

Stopanska Banka AD - Skopje
Annual Report 2003
English edition

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Skopje, June 2004

Assets Cash and cash equivalents 129,129 4,237,235 Placements with, and loans to, banks 7,542,396 5,355,980 Loans and advances to customers 1,837,812 Interest receivable and other assets 1,259,037 1,004,969 Income tax receivable 3,098 3,098 Investments 176,495 Investment property 100,131 12,608 Leasehold improvements 2,160 4,428 Intangible assets 227,022 247,091 Land and equipment 1,586,471 1,663,262 Deferred tax assets 2,162 Total assets 28,397,473 24,792,986 Liabilities Deposits from banks and other financial institutions 598,810 473,379 Amounts owed to other depositors 22,982,536 18,255,539 Other borrowed funds 870,605 1,977,646 Provisions 188,337 198,293 Accruals and other liabilities 218,363 359,338 Total liabilities 24,858,652 21,264,195 Share capital 3,602,220 3,602,220 Reserves 1,083 1,083 Accumulated deficit (64,482) (74,512) Total shareholders' equity 3,538,821 3,528,791 Total liabilities and shareholders' equity 28,397,473 24,792,986 Commitment and contingencies Guarantees 975,044 697,793 Letters of credit 453,613 30,933 Performance guarantee 446,593 268,578 In thousands of denars Share capital Statutory reserve Special fund Accumulated deficit Total balance at January 2002 3,783,042 87,202 23,096 (1,326,366) 2,566,974 Loss for the year (74,512) (74,512) Shares issued 1,036,329 1,036,329 Covering of loss (1,217,151) (87,202) (22,013) 1,326,366 Balance at 31 December 2002 3,602,220 1,083 (74,512) 3,528,791 Balance at January 2003 3,602,220 1,083 (74,512) 3,528,791 Net profit for the year 10,030 10,030 Balance at 31 December 2003 3,602,220 1,083 (64,482) 3,538,821 Income from recognition of investments (59,286) (46,032) Interest and similar income (940,937) (1,089,949) Interest expense 571,544 765,997 Impairment losses 594,554 861,734 Release of impairment (334,471) (384,400) Provision for doubtful debts balance sheet (9,956) (185,912) Income tax income (2,162) Dividend income (5,229) (13) Interest and similar income receipts

■ annual report 2003

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Dear Shareholders,

In 2003, Stopanska Banka AD - Skopje was the fastest growing bank in the domestic market. In the past the Bank had to cope with issues that had an adverse impact on its profitability but, eventually, the Bank came on track and affirmed its dominant position in the country.

The two-year recession caused by security problems in the country and the general trend of the interest rates in the Euroland capital market, only changed our pace but did not change our strategic goals.

SB realized strong growth of loans of 45% in 2003. Sound liquidity position and well-established credit procedures enabled SB to be the most vigorous player in the market covering 42% of all new loan disbursements in 2003.

SB became a major player in retail banking in terms of market expansion, product diversity and use of innovative marketing channels. Using the competitive advantages of the new retail products, well-developed branch network as well as the "hungry" market for retail lending which almost did not exist in the past decade, retail loans increased from EUR 9 million at the end of 2002 to EUR 38 million at the end of 2003. Therefore, the Bank succeeded in increasing its market share in the segment of retail loans from 12% in 2002 to 27% in 2003.

Corporate lending was fully restructured and enabled SB to respond in the most efficient manner to the increased market requirements. Loans to corporate clients increased by 16%. Although, 2003 was a turning point for Stopanska Banka in corporate lending, we are exercising prudence due to the slow recovery of the domestic economy.

After three years of intensive restructuring and cleaning the loan portfolio, SB showed slightly profitable results in 2003. Net interest income adjusted for non-performing interest increased by 65% in 2003 compared to 2002.

Despite the increased credit activity, the Bank maintained the highest prudential standards. It drastically improved its credit risk management practices. New loans are disbursed only to creditworthy companies that have profitable operations as well as to sound individuals. Loans are secured with appropriate collateral.

At the same time, due to high confidence and trust that SB enjoys in the country, deposits in SB increased two times more than any other local bank's deposits.

Of course, the issue of allocation of additional provisions for the old credit portfolio is still burdening the cost side of the Bank's P&L. SB allocated EUR 9.7 million provisions for potential losses in the old portfolio. At the same time the Bank continued to collect bad claims and to sell idle property, thus generating additional extraordinary income.

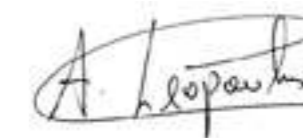
We focused on restructuring and cleaning the balance sheet as well as on the dynamic repositioning of the Bank in the local market. The challenges that lie ahead now are perhaps more complex than those of recent years.

There is no doubt that SB is now being transformed into an efficient, client service oriented EU standards bank with a long-term goal to maximize the net value of the Bank, while fully protecting the interests of its shareholders. This transformation, will support the Bank's growth and increase shareholder value on a long-term basis.

I strongly believe that the extraordinary growth of SB in 2003 could not be possible without the support of NBG's experience and know-how, and SB's client base and knowledge of the local market. Therefore, I would like to express my appreciation for the efforts made by all SB's officers and employees to meeting our goals during this year.

Finally, allow me to thank our clients and our shareholders for their support and trust shown in our endeavors. I would like to assure you that Stopanska Banka is on the path of continuous development and improvement. We look at the future with decisiveness, optimism and resolve. We look towards a European Union environment, a better and brighter future for all.

Sincerely yours,



Agis Leopoulos

Member of the Board of Directors of
Stopanska Banka AD - Skopje
Skopje, 03.03.2004

Dear Shareholders,

After two years of recession and disturbances in fiscal and monetary policies caused by the security crisis in the country, macroeconomic stability was restored in 2003. The economic recovery was gradual, but steady. Tightened monetary and fiscal policy in the first half of the year had adverse short-term impact on banking system liquidity. However, financially and organizationally restructured, Stopanska Banka was resilient to the adverse impacts of economic policies. Its strong liquidity position contributed to continuing the planned credit expansion without any disturbances.

In 2003 customers' deposits of SB showed a remarkable increase by 26%. The image that is being built by SB as a sound and transparent Bank lies behind the increased market share in the segment of customers' deposits from 32% in 2002 to 35% in 2003.

Expansion of corporate deposits was especially robust at 58%. This development contributed to increased market share of SB in corporate deposits from 28% at the end of 2002 to 43% at the end of 2003. It is worth mentioning that an increased number and volume of corporate deposits was achieved despite the simultaneous considerable reduction of weighted average deposit interest rate.

In the segment of household deposits SB recorded an increase of 15%. Therein, denar deposits increased by 29% and foreign currency deposits by 7%. Bearing in mind the Bank's policy of lower deposit interest rates than its competitors, this result was solely based on the high reputation, security and soundness of Stopanska Banka.

Stopanska Banka has strengthened its leading position in the domestic market in card operations, by issuing 33.000 new Visa debit cards in 2003. This resulted to a net growth of debit cards by 25.000 or by 58%, reaching a total of 68.000 debit cards at the end of 2003.

In the last quarter of 2003, Stopanska Banka launched Visa Star as the first credit card in the market. It aroused significant interest among the population, reaching almost 6.000 issued credit cards in only two months.

After two years of economic recession during which the Bank showed very prudent behavior by avoiding excessive risk, loans increased by 45% in 2003. The growth was especially strong in retail banking where SB took the position of the market leader. The thorough restructuring of lending procedures and practices of the Bank led to this significant increase.

With the aim of protecting its shareholder value, SB made its employees aware of the efficient use

of the Bank's resources. We introduced procedures and standards for procurement, and established a Committee for regular cost monitoring. As a result of the cost management policy, operating costs in 2003 were reduced by 21% without adverse implications on the regular activities. An effective cost management policy remains a permanent valuable feature of the Bank contributing to its profitability.

In 2003, the main focus in the branch network was put on internal restructuring. Thorough monitoring and review of operations in the branch network, led to its reorganization aimed at increasing its efficiency and reducing its costs. Employees in most of the branches were concentrated in the front office, thus improving customer service.

In 2003, Globus software was further implemented to cover more of the banking operations, which were integrated in one centralized system. This was a basic precondition to proceed with the preparations for introducing e-banking in SB's operations. By the introduction of Internet banking, SB will shift the front office from the premises of the Bank closer to its clients.

