Balance at 31 December 2009 (previous year)								

**B Lessee**

**B1 Finance lease payables**

Maturity of the finance lease payables

	<i>In MKD thousand</i>	Total finance lease payables	Up to 1 year	From 1 to 5 year	Over 5 year
<b>Balance at 31 December 2010 (current year)</b>		-			
<b>Total</b>		-	-	-	-
<b>Balance at 31 December 2009 (previous year)</b>		-			
<b>Total</b>		-	-	-	-

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	<i>In MKD thousand</i>	Land	Buildings	Vehicle	Furniture and office equipment	Other equipment	Other items of property and equipment	Total
Value of the property under finance lease: <b>Cost</b>								
Balance at 1 January 2009 (previous year)								-
Additions								-
(Disposals and write offs)								-
Other								-
<b><i>Balance at 31 January 2009 (previous year)</i></b>		-	-	-	-	-	-	-
Balance at 1 January 2010 (current year)		-	-	-	-	-	-	-
Additions								-
(Disposals and write offs)								-
Other								-
<b><i>Balance at 31 December 2010 (current year)</i></b>		-	-	-	-	-	-	-
<b>Accumulated depreciation and impairment losses</b>								
Balance at 1 January 2009 (previous year)								-
Depreciation for the year								-
Impairment losses during the year								-
(release of the impairment during the year) (disposals and write offs)								-

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											-
Other											-
<b>Balance at 31 December 2009 (previous year)</b>	-	-	-	-	-	-	-	-	-	-	-
Balance at 1 January 2010 (current year)	-	-	-	-	-	-	-	-	-	-	-
Depreciation for the year											
Impairment loss during the year (release of the impairment loss during the year (disposals)											
Other											
<b>Balance at 31 December 2010 (current year)</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Carrying amounts</b>											
At 1 January 2009 (previous year)	-	-	-	-	-	-	-	-	-	-	-
<b>At 31 December 2009 (previous year)</b>	-	-	-	-	-	-	-	-	-	-	-
<b>At 31 December 2010 (current year)</b>	-	-	-	-	-	-	-	-	-	-	-

**B.2 Non cancelable operating lease payables**

	In MKD thousand	Total operating lease payables	Maturity of the operating lease payables		
			Up to 1 year	1 to 5 years	Over 5 years
<b>Balance at 31 December 2010 (current year)</b>					
<i>Non cancelable lease payables</i>		144,445	15,415	60,720	68,310
		-			
<b>Total</b>		<b>144,445</b>	<b>15,415</b>	<b>60,720</b>	<b>68,310</b>
<b>Balance at 31 December 2009 (previous year)</b>					
<i>Non cancelable lease payables</i>		3,231	3,231	-	-
<b>Total</b>		<b>3,231</b>	<b>3,231</b>	<b>-</b>	<b>-</b>

During 2010 the Bank reached a 10 year operating lease agreement with Soravia Invest DOO Skopje, with a starting date from 1 December 2009. The Contract is non cancelable.

<b>46 Shares-based payments</b>				
	<i>In MKD thousand</i>			
	Current year 2010		Previous year 2009	
Grant date				
Expiration date				
Exercise price				
Share price on grant date				
Volatility				
Expected dividend yield				
Interest rate				
Fair value at grant date				
	Current year 2010		Previous year 2009	
	Number of options	Average exercise price	Number of options	Average exercise price
<b>Balance at 1 January</b>				
Movements during the year:				
Options granted to Supervisory Board members				
Options granted to Managing Board members				
Other options granted				
Options forfeited				
Option exercised				
Options expired				
<b>Balance at 31 December</b>	-	-		

\* As at 31 December 2010 the Bank does not have shares-based payments

**47 Subsequent events**

As at 28 February 2011 the Bank received subordinated loan in amount of MKD 30,752 thousand from its parent company Alfa Finance Holding with maturity of 8 years. After the balance sheet date there are no other significant events of material importance that should be disclosed in the financial statements.