NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2008

Content

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
REVIZIJA DOO
ul. Marshal Tito 12,
"Palata Makedonija" IV floor
1000 Skopje
Republic of Macedonia
Telephone +389 (02) 3116 638
+389 (02) 3111 012
+389 (02) 3110 623
Facsimile +389 (02) 3116 525
www.pwc.com/mk

Independent auditor's report

To the Council of National Bank of the Republic of Macedonia

Report on the financial statements

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank"), which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 policies 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 audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the National Bank as of 31 December 2008, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers REVIZIJA DOO

PricewaterhouseCoopers Revizija doo

Skopje,

5 March 2009

GENERAL INFORMATION

Members of the Council

Petar Gosev, Governor
Emilija Nacevska, Vice Governor
Fadil Bajrami, Vice Governor
Verica Hadzi-Vasileva - Markovska
Goran Petreski
Liman Kurtisi
Drage Janev
Tihomir Petreski
Saso Arsov (from 30th January 2008)

Registered office

Kompleks banki bb
1000, Skopje

Income statement

	Note	Year ended 31 December 2008	2007
Interest income	5	798,455	2,498,281
Interest expense	6	(1,814,779)	(1,503,590)
Net interest income		**(1,016,324)**	**994,691**
Fee income	7	225,627	300,915
Fee expense	8	(7,427)	(6,628)
Net fee income		**218,200**	**294,287**
Net unrealized exchange rate and fair value differences	**9**	**1,291,294**	**322,814**
Net income from trading securities	10	3,502,016	997,496
Other operating income	11	159,540	189,687
Staff expenses	12	(328,827)	(297,197)
Depreciation and amortization charge	25,26	(70,188)	(68,622)
Other expenses	13	(204,816)	(178,678)
Provisions and write offs	**14**	**129,223**	**(32,619)**
Profit for the year		**3,680,118**	**2,221,859**

The notes on pages 9 to 54 are an integral part of these financial statements

Balance sheet

ASSETS	Note	At 31 December 2008	2007
Foreign currencies	15	562,397	90,101
Foreign currency deposits	16	14,558,854	55,845,883
Foreign securities	17	68,492,515	30,977,470
Gold	18	8,234,528	7,615,411
Special Drawing Rights	19	59,585	60,484
Foreign assets		**91,907,879**	**94,589,349**
Receivable from Government related to IMF	20	562,174	551,548
Government securities	21	734,696	712,389
Receivable from Government		**1,296,870**	**1,263,937**
IMF Membership	**22**	**4,410,718**	**4,708,063**
Loans to banks	23	15,912	15,912
Other receivables	24	-	-
Receivables from banks		**15,912**	**15,912**
Property and equipment	25	942,967	897,795
Intangible assets	26	41,039	30,899
Jubilee coins	27	87,331	88,719
Receivables	28	28,223	21,660
Other assets	29	190,496	101,027
Total assets		**98,921,435**	**101,717,361**

Balance Sheet (continued)

		At 31 December	
LIABILITIES AND EQUITY	**Note**	**2008**	**2007**
Currency in circulation	**30**	**20,799,162**	**19,893,323**
Bank deposits	**31**	**10,269,501**	**10,671,843**
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	**32**	**9,820,933**	**7,294,331**
National Bank bills issued	**33**	**17,450,296**	**21,040,271**
Deposit requirement of banks and savings houses	**34**	**1,529,144**	**-**
Government MKD deposits	35	11,889,731	12,170,661
Government MKD deposits- treasury bills for monetary policy purposes	35	-	4,597,550
Government foreign currency deposits	36	3,126,050	5,520,143
Government deposits		**15,015,781**	**22,288,354**
Restricted deposits	**37**	**2,003,567**	**1,738,804**
Special Drawing Rights Allocation	38a	562,174	551,548
Payables based on membership and deposits	38b	4,410,718	4,708,063
Payables to IMF	**38**	**4,972,892**	**5,259,611**
Other deposits	**39**	**2,834,924**	**2,009,321**
Other payables	40	1,325,071	1,462,572
Provisions	41	189,342	278,826
Other liabilities	42	931,307	519,355
Other liabilities		**2,445,720**	**2,260,753**
Capital		1,289,789	1,289,789
General reserves		1,708,077	1,503,132
Other reserves		8,781,649	6,467,829
Capital and reserves	**43**	**11,779,515**	**9,260,750**
Total liabilities and equity		**98,921,435**	**101,717,361**