Looking back at the impediments surpassed the last three years, we can realize that the most difficult part of our journey is already behind us. In front of us lies a wide and open path with many opportunities as well as many challenges. In the last three years, we have focused on building the best corporate governance, introducing the most transparent operating procedures, creating the most sophisticated IT infrastructure, embedding excellence in retail banking, and giving the best training to our staff. Thus, we already behold rewards on the horizon.

Sincerely yours,



Gligor Bishev

First General Manager
Stopanska Banka AD - Skopje
Skopje, 03.03.2004

Theodoros B. Karatzas *

Chairman of the Board of Directors
from April 5, 2000 until March 3, 2004
Governor of the
National Bank of Greece S.A.
Athens, GREECE

Apostolos Tamvakakis **

Deputy Chairman of the Board of Directors
from April 5, 2000 until May 17, 2004
Deputy Governor of the
National Bank of Greece S.A.
Athens, GREECE

Agis Leopoulos

Member of the Board of Directors
General Manager of International Activities
National Bank of Greece S.A.
Athens, GREECE

George Aronis ***

Member of the Board of Directors
from May 3, 2001 until March 3, 2004
General Manager of Retail Banking
Activities
National Bank of Greece S.A.
Athens, GREECE

Lazaros Konstantellos

Member of the Board of Directors
Manager of International Network
Division "A"
National Bank of Greece S.A.
Athens, GREECE

Vladimir Kandikjan

Member of the Board of Directors
Professor, Faculty of Law
University "St. Cyril and Methodius"
Skopje, MACEDONIA

Maria Luisa Cicognani

Member of the Board of Directors
Senior Banker of Financial Institutions
Team, EBRD
London, UNITED KINGDOM

Syed Aftab Ahmed ****

Member of the Board of Directors
from April 5, 2000 until May 14, 2003
Senior Director for Investments at IFC
Washington, USA

Sita Ramaswami ****

Member of the Board of Directors
since 14.05.2003
Manager, Southern Europe & Central Asia
Department, IFC
Istanbul, TURKEY

Miodrag Panov

Member of the Board of Directors
General Manager
"Zito - Strumica" AD Strumica
Strumica, MACEDONIA

* Theodoros B. Karatzas passed away on March 3, 2004

** The Shareholders Assembly of the Bank accepted the resignation of Mr. Apostolos Tamvakakis on May 17, 2004

*** The Shareholders Assembly of the Bank accepted the resignation of Mr. George Aronis on March 3, 2004

**** The Shareholders Assembly of the Bank accepted the resignation of Mr. Syed Aftab Ahmed on May 14, 2003 and elected Ms. Sita Ramaswami as member of the Board of Directors

Efstratios-Georgios (Takis) Arapoglou*

Member of the Board of Directors
Governor of the
National Bank of Greece S.A.
Athens, GREECE

Ioannis Pechlivanidis*

Member of the Board of Directors
Deputy Governor of the
National Bank of Greece S.A.
Athens, GREECE

Agis Leopoulos

Lazaros Konstantellos

Antonios Karras**

Member of the Board of Directors
Deputy Manager of International
Network Division "A"
National Bank of Greece S.A.

Vladimir Kandikjan

Maria Luisa Cicognani

Sita Ramaswami

Miodrag Panov

*The Shareholders Assembly of the Bank elected Mr. E.G. Arapoglou and Mr. I. Pechlivanidis as members of the Board of Directors on May 17, 2004

**The Shareholders Assembly of the Bank elected Mr. A. Karras as member of the Board of Directors on March 3, 2004

executive body

Gligor Bishev

First General Manager
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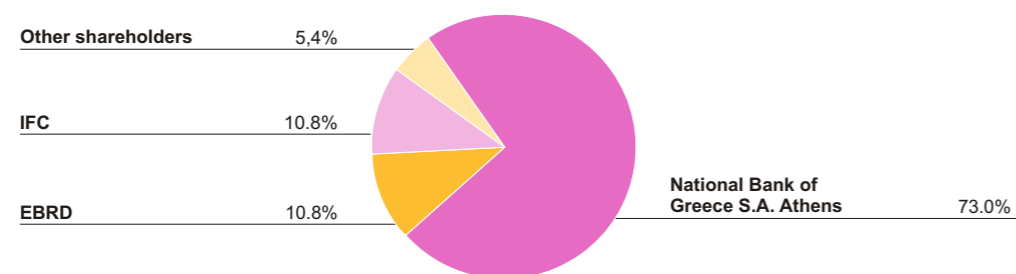
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- The Balance Sheet of SB increased by 14.5% reaching the amount of MKD 28.4 billion. It is mainly a result of the increase in customers' deposits, which were increased by remarkable 26% and reached the share of 80% in total Balance Sheet. It is worth noticing that the Balance Sheet of the Bank is exclusively based on domestic sources, while foreign financing accounts for marginal 2%.
- Image that is being built by SB as a sound and transparent bank resulted in a significant increase in deposits. Therein, robust expansion had corporate deposits, which increased by 58%, while household deposits registered an increase of 15%. Market share of SB in total deposits of the banking sector increased from 32% at the end of 2002 to 35% at the end of 2003.
- After an intensive clean up of loan portfolio and its contraction in 2001 and 2002, SB realized the strongest growth of loans (45%) in 2003. Loans to customers increased its share in the Balance Sheet of the Bank from 24% at the end of 2002 to 30% at the end of 2003.
- Competitiveness of new Bank's customer designed products in retail lending affirmed SB as the leading financial partner of Macedonian family. SB had a share of 50% in the growth of retail loans of the banking sector in 2003 and increased its market share from 12% in 2002 to 27% in 2003.
- Cash, nostros and balances with the NBRM, which are highly liquid, but also low interest-bearing assets, still have a high share of 38% in the Balance Sheet of SB. This indicates the Bank's potential to increase profitability by transferring part of these low interest-bearing assets into high interest-bearing assets.
- Net interest income adjusted for non-performing interest increased by MKD 120 million in 2003 or by 65% compared to 2002.
- The effective costs management policy resulted in reduction of operating costs by 21%, while redundancy scheme for 189 employees has decreased the personnel costs by 3.4% despite payment of the redundancy package in 2003.

shareholders structure of stopanska banka



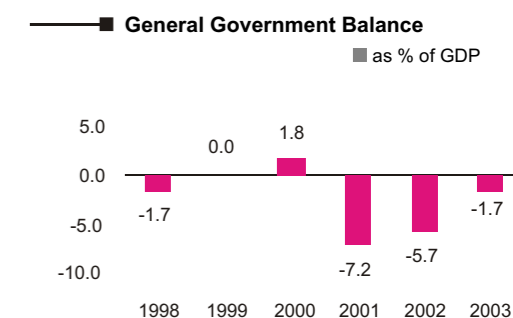
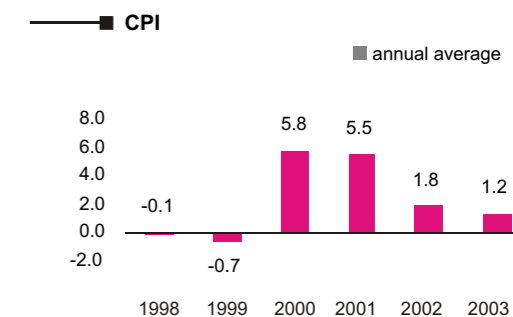
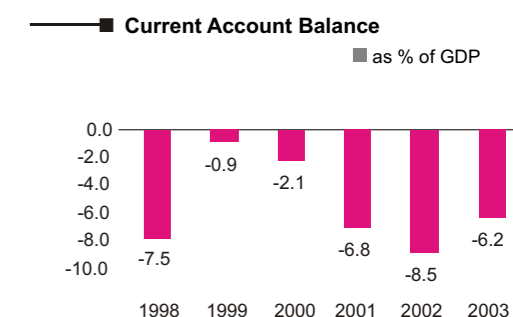
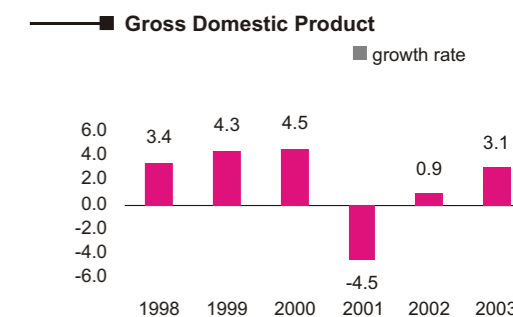
After recession in 2001 and 2002 and disturbances in fiscal and monetary policies caused by security crisis in the country, the economic policy mix in 2003 was set to restore macroeconomic stability. In the beginning of 2003 the restrictive monetary policy was strengthened by very tight fiscal policy. These policies had an adverse impact on the pace of economic recovery causing contraction of domestic demand. However, due to the favorable external demand, and good performance of export oriented industries dominated by foreign capital (basic metals, textiles and oil derivatives) GDP growth stood at 3.1% in 2003.