Statement of changes in equity

	Note	Capital	General reserves	Other reserves	Art works revaluation	Accumulated (loss)/gain	Total capital and reserves
At 1 January 2007		**1,289,789**	**1,103,543**	**5,970,133**	**1,777**	**(37,590)**	**8,327,652**
Profit for the year		-	-	-	-	2,221,859	2,221,859
Total recognized income for 2007		-	-	-	-	2,221,859	2,221,859
Net unrealized positive price and exchange rate changes of gold		-	-	1,160,736	-	(1,160,736)	-
Net negative foreign exchange gains		-	-	(837,921)	-	837,921	-
Net unrealized positive price changes of securities		-	-	221,251	-	(221,251)	-
Realized price changes		-	-	(48,147)	-	48,147	-
Appropriation to general reserves		-	399,589	-	-	(399,589)	-
Appropriation to budget		-	-	-	-	(1,288,761)	(1,288,761)
At 31 December 2007 / 1 January 2008		**1,289,789**	**1,503,132**	**6,466,052**	**1,777**	**-**	**9,260,750**
Profit for the year		-	-	-	-	3,680,118	3,680,118
Total recognized income for 2008		-	-	-	-	3,680,118	3,680,118
Net unrealized positive price and exchange rate changes of gold	43	-	-	618,761	-	(618,761)	-
Positive foreign exchange gains	43	-	-	672,533	-	(672,533)	-
Net unrealized positive price changes of securities	43	-	-	1,177,896	-	(1,177,896)	-
Realized price changes	43	-		(155,370)	-	155,370	-
Appropriation to general reserves	43	-	204,945	-	-	(204,945)	-
Appropriation to budget	40	-	-	-	-	(1,161,353)	(1,161,353)
At 31 December 2008		**1,289,789**	**1,708,077**	**8,779,872**	**1,777**	**-**	**11,779,515**

Cash flow statement

	Note	Year ended 31 December 2008	Year ended 31 December 2007
Cash flow from operating activities			
Profit for the year		**3,680,118**	**2,221,859**
Adjusted for:			
Interest income	5	(798,455)	(2,498,282)
Interest expense	6	1,814,779	1,503,590
Unrealized gold price changes		(618,761)	(1,160,736)
Net income from trading securities		(2,651,620)	(217,517)
Impairment		(38,139)	(43)
Provisions		(89,484)	32,662
Depreciation and amortization charge	25,26	70,188	68,622
Cash flows from operating profits before changes in operating assets and liabilities		**1,368,626**	**(49,845)**
Gold		(356)	(112)
Foreign securities		(34,863,425)	(20,487,245)
Restricted deposits		750,253	(227,517)
Receivables from Government		-	1,206,423
Receivables from banks		-	6,914
Other assets		(95,666)	(71,738)
Currency in circulation		905,839	2,125,105
Bank deposits		(404,314)	3,286,309
Reserve requirement and deposit requirement of banks and savings houses		4,055,226	904,360
Government deposits including restricted and other deposits		(6,178,230)	(11,533,158)
Repayments of borrowings from IMF		-	(2,593,312)
Other liabilities		(886,820)	(269,363)
Interest received		776,149	2,032,990
Interest paid		(1,829,258)	(1,485,544)
Net cash flows used in operating activities		**(36,401,976)**	**(27,155,733)**
Acquisition of property and equipment		(126,041)	(62,404)
Proceeds from the sale of property and equipment		541	30
Net cash flows used in investing activities		**(125,500)**	**(62,374)**
National Bank bills issued		(3,577,064)	11,539,527
Net cash flows (used in)/from financing activities		**(3,577,064)**	**11,539,527**
Net decrease in cash and cash equivalents		(40,104,540)	(15,678,580)
Cash and cash equivalents at the beginning of the year		**55,011,513**	**70,690,093**
Cash and cash equivalents at the end of the year	**44**	**14,906,973**	**55,011,513**

1 Introduction

1.1 General information

The National Bank of the Republic of Macedonia (hereinafter referred to as: "the National Bank) is the central bank of the Republic of Macedonia and the sole issuing institution in the country. The organization and the operating of the National Bank are regulated by the Law on the National Bank of the Republic of Macedonia, ("Law on the National Bank"), dated January 22, 2002, and the amendments to the Law on the National Bank of the Republic of Macedonia of July 31 and December 31, 2003, July 21, 2004, July 21, 2005 and December 7, 2006. According to the Law, the National Bank is a legal entity fully owned by the state, with financial and administrative independence. The National Bank was constituted as a central bank of issue in 1992.