Export recorded the best performance in the last decade growing by 22% compared to the previous year. Large part of the increase in export is attributed to depreciation of US\$ (more than half of Macedonian export is denominated in EUR) and booming commodity prices (large export of basic metals). Increase in import (15%) was somewhat lower due to sluggish domestic consumer and investment demand. Despite the historically highest trade deficit and current account deficit, weak dollar contributed to improve CAB from 8.5% of GDP in 2002 to 6.2% in 2003.

Weak domestic demand caused by tight monetary and fiscal policies and unfavorable developments on the job market resulted in deflationary tendencies especially in the first half of the year. Price stability was higher than projected with annual CPI inflation reducing to 1.2% (1.8% in 2002).

Fiscal contraction in 2003 reduced public expenditures to the pre-crisis level of 35% of GDP. Due to failure in realization of all planned public investments the reduction of budget deficit was sharper than projected. Sharp swing from 5.7% deficit in 2002 to 1.7% in 2003 caused reduction of domestic demand and loss of substantial potential output in short-run. However, fiscal stabilization will have favorable impact on long-term economic growth.

After four months of very tight monetary policy (November 2002-February 2003) NBRM made sharp policy swing in March when the CB bills rate was reduced to 9.6% and further to 7% in April and May. This sudden shift in the monetary policy was caused by the successful negotiations for the new Stand-by arrangement between the Government and the IMF at the end of February 2003. Sharp reduction of the CB bills interest rate induced



declining of the money market rate and subsequent adjustment of the lending and borrowing interest rates of the commercial banks. As a result of the increased responsiveness of the commercial banks to the signals of the monetary authorities after the entrance of foreign strategic investors and increased competition in the banking industry, lending interest rates were reduced to the historically lowest level. In the last quarter, instead of the auction of CB bills with amounts, NBRM introduced the auction with interest rates, thus further reducing market interest rates.

Foreign reserves in the period July-September fully reversed the losses from the beginning of the year. However, in the last quarter of 2003 foreign reserves came again under pressure when the NBRM stepped to defend the de facto fixed exchange rate of MKD. Exchange rate of MKD to EUR remained stable throughout the year.

Basic macroeconomic indicators

	1998	1999	2000	2001	2002	2003*
Gross Domestic Product	3,4	4,3	4,5	-4,5	0,9	3,1
CPI (annual average)	-0,1	-0,7	5,8	5,5	1,8	1,2
CPI (end year)	-2,4	2,4	6,1	3,7	1,1	2,6
PPI (annual average)	4,0	-0,1	8,9	2,0	-0,9	-0,3
PPI (end year)	-3,9	4,2	-1,5	-2,4	1,1	-0,2
General government balance	-1,7	0,0	1,8	-7,2	-5,7	-1,7
Current account balance (% of GDP)	-7,5	-0,9	-2,1	-6,8	-8,5	-6,2
Exchange rate den/EUR (average)	60,54	60,62	60,73	60,91	60,98	61,30
M2 denar growth (dec./dec.)	11,1	33,5	17,5	11,3	7,9	15,4
M2 growth (dec./dec.)	14,4	29,7	24,4	66,3	-8,0	18,8
Money market interest rate (annual average)	18,1	11,6	7,2	11,9	11,9	9,9
CB bills rate (annual average)	8,5	9,9	8,9	13,7	12,6	8,2
Real wages (annual growth rate)	3,8	3,6	-0,3	-1,9	5,0	3,4
Labor Productivity in Industry (1998=100)	100,0	106,4	112,9	112,8	114,3	126,9
Macedonian Stock Exchange index-MBI (end of year)	n/a	n/a	n/a	978,0	1094,7	1178,7
Macedonian Stock Exchange index-MBI (growth rate-eop)	n/a	n/a	n/a	n/a	11,9	7,7

*Preliminary results and Estimates

Source: Ministry of Finance, State Statistical Office, National Bank

The guiding principal behind the SB strategy is the Bank to be transformed into efficient client oriented EU like bank with long-term goal to maximize the net value of the Bank fully protecting interests of shareholders.

The main priority in the coming years will be to maximize the competitive advantage of the new IT technology by offering new products tailored in accordance with the needs of the corporate and retail clients. This also includes introduction of Internet banking thus shifting the front office from the premises of the Bank into locations of the clients (premises of companies and homes of households). Money laundering prevention procedures, transparency and prudent behaviour will remain permanent goals of the Bank, thus enabling it to maintain long-term relationships with the clients.

As a subsidiary of the largest financial group in the Southeast Europe, SB sets European standards of doing business in the domestic economy and spreads positive influence to all parties: clients, competition and regulators. Its continued organizational and financial strengthening contributes to increased stability of the banking industry in the country and supports country's economic growth. Thus, by promoting better business environment, SB sets a better stage for its own growth and creation of higher shareholders value on a long-term basis.

Leadership in Retail Banking

After the acquisition of the Bank by NBG it was decided to focus on retail banking as a hidden potential and to enrich the traditional deposit products with a wide range of sophisticated retail products and services. SB's orientation to become the main Bank of the Macedonian family opens new window for expansion of loan portfolio and dispersion of the credit risk.

NBG expertise about retail products and Stopanska Banka's client base and knowledge of local market created a synergy effects which gives results. In a relatively short period SB already launched consumer loans, mortgage loans and auto loans as well as the first credit card in the domestic market. Only with the first two products SB already achieved 50% share in the retail loans disbursed in 2003. With continuous creation of new products and innovative sale channels Stopanska Banka will strengthen its dominant position in the market.

1 EURO = 61.3 denars

December 31, 2003

Micro-financing as a New Target

Acknowledging the role of SME's as a driving force of Macedonian economy, SB is constantly improving their access to Bank's products and services. In that direction, in the second half of 2003, SB initiated a new approach and policy to micro enterprises. The Bank organization and products are being tailored to the needs of this propulsive segment of the economy. Micro financing is going to take an important place in SB operations, thus leading to further diversification of Bank's portfolio and credit risk.

Investments in Technology and Knowledge Key for Success

Investments in cutting edge IT technology and training of employees are the highest priority of SB. It is considered as a key factor for Bank's future growth and market leadership. Implementation of major information system project, which consumes significant resources in terms of people and funds, has been continuing three years in succession. All segments of banking operations are being integrated in one centralized system. Modernization of IT system is accompanied with significant investments in security and stability of the computer system of the Bank. This will enable introduction of safe e-banking function with a variety of services.

SB is aware that people are the major assets of a successful company. It established a training department that works continuously on upgrading the level of knowledge of Bank's employees. Every year around 80% of the Bank's employees attend internal or external seminars organized by SB. It also sponsors post-graduate education and research work of its employees at the Universities in the country and abroad.

Investments in technology and people will result in significantly lower costs and higher revenue in the future.

...significant investments in security and stability of the computer system of the Bank. ■ ...to protect its shareholders value, SB builds awareness of employees for efficient use of Bank's resources.

With increased efficiency and cost management to improved profitability

SB creates image of a modern customer oriented bank that offers wide range of services within clients' reach. Branch reorganization by closing and selling idle business premises, and moving the Bank's staff closer to clients is underway. Simultaneously, there is ongoing investment in refurbishment of old and building of new sub-branches with recognizable customer friendly appearance.

With the aim of protecting its shareholders value, SB builds awareness of employees for efficient use of Bank's resources. There were introduced procedures and standards for procurement and established a Committee for regular costs monitoring. As a result of these cost management policy operating costs in 2003 were reduced by 21% without adverse implications on the regular activities. Effective cost management policy remains a permanent value of the Bank contributing to its profitability.

■ 1 EURO = 61.3 denars

■ December 31, 2003

Expansion of Retail Banking

In 2003 SB became a major player in retail banking in terms of market expansion, product diversity and use of innovative marketing channels. The competitive terms of mortgage and consumer loans and well-organized promotion campaign hammered these products in the market. They are a textbook example of the synergy created from NBG expertise about retail products and SB's client base and knowledge of local market.

In order to further strengthen its market position SB initiated additional alternative sales channels like third party sales outlets and tele-marketing. Consumer loans were offered through large retailers of durable goods as well. In addition, the Bank made preparations and testing for the tele-marketing, which is planned to be operational since the beginning of 2004.

In the second half of the year, SB launched two new products: auto loan and credit card. Auto loan was offered through the sales outlets of all car dealers. Credit card, as one of the first products of that type in the market, was aggressively promoted. Along with the standard media marketing campaign, SB for the first time in the domestic market applied direct mailing to its clients with pre-approved credit cards to sound holders of debit cards as well as gave possibility for credit card application at frequent places like shopping malls and supermarkets. Both new products are expected to take leading market position in 2004.

Capitalizing on the new competitive terms of retail loans as well as the advantage of the hungry market for retail lending, which almost did not exist in the past decade, retail loans were more than tripled, increasing from MKD 406 million at the end of 2002 to MKD 2.2 billion at the end of 2003.

In 2003, SB disbursed 14,995 consumer loans in the amount of MKD 1.2 billion and 463 mortgage loans in the amount of MKD 432 billion. Thus, at the end of 2003 the outstanding amount of consumer loans equaled MKD 1.3 billion and mortgage loans equaled MKD 508 million. Current account overdrafts increased by MKD 158 million reaching the amount of MKD 438 million at the end of 2003.

As a result of the expansion, retail loans to customers increased its share in

SB's loan portfolio from 9.0% in 2002 to 27.4% in 2003, thus significantly improving the profitability of Bank's placements.

Attractiveness of SB's household loans has crowded out its competition. In 2003, Stopanska banka had a 50% share in the new disbursements of mortgage and consumer loans. Therefore, the Bank succeeded to increase its market share in the segment of retail loans from 12.1% in 2002 to 26.7% in 2003.

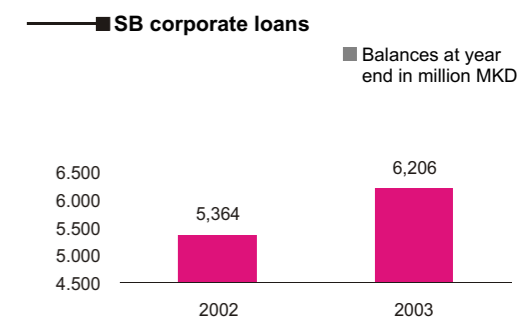
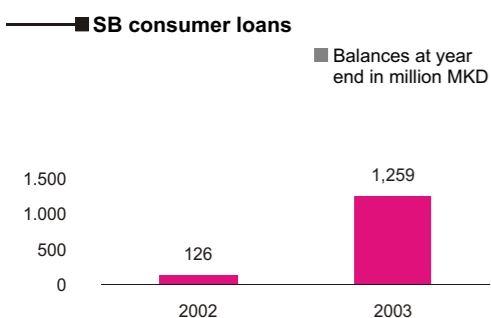
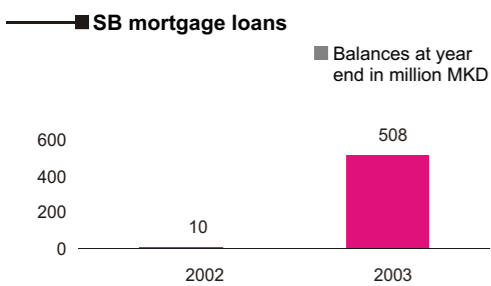
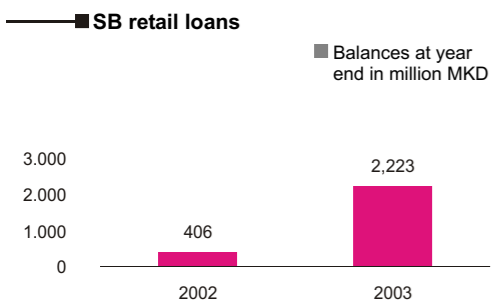
The Bank strengthened its position of a market leader in card business by issuing 33,172 new Visa debit cards in 2003. This contributed to net increase of debit cards by 24,825 cards, or by 57.5%, reaching at the end of 2003 a total of 67,973 debit cards.

At the end of 2003 SB introduced Visa Credit Card as a new product in the market. It attracted significant interest among households reaching the number of 5,801 active credit cards in only two months.

Revival of Corporate Lending

Corporate lending was fully restructured and enabled for better response to the increased market competition. Credit administration was separated, and Corporate Division gained more room to deal directly with the clients. This enabled SB to implement more active approach to existing and potential clients offering them an integral range of Bank's products and services. It also led to improved management of the loan accounts and better collection of matured claims, which had a significant impact on the Bank's profitability.

Also, SB established a micro credit line as a quick instant loan to small companies up to EUR 50,000 per client in order to serve better the needs of small entrepreneurs. This move comes in time when the political situation in the country stabilizes and the attention of the Government is focused on economic growth. Therein, micro-enterprises have a crucial role in absorbing high unemployment and generating growth. SB, with its largest branch network in the country, is going to take a competitive market position in promoting this vigorous sector of the economy.



1 EURO = 61.3 denars

December 31, 2003

After two years of economic recession when the Bank showed very prudent behavior avoiding excessive risk, corporate lending increased by 15.7% or by MKD 842 million in 2003 and amounted to MKD 6.2 billion at the end of the year. SB approved a total of 737 corporate loans in the amount of MKD 2.8 billion (compared to 292 loans in the amount of MKD 922 million in 2002).

Despite the increased credit activity, the Bank maintained the highest prudential standards. New loans were disbursed only to creditworthy companies and secured with sufficient marketable collateral.

The Bank was also active in issuance of L/Cs and L/Gs to Macedonian companies. In 2003, 70% more LCs and LGs were extended than in 2002. In the total amount of MKD 3.1 billion. Large support given to sound construction companies which participate in investment projects abroad is worth mentioning. Increased volume of off balance sheet activity was accompanied with stricter prudential criteria. Therefore, only 1.4% of the extended LCs and LGs were called and paid by SB, which is a reduction of 93% compared to 2002.

Customer Deposits

In 2003, SB increased its customer deposits by 25.9%. Private sector deposits increased by 27.3% while public sector deposits declined by 9.1%. High growth of deposit base was generated by corporate deposits, which increased by 57.8% and reached the amount of MKD 8.3 billion. This development contributed to increased market share of SB's corporate deposits from 28% at the end of 2002 to more than 40% at the end of 2003.

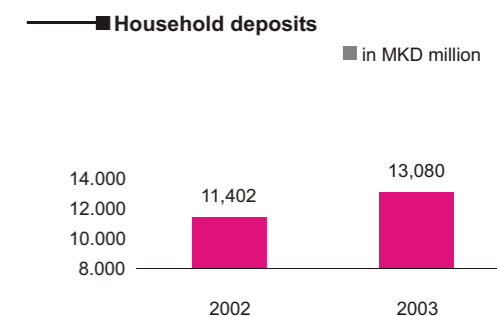
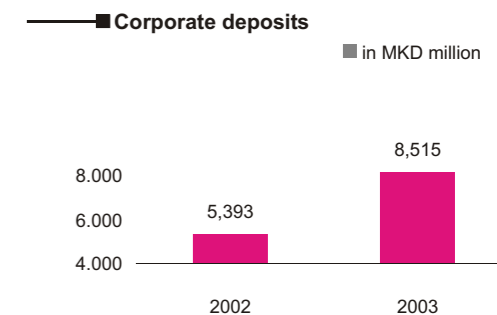
SB followed the policy of pegging the interest rates with the Money Market and Central Bank bills rates, offering the most updated rates to the clients. It also introduced new deposit products - foreign clause deposits - tailored to big clients of the Bank. These measures led to increased number and volume of corporate deposits with simultaneous 50% reduction of weighted average deposit interest rate.