Pursuant to the Law on the National Bank, the main objective of the National Bank is maintaining the price stability. The National Bank is supporting the economic policy of the country, observing the financial stability, without jeopardizing the accomplishment of its main objective, though adhering to the market economy principles. The achievement of these objectives takes priority over the profit.

The National Bank submits to the Parliament of the Republic of Macedonia a semi-annual and annual report on its operations, as well as on the supervision and the foreign reserves management, as well as financial statements audited by an external independent auditor.

Net income of the National Bank is appropriated to special reserves, general reserves and Budget of the Republic of Macedonia. The unrealized income stemming from price and exchange rate differentials is fully appropriated to special reserves. After appropriating to the special reserves, as specified by the amendments to the Law on the National Bank of December 2006, 70% of the net income is appropriated to general reserves, i.e. 15% after reaching the level of core capital prescribed with this Law, and the residue is regarded as revenue of the Budget of the Republic of Macedonia. The loss is covered from the general reserves of the National Bank, and when there is a shortage of funds, it shall be covered from the Budget of the Republic of Macedonia, or by negotiable interest-bearing debt securities issued by the Republic of Macedonia.

The bodies of the National Bank are the Council of the National Bank and the Governor.

The total number of employees as of 31 December 2008 is 433 (as of 31 December 2007: 418).

The financial statements were adopted by the Council of the National Bank of the Republic of Macedonia on 26 February 2009 and signed by the president of the National Bank Council on its behalf:

Petar Goshev, M.Sc.

President of the National Bank Council

1.2 Operating environment of the National Bank

During 2008, the world economy faced turbulent developments and a sharp switch in economic prospects. In a very short period of time, from a stage of strong inflationary pressures due to dramatic increases of the prices of oil, food and the other primary products mainly caused by the expansive global demand growth, the developed economies faced lack of liquidity in the financial sector and a drastic fall of stock exchanges indexes and primary product markets, which was followed by a further slow down of the economic activity.

Besides the global financial market turmoil, the Macedonian banking system remained sound and stable, which can be explained by low financial integration and the lack of significant exposure of domestic financial sector to risk-bearing financial instruments abroad. However, the deepening of the financial and economic crisis (especially from September), has affected the domestic economic activity more intensively, resulting in reduced external demand on Macedonia's export dynamics and further on the country's economic growth rate. The indirect influence is enhanced by expected tightening of domestic lending conditions along with the expected moderation in deposits' growth and more restrictive external financing terms. The highly uncertain international environment creates additional risks for the future developments in the financial and capital accounts in the balance of payments. In the last quarter of 2008, under increased foreign exchange outflows and decline in net inflows (payment of dividends of a big company abroad, decline in the exports, outflows of portfolio investment, decreased private transfers in the last month), the National Bank intervened with net-sale of foreign exchange on the market. In such conditions, at the end of 2008, the level of gross foreign reserves equaled MKD 91,805,247,000 (Euro 1,494,900,000), which represents depletion of MKD 2,241,549,000 (Euro 36,500,000), compared to the end of the previous year. Despite the trend of lowering of the interest rates in the global financial markets, in 2008 the National Bank recorded a positive financial result, mainly through restructuring foreign reserves investments into securities, as well as reducing the National Bank bills issued.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

A Basis of preparation of financial statements

The financial statements have been prepared in accordance with the Law on the National Bank and the International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the International Accounting Standards Committee (IASC).

The financial statements are prepared under the historical cost convention as modified for the measurement at fair value of trading securities, gold and art works.

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank in 2008. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008). These interpretations did not have any significant effect on the National Bank's financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures **and a subsequent amendment,** ***Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The National Bank has not elected to make any of optional reclassifications during the period.