In the segment of household deposits SB promotes the policy of lower interest rates than its competition, which is compensated by high reputation, security and soundness of the Bank. Total household deposits increased by 13% and reached the amount of MKD 13 billion. Therein, denar deposits increased by 29.7%, and f/x deposits by 7.8%. Saving deposits increased by 18.8% and amounted to MKD 6.4 billion. Time deposits increased by 14.7% reaching MKD 4.1 billion. The largest increase was recorded by demand deposits, which reached MKD 945 million at the end of 2003. Other deposits declined by 6.7% and were reduced to MKD 1.6 billion.

Treasury Activities

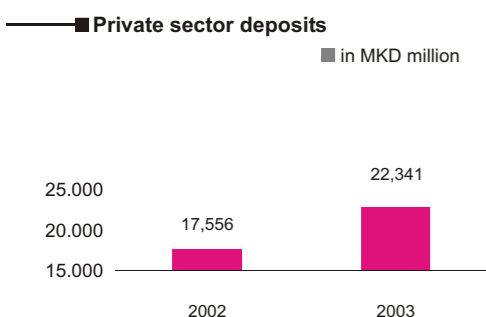
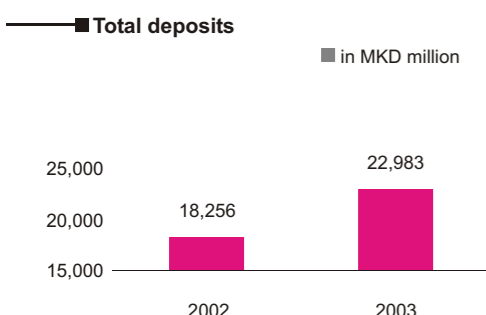
Liquidity of SB was managed within frameworks of stable macroeconomic environment and stable foreign exchange rate of MKD to Euro. Denar liquidity is usually exposed to sharp movements especially in the periods of VAT payments and pension fund disbursements creating liquidity squeezes for the Bank. However, in 2003, SB succeeded to maintain it with its own sources, combining local and foreign currency funds, while respecting the limits set up by the Central Bank and NBG Group. Thanks to sufficient liquidity, the Bank was more active in the money market as a lender and as a buyer of Central Bank bills.

The Bank managed neutral open foreign currency position protecting itself from foreign exchange risk. The new Law on Foreign Exchange Operations caused changes in the organization of the foreign exchange market. Instead of the previous intermediate role, the banks became direct participants in the f/x market, which raised the responsibility, but also created additional opportunities for income generation for banks. Using this opportunity, SB created the most transparent foreign exchange market in which the prices are quoted in line with the world financial market movements as well as supply and demand in the domestic one. As a result, the market share of SB in the foreign exchange market increased from 15% at the beginning of 2003 to 24% in December 2003.



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December 31, 2003



Investments

In 2003, SB continued with intensive upgrading of its computer system and modernization of the branch network. More than 80% of the capital expenditures in the amount of MKD 319 million were invested in computer hardware and software and refurbishment of several sub-branches. The Bank implemented second phase of Globus system that meant full automation of the corporate loans administration. It also increased the stability and security of the computer system, which minimize the risk of system malfunction, and improve manageability of the network.

Branch network

In 2003, the main focus in the branch network was put on internal restructuring aimed to improve the customer services as well as improving the image of the Bank by renovation of existing and opening of new modern customer friendly branches. The branch network was enriched with two new sub-branches in Skopje, thus improving the presence of SB in the capital city.

After thorough monitoring and review of the operations in the branch network, reorganization aimed to increase efficiency and cut costs was conducted during the year. Three unnecessary sub-branches throughout the country were closed, while employees in most of the branches were concentrated in desk window premises (front office), thus improving the customer service and releasing significant business premises. This action contributed to substantial cut of maintenance costs and generated additional income from sale of excessive business premises.

The needs for new staff in the new sub-branches opened in Skopje and for the expanding branches in Bitola, Tetovo, Prilep and Kumanovo were satisfied by re-assigning the excessive staff to other branches.

The main focus in the branch network was put on internal restructuring...

Total number of staff at end 2002 and end 2003

Professional training of employees and investment in the post-graduate education of the Bank staff continued to be one of the central activities of the Bank. The Training and Development Department provided more than 20 thousands training hours to 967 employees in diverse areas such as: banking profession, marketing and customer care, money laundering prevention procedure, software, and foreign languages. The Bank also supported financially a number of young professionals who attend post-graduate studies in the country and abroad.

The total number of employees at the Bank decreased from 1,503 at the end of 2002 to 1,316 at the end of 2003, as a result of the redundancy scheme applied to 189 employees.

Training department provided more than 20 thousands training hours to 967 employees...

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Stopanska Banka AD - Skopje, as member of NBG Group, assigns great importance on effective and up-to-date Risk Management in order to secure stability, better assets and liabilities management and continuity of its day-to-day business operations.

SB's activity domestically and internationally (especially with counter parties from the Balkan region) implies involvement of risks that requires pro-active risk management.

Furthermore, SB's credit expansion in the course of 2003, and the continuing growth of different products, gives emphasis to establish further on, modernize and implement modern risk management techniques and procedures.

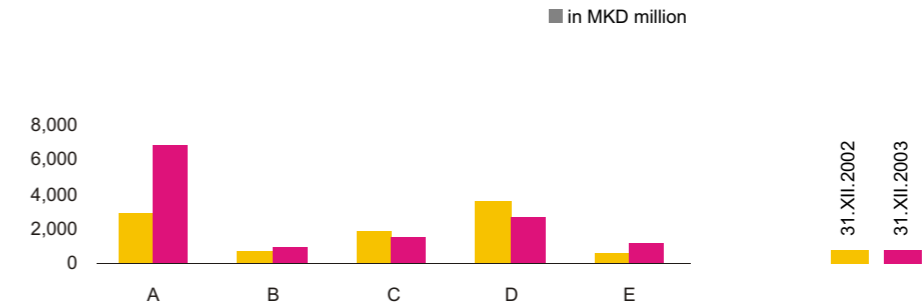
Finally, and by being a member of NBG Group, Stopanska Banka was introduced with the new framework on Banking Supervision and measurement of operational risk proposed by the Basel Committee.

In line with NBRM regulations, which are mainly in line with international practices, Stopanska Banka manages its credit, market and country risk.

Loan portfolio and credit risk

In the last three years, SB significantly improved its credit risk management practices. It introduced transparent predefined procedures for loan approval, conducted training of loan officers, and created four-tier system for decision-making. The first tier is Micro-credit Committee consisting of Managers of Corporate and Credit Divisions, which is authorized for approval of small loans up to EUR 50 thousand. The second and third tiers are: Credit Committee which is authorized to approve loans in the amount between EUR 50 thousand and EUR 750 thousand, and the Senior Credit Committee, which is authorized for approval of loans between EUR 750 thousand and EUR 8 million. The fourth tier is represented by the Board of Directors of SB which makes decisions on loans exceeding EUR 8 million.

■ Credit portfolio per risk categories



In accordance with the established prudent credit policies, SB approves new loans exclusively to sound first class companies which offer marketable security and are classified in A risk category. Creation of new sound loan portfolio and the efforts to regulate and collect the old loan portfolio influenced shift toward the low risk categories in the risk structure of loan portfolio. The share of loans classified in A risk category in total loans increased from 30% at the end of 2002 to 52% at the end of 2003 reaching the amount of MKD 6.8 billion. Loans classified in C and D risk categories recorded significant decline, while assets classified in E category slightly increased from 6% to 9% as a consequence of additional provisioning of some loans from old portfolio. Total loan portfolio increased by one third i.e. from MKD 9.7 billion at the end of 2002, to MKD 13.1 billion at the end of 2003. Loan portfolio is 23.0% covered with provisions. Total claims of SB had a coverage of 65.0% at the end of 2003, which is slightly lower compared to 2002 (73.2%) as a result of the improved quality and significant expansion of credit portfolio.

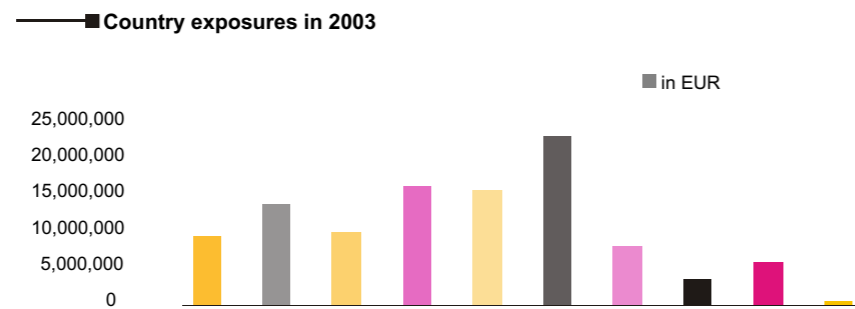
Country risk

Country risk represents a form of credit risk that is associated with the inability of the counter parties to fulfil their contractual obligations towards Stopanska Banka due to Government policy measures, or due to special circumstances that prevailed in a specific country (security situation, currency devaluation, political instability etc.).

■ 1 EURO = 61.3 denars

■ December 31, 2003

AUSTRALIA
 AUSTRIA*
 FRANCE
 GERMANY
 GREECE
 ITALY
 JAPAN
 SWITZERLAND
 UK
 USA



Accordingly, Stopanska Banka closely monitors its country risk exposures and in line with the established internal procedures on country risk management, focuses its activities according to the determined country limits.

Market risk

Market risk represents the risk that arises from uncertainty presented through changes in different market parameters such as exchange rates, interest rates, prices and etc.

The market risk is measured by using internal models on the trading portfolio and open positions of Stopanska Banka. Procedures for efficient f/x risk management are being strengthened in the beginning of 2003.

Capital adequacy

As at the end of 2003, SB's capital adequacy ratio illustrates that the Bank maintains strong capital base, interpreted as a capability to support its future growth.

The Capital adequacy ratio for 2003 stood at 17.02 % as compared to the legal limit set by the National Bank of the Republic of Macedonia at 8%.

Compared to the previous year, the Bank has reduced its capital adequacy ratio (17.02% in 2003 and 21.25% in 2002), as a result of the increase of its overall banking activities.

Internal Audit

In 2003, SB gave special attention to the development and staffing of Internal Audit Division, which was established in 2002. The main function of the Division is to perform permanent and overall control of the legality, accuracy and correctness of operations of SB, in order for SB to operate efficiently and effectively without taking excessive business risks and to achieve its vital business goals.

The Division is an independent organisational unit of SB, and is responsible for its operations, and reports its findings directly to the Board of Directors of SB.

The activities performed in the Division are determined by General Procedures and the Specific Procedures for auditing the of individual areas of financial and operative risks, in accordance with the Law on Banks, Law on Audit and other laws, International Standards on Auditing and the Code of Ethics and Professional Conduct of Professional Accountants issued by the International Auditing Practice Committee, Statute and other internal provisions of SB.

1 EURO = 61.3 denars

December 31, 2003

Balance Sheet

The Balance Sheet of SB increased by 14.5% in 2003 and reached the amount of MKD 28.4 billion. Reorganization of the Corporate Division and more active approach to the clients resulted in extraordinary increase of corporate deposits by 57.9%. Increase of household deposits, although smaller (14.7%), was a remarkable achievement as well, having in mind that it was wholly based on the sound image of SB in conditions when the Bank pursues a policy of lower deposit interest rates than its competition.

Loans to customers increased by 45.1% or by MKD 2.7 billion compared to the end of 2002, thus reaching the amount of MKD 8.5 billion. New products in retail lending resulted in expansion of household loans from MKD 406 million at the end of 2002, to MKD 2.2 billion at the end of 2003, thus over performing the Budget for 2003 by 4.1%. After its shrinkage during the security crisis and recession, corporate loans increased by 15.7%, or by MKD 842 million in 2003 and reached MKD 6.2 billion.

Equity remained almost unchanged in 2003 and amounted to MKD 3.5 billion.

Income Statement

After three years of intensive restructuring and cleaning the loan portfolio, SB reached breakeven in 2003 presenting a profit after taxes in the amount of approximately MKD 10 million .

	2003	2002
Net interest income		
Interest and similar income	940,937	1,089,949
Interest expense	(571,544)	(765,997)
Net interest income	369,393	323,952

in 000 MKD

...SB reached breakeven in 2003 presenting a profit after taxes...

Net interest income increased by 14.0%, while net interest income adjusted for net collected non-performing interest increased by 64.7%.

Increased net interest income was reflected in increase in net interest margin from 1.22% in 2002 to 1.38% in 2003. This result was achieved in terms of significant reduction in lending and deposit interest rates.

Net interest margin adjusted for net collected non-performing interest increased from 1.20% in 2002 to 1.63% in 2003. The growth of net interest margin was mainly the result of better loan management practices and improved collection of regular and non-performing interest.

Fee and commission income remained almost the same as in 2002, which is considered as a good result bearing in mind that in 2002 there was high fee and commission income related to conversion of IN currencies into Euro.

Income from recoveries declined by 24.4% and amounted to MKD 1.1 billion. It is worth noting that SB succeeded to collect MKD 324 million of non-performing interest, up 72.7% from the year before.

Effective cost control policy reduced total expenses by 9.7% despite the large increase of depreciation. Operating expenses, which were most affected by the cost cutting measures, were reduced by 21.0%.

The gross wages and salaries (including settlement of labour redundancy outlays for 189 employees) in 2003 amounted to MKD 649 million and were by 3.4% lower compared to gross wages and salaries in 2002.

...net interest margin was mainly the result of better loan management practices...

1 EURO = 61.3 denars

December 31, 2003

Assets Cash and cash equivalents 19,129 137,235 Placements with, and loans to, banks 7,542,396 5,355,980 Loans and advances to customers 8,543,180 5,887,812 Interest receivable and other assets 1,259,037 1,004,969 Income tax receivable 3,098 3,098 Investments 6,062,687 6,376,755 Investment property 100,131 12,608 Leasehold improvements 2,160 4,428 Intangible assets 227,022 247,099 Property and equipment 1,586,471 1,663,262 Deferred tax assets 2,162 Total assets 28,397,473 24,792,986 Liabilities Deposits from banks and other financial institutions 3,810 473,379 Amounts owed to other depositors 2,982,536 18,255,539 Other borrowed funds 870,337 198,293 Accruals and other liabilities 218,364 59,338 Total liabilities 24,858,652 21,264,195 Shareholders' equity and shareholders' equity 28,397,473 24,792,986 Commitment and contingencies Guarantees 97,465 268,578 In thousands of denars Share capital 3,783,042 87,202 23,096 (1,326,366) 2,506,974 Loss for the year (74,512) (74,512) Shares issued 1,036,329 1,036,329 covering of loss (1,217,151) (87,202) (22,013) 1,326,366 Balance at 31 December 2002 3,602,220 1,083 (74,512) 3,528,791 Balance at 1 January 2003 3,602,220 1,083 (74,512) 3,528,791 Net profit for the year 10,030 10,030 Balance at 31 December 2003 3,602,220 1,083 (64,482) 3,538,821 Income from recognition of investments 571,544 765,997 Impairment loss on investments (334,471) (384,000) Provision for off-balance sheet (9,956) (185,912) Income tax income (5,229) (13) Interest and similar income receipts



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1944 On 29th December 1944, upon a Decision of Antifascist Assembly of the National Liberation of Macedonia, Makedonska Stopanska Banka was founded. **1945** On 18th March, the Bank Board of Directors passed the first statute of Makedonska Stopanska Banka, whereby the basic institutional framework was created for the development of the banking in Macedonia. **1954** With the establishment of self-management in 1954, the banking apparatus was decentralized, with the National Bank remaining only an issue bank, and the functions in the commercial banking performed by the new formed communal banks. **1960-1970** The Bank participated in financing important facilities in the economy of the Republic of Macedonia such as the Steelworks "Skopje", "OHIS", "Alumina", Lead and zinc Mines "SASA", the hydro plants "Tikvesh" and "Globochica"... **1967** Stopanska Banka extended its activity also in the field of foreign exchange operations, thus satisfying the requirements in respect of forming its own credit fund in foreign exchange as well as in necessary professional staff, thus becoming a bank authorized to perform credit operations and international payments. **1973** Komercijalno-Investigicna Banka of Bitola and Komercijalno-Investigicna Banka of Skopje merged with Stopanska Banka. **1977** Stopanska Banka, adjusting itself to the new Law on the Bank and Credit Systems, grew into a system of 25 basic banks and one Associated Bank headquartered in Skopje. **1986** The Stopanska Banka system made an internal enlargement and organized itself into 9 basic banks and one Associated Bank. It was this year that the Investment Appraisal Centre was established for the purpose of improving the quality of channeling investments in accordance with the international standards. **1990** On 31st January 1990, the Bank was transformed into a joint stock company with a basic objective of earning operating profit. The bank was organized as a unique entity, with a head office in Skopje, 8 branches and 19 sub branches. The Basic Bank Skopje was separated from Stopanska Banka and registered as Komercijalna Banka - Skopje. **1994** In 1994, the bank issued the first payment card in Macedonia. **1995** The branches of Stopanska Banka in Ohrid, Prilep, Tetovo, Bitola, and Kumanovo were spun off the Bank. **1998** Stopanska Banka entered the international VISA network and acting as a sole agent obtained an authorization to issue all types of VISA cards in the Republic of Macedonia. **1999** On 21st December 1999 Stopanska Banka successfully completed the process of its privatization, signing it with the renowned foreign

strategic investors - The National Bank of Greece (NBG), the International Finance Corporation (IFC), and the European Bank for Reconstruction and Development (EBRD), the Share Purchase Agreement and the Share Subscription Agreement. On 29th December 1999 Stopanska Banka celebrated a very rare jubilee 55 years of successful work and existence. Stopanska Banka is the oldest and according to many criteria the largest Bank in the Republic of Macedonia. It is a bank with the longest tradition and most widespread branch network in the country, prepared for all challenges and requirements of the new times. **2000** On 04th April 2000 a block transaction was accomplished at the Macedonian Stock Exchange, by which NBG, IFC, and EBRD became owners of 85% of the voting package of the ordinary shares of Stopanska Banka. On 5th April 2000 the First Regular Shareholders Assembly of Stopanska Banka was held, which legalized and officialized the new management shareholders structure of Stopanska Banka, where the NBG has a stake of 65%, each of the IFC and the EBRD 10% (assigned for management to the NBG), and the shareholders headquartered in the Republic of Macedonia 15% of the share capital of Stopanska Banka. In July, additional capital increase of Stopanska Banka was completed, by payment of supplementary capital in an amount of DEM 50 million. With this transaction the strategic investors' participation in the shares capital is 91.8% (NBG 70.2%, IFC and EBRD 10.8% each). **2001** The process of internal organizational and functional restructuring of Stopanska Banka AD - Skopje was initiated in terms of a thorough orientation towards the clients, by intensive staff training, development of the information technology, transformation of the branch network etc. On 31st July 2001 Stopanska Banka AD - Skopje started executing denar payment operations in the country. In November, the sixth issue of shares of Stopanska Banka AD - Skopje in the amount of Denar 300 million was realized. **2002** The Bank continued with its intensive restructuring. On April 19, SB launched the new GLOBUS software which was a crucial step forward into the modernization of the Bank's IT system. In September 2002 was realized the seventh issue of shares in the amount of EUR 17 million. **2003** After intensive restructuring in the last three years, SB was the most vigorous Bank in the market in 2003. It became a major player in retail banking by terms of market expansion, product diversity and use of innovative marketing channels. Corporate lending was fully restructured and enabled for better response to the increased market competition. Image that is being built by SB as a sound and transparent bank resulted in significant increase in deposits.

During its long years of tradition, Stopanska Banka AD - Skopje has been permanently maintaining the widespread network of correspondent banks, which enables reputation and strong position within the international banking community.

With its present network of 1,600 foreign correspondent banks and number of accounts, which after the reduction with the introduction of Euro currency is 56 nostro accounts with 41 first class foreign banks and 166 loro accounts of 32 foreign banks, Stopanska Banka AD - Skopje provides quick, efficient, high quality and less expensive services to its clients in the international operations.

COMMONWEALTH BANK OF AUSTRALIA, SYDNEY ... ANZ BANKING GROUP LIMITED, MELBOURNE ... NATIONAL AUSTRALIA BANK LTD, MELBOURNE ... BANK AUSTRIA AG, VIENNA ... BANK FUER ARBEIT UND WIRTSCHAFT, VIENNA ... ING BELGIUM NV/SA, BRUSSELS ... FORTIS BANK NV/SA, BRUSSELS ... UNITED BULGARIAN BANK, SOFIA ... THE BANK OF MONTREAL, MONTREAL ... CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO ... SPLITSKA BANKA D.D., SPLIT ... KOMERCNI BANKAA.S., PRAGUE ... DANSKE BANK A/S, COPENHAGEN ... NORDEA BANK FINLAND LTD., HELSINKI ... BNP PARIBAS S.A., PARIS ... SOCIETE GENERALE, PARIS ... BRED BANQUE POPULAIRE, PARIS ... DEUTSCHE BANK AG, FRANKFURT/MAIN ... DRESDNER BANK AG, FRANKFURT/MAIN ... COMMERZBANK AG, FRANKFURT/MAIN ... LHB INTERNATIONALE HANDELSBANK AG, FRANKFURT/MAIN ... BAYERISCHE HYPO-UND VEREINSBANK AG, MUENCHEN ... NATIONAL BANK OF GREECE S.A., ATHENS ... HUNGARIAN FOREIGN TRADE BANK LTD, BUDAPEST ... INTESABANCI S.P.A., MILANO ... BANCA NAZIONALE DEL LAVORO S.P.A., ROMA ... THE BANK OF TOKYO-MITSUBISHI LTD., TOKYO ... ABN AMRO BANK N.V., AMSTERDAM ... DEN NORSKE BANK ASA, OSLO ... BANCO COMERCIAL PORTUGUES SA, LISBON ... BANCO SANTANDER CENTRAL HISPANO S.A., MADRID ... SKANDINAVISKA ENSKILDA BANKEN AB, STOCKHOLM ... SVENSKA HANDELSBANKEN AB, STOCKHOLM ... UBS AG, ZURICH ... CREDIT SUISSE, ZURICH ... RUSSIAN COMMERCIAL BANK LTD., ZURICH ... TURKIYE IS BANKASI A.S., ISTANBUL ... BARCLAYS BANK PLC, LONDON ... HSBC BANK PLC, LONDON ... NATIONAL WESTMINSTER BANK PLC, LONDON ... CITIBANK N.A., NEW YORK ... JP MORGAN CHASE BANK, NEW YORK ... DEUTSCHE BANK TRUST COMPANY AMERICAS, NEW YORK .



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● **Veles Branch** Marsal Tito bb, 1400 Veles, telephone: 043/ 233 121, fax: 043/ 234 052

● **Vinica Branch** Marshal Tito 6, 2310 Vinica, telephone: 033/ 363 133, fax: 033/ 361 388

● **Gevgelija Branch** Plostad Sloboda bb, 1480 Gevgelija, telephone: 034/ 210 010, fax: 034/ 211 863

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● **Kochani Branch** Marshal Tito 44, 2300 Kochani, telephone: 033/ 272 602, fax: 033/ 274 072

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● **Kumanovo Branch** Oktomvriska Revolucija br. 53, 3100 Kumanovo, telephone: 031/ 437 582, fax: 031/ 437 581

● **Negotino Branch** Jane Sandanski 2, 1440 Negotino, telephone: 043/ 361 036, fax: 043/ 361 766

● **Ohrid Branch** Vancho Nikoleski br. 3, 6000 Ohrid, telephone: 046/ 260 277, fax: 046/ 260 299

● **Prilep Branch** Borka Taleski br. 5, 7500 Prilep, telephone: 048/ 420 856, fax: 048/ 428 857

● **Probishtip Branch** Jakim Spirov 3, 2210 Probishtip, telephone: 032/ 483 129, fax: 032/ 484 228

● **Radovish Branch** 22 Oktomvri bb, 2420 Radovish, telephone: 032/ 635 024, fax: 032/ 635 283

● **Resen Branch** Tase Miloshevski 9, 7310 Resen, telephone: 047/ 451 147, fax: 047/ 452 063

● **Sveti Nikole Branch** Marshal Tito bb, 2220 Sveti Nikole, telephone: 032/ 443 944, fax: 032/ 443 477

● **Struga Branch** Marshal Tito 54, 6330 Struga, telephone: 046/ 781 801, fax: 046/ 781 365

● **Strumica Branch** Leninova 19, 2400 Strumica, telephone: 034/ 348 403, fax: 034/ 348 390

● **Tetovo Branch** Marshal Tito br. 32, 1200 Tetovo, telephone: 044/ 332 664, fax: 044/ 331 646

● **Shtip Branch** Josif Kovachev 8, 2000 Shtip, telephone: 032/ 393 266, fax: 032/ 392 466

Assets Cash and cash equivalents 129,129 4,117,235 Placements with, and loans to, banks 7,542,396 5,355,980 Loans and advances to customers 8,543,180 5,987,812 Interest receivable and other assets 1,259,037 1,004,969 Income tax receivable 3,098 3,098 Investments 6,002,687 5,376,495 Investment property 100,131 12,608 Leasehold improvements 2,160 4,428 Intangible assets 227,022 247,099 Property and equipment 1,586,471 1,663,262 Deferred tax assets 2,162 Total assets 28,397,473 24,792,986 Liabilities Deposits from banks and other financial institutions 1,337 198,293 Amounts owed to other depositors 1,083 1,083 Reserves 1,083 1,083 Accumulated deficit (64,482) Other borrowed funds 870,593,338 Total liabilities 24,858,652 21,264,195 Share capital (74,512) Total shareholders' equity 3,538,821 3,528,791 Commitment and contingencies Guarantees 97,465,93 268,578 In thousands of denars Share capital at 31 December 2002 3,783,042 87,202 23,096 (1,326,366) 2,566,974 Loss for the year (74,512) (74,512) Shares issued 1,036,329 1,036,329 covering of loss (1,217,151) (87,202) (22,013) 1,326,366 Balance at 31 December 2002 3,602,220 1,083 (74,512) 3,528,791 Balance at 31 December 2003 3,602,220 1,083 (74,512) 3,528,791 Net profit for the year 10,030 10,030 Balance at 31 December 2003 3,602,220 1,083 (64,482) 3,538,821 Income from recognition of investments 571,544 765,997 Impairment loss on investments (5,229) (13) Interest and similar income receipts (40,937) (1,089,949) Provision for off-balance sheet (9,956) (185,912) Income tax income



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Report of the auditor to the shareholders of Stopanska Banka AD - Skopje

We have audited the accompanying balance sheet of Stopanska banka AD - Skopje (the "Bank") as of 31 December 2003 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bank as of 31 December 2002, were audited by another auditor whose report dated 10 March 2003 expressed an unqualified opinion on those statements with emphasis of matter paragraph related to the income derived from release of impairment on bad debts based on additional collateral obtained by the Bank of MKD 384,400 thousand.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2003 and of the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

18 February 2004
Skopje

KPMG



KPMG Macedonia Ltd, established under Macedonian law, is a member of KPMG International, a Swiss cooperative.

Registered by Skopje Basic Court I No. 5772/97

Tax Number 4030996107850

■ balance sheet

As at 31 December 2003

	2003	2002
Assets		
Cash and cash equivalents	3,129,129	4,237,235
Placements with, and loans to, banks	7,542,396	5,355,980
Loans and advances to customers	8,543,180	5,887,812
Interest receivable and other assets	1,259,037	1,004,969
Income tax receivable	3,098	3,098
Investments	6,002,687	6,376,495
Investment property	100,131	12,608
Leasehold improvements	2,160	4,428
Intangible assets	227,022	247,099
Property and equipment	1,586,471	1,663,262
Deferred tax assets	2,162	-
Total assets	28,397,473	24,792,986
Liabilities		
Deposits from banks and other financial institutions	598,810	473,379
Amounts owed to other depositors	22,982,536	18,255,539
Other borrowed funds	870,605	1,977,646
Provisions	188,337	198,293
Accruals and other liabilities	218,364	359,338
Total liabilities	24,858,652	21,264,195
Share capital	3,602,220	3,602,220
Reserves	1,083	1,083
Accumulated deficit	(64,482)	(74,512)
Total shareholders' equity	3,538,821	3,528,791
Total liabilities and shareholders' equity	28,397,473	24,792,986

	2003	2002
Commitment and contingencies		
Guarantees	975,044	697,793
Letters of credit	453,613	30,933
Performance guarantees	446,593	268,578

Mr Gligor Bishev
First General Manager



Mr Konstantinos Bratos
Second General Manager



(Expressed in thousands of Denars)

■ 1 EURO = 61.3 denars

■ December 31, 2003

income statement

For the year ended 31 December 2003

	2003	2002
Interest and similar income	940,937	1,089,949
Interest expense	(571,544)	(765,997)
Net interest income	369,393	323,952
Fee and commission income	546,206	550,701
Fee and commission expense	(42,413)	(62,169)
Net fee and commission income	503,793	488,532
Dividend income	5,229	13
Net foreign exchange gain	31,127	45,366
Release of impairment	334,471	384,400
Other operating income	762,534	1,067,484
Operating income	1,133,361	1,497,263
Impairment losses	(594,554)	(861,734)
Other operating expenses	(1,404,125)	(1,522,525)
Operating expenses	(1,998,679)	(2,384,259)
Profit/(loss) for the year	7,868	(74,512)
Income tax income	2,162	-
Net profit/(loss) for the year	10,030	(74,512)

statement of changes in equity

For the year ended 31 December 2003

	Shareholders' capital	Statutory reserves	Special fund	Accumulated profits/losses	Total equity
Balance at 1 January 2002	3,783,042	87,202	23,096	(1,326,366)	2,566,974
Loss for the year	-	-	-	(74,512)	(74,512)
Shares issued	1,036,329	-	-	-	1,036,329
Covering of loss	(1,217,151)	(87,202)	(22,013)	1,326,366	-
Balance at 31 December 2002	3,602,220	-	1,083	(74,512)	3,528,791
Balance at 1 January 2003	3,602,220	-	1,083	(74,512)	3,528,791
Net profit for the year	-	-	-	10,030	10,030
Balance at 31 December 2003	3,602,220	-	1,083	(64,482)	3,538,821

Expressed in thousands of Denars

1 EURO = 61.3 denars

December 31, 2003

■ statement of cash flows

For the year ended 31 December 2003

	2003	2002
Operating activities		
Net profit/(loss) for the year	10,030	(74,512)
Adjustments for non cash items:		
Depreciation of property and equipment	158,904	104,575
Amortisation of intangible assets	38,562	15,214
Amortisation of leasehold improvements	2,403	-
Gain on sale of property and equipment	(35,344)	(32,898)
Gain on sale of assets acquired through foreclosure procedure	(7,680)	-
Income from recognition of investments	(59,286)	(46,032)
Interest and similar income	(940,937)	(1,089,949)
Interest expense	571,544	765,997
Impairment losses	594,554	861,734
Release of impairment	(334,471)	(384,400)
Provision for off-balance sheet	(9,956)	(185,912)
Income tax income	(2,162)	-
Dividend income	(5,229)	(13)
Interest and similar income receipts	837,875	838,453
Interest paid	(712,518)	(1,512,148)
Operating profit/(loss) before changes in operating assets	106,289	(739,891)
(Increase) decrease in operating assets:		
Placements with, and loans to, banks	(2,185,122)	2,459,624
Loans and advances to customers	(2,787,817)	(436,741)
(Increase)/decrease in other assets	(299,817)	97,304
Increase (decrease) in operating liabilities:		
Deposits from banks and other financial institutions	125,431	(276,011)
Deposit from customers	4,726,997	(8,092,360)
Net cash from operating activities before income tax	(314,039)	(6,988,075)
Income tax paid	-	-
Cash flows from operating activities	(314,039)	(6,988,075)

	2003	2002
Investing activities		
Acquisition of property and equipment	(171,623)	(95,567)
Acquisition of intangible assets	(18,485)	(222,843)
Acquisition of investments	395,855	519,725
Proceeds from the sale of property and equipment	98,469	64,148
Increase of leasehold improvements	(135)	-
Dividends received	5,229	13
Cash flows from investing activities	309,310	265,476
Financing activities		
Proceeds from issue of share capital	-	1,036,329
Repayment of borrowings	(1,107,041)	(95,478)
Cash flows from financing activities	(1,107,041)	940,851
Effects of exchange rate changes on cash and cash equivalent	3,664	-
Net decrease in cash and cash equivalents	(1,108,106)	(5,781,748)
Cash and cash equivalents at 1 January	4,237,235	10,018,983
Cash and cash equivalents at 31 December	3,129,129	4,237,235

(Expressed in thousands of Denars)

■ 1 EURO = 61.3 denars

■ December 31, 2003