IAS 23, Borrowing Costs (revised March 2008; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2008. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The National Bank does not expect the amended standard to have an effect on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2008; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The National Bank will apply the revised standard on its financial statements for 2009.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The part of substantive changes relate to the following areas: possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; and introduction of accounting for investment properties under construction in accordance with IAS 40. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The National Bank does not expect the amendments to have any effect on its financial statements.

B Foreign currency transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the National Bank operates (‘the functional currency’). The financial statements are presented in MKD, which is the National Bank's functional and presentation currency, rounded to the nearest thousand.

Transactions and balances

Assets and liabilities denominated in foreign currency are translated into MKD at exchange rates ruling at the balance sheet date. Transactions denominated in foreign currency are translated into MKD at the exchange rates valid on the date of the transaction. All exchange rate differentials are recognized in the income statement.

Exchange rate:	31 December 2008 MKD	31 December 2007 MKD
USD	43.56	41.66
EUR	61.41	61.20
SDR	67.10	65.83

C Offsetting

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

D Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability is included in the amounts of deposits from banks. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and advances to other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed and securities received as collateral for reverse transactions are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

E Deposits with banks

Deposits with banks are stated at amortized cost in the same way as loans given to banks, (see note 2H) less any reduction for impairment (see note 2J).

F Monetary gold

Monetary gold consists of gold deposits held with correspondents and the stocks of gold bars of international standard held in the vault of the National Bank. Monetary gold is held by the National Bank as part of the foreign reserves. Monetary gold is recorded in physical weight in troy ounces.

Monetary gold is measured at fair value. Fair value is the amount which could be realized from the sale of an asset in an arm's length transaction between knowledgeable, willing parties and is calculated based on the fixing of the London Bullion Market in US Dollars, converted to MKD at the spot MKD/USD exchange rate at the transaction date.

Realized and unrealized gains and losses from the valuation of gold arising as a result of the changes in the fair value and changes in the exchange rate of the MKD against the USD, are charged directly to the income statement.

G Cash and cash equivalents

For the cash flow statement purpose, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: foreign currency deposits excluding any restricted deposits, foreign currencies in the National Bank vault and SDR holdings.

H Financial assets

The National Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The National Bank determines the classification of its investments at initial recognition.

At initial recognition all financial assets, except those classified as financial assets at fair value through profit and loss, are recognized at their fair value, representing the fair value of the proceeds given, plus the transaction costs. The financial assets at fair value through profit and loss, are recognized at their fair value, representing the fair value of the proceeds given, while the transaction costs are recorded in profit and loss at their inception.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. There are no financial assets at fair value through profit and loss that are not held for trading.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term and for which there is evidence of a recent actual pattern of short-term profit-taking. The only trading assets held by the Bank are foreign debt securities.

Financial assets at fair value through profit and loss are carried at fair value and the fair value changes are recognized in the profit and loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the National Bank provides money to a debtor with no intention of trading the receivable.

Loans are recognized when cash is advanced to the borrowers and are carried at amortized cost using the effective interest method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the National Bank's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at amortized cost using the effective interest method.

Were the National Bank to sell or reclassified other than an insignificant amount of held-to-maturity assets before the date of maturity, the entire category would be tainted and reclassified as available for sale.

Available for sale

Available-for-sale investments are those the National Bank intends to hold for an indefinite period of time, which may be sold in response to needs for liquidity.

Available-for-sale financial assets are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for debt instruments, the National Bank establishes fair value using valuation techniques. Unquoted equity instruments whose fair value can not be reliably determined are carried at cost, less impairment.

Unrealized gains and losses are reported as a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is included in the statement of income for the period.

I Fair value

The fair value of financial instruments traded on organized financial markets is determined according to current bid prices.

The fair value of unquoted investments is determined by reference to the market prices of similar investments or is based on the expected discounted cash flows.

J Impairment of financial assets

Assets carried at amortized cost

The National Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a bank of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the National Bank.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for banks of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the National Bank to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related provision for impairment. Such financial assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for financial asset impairment in the income statement or are recognised in other operating income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Assets classified as available for sale

The National Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for - sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

K Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized on the settlement date, i.e. the date the asset is obtained from, or delivered to, the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

L Property and equipment

All property and equipment, other than art works, are stated at cost less accumulated depreciation. Assets in course of construction are reported at their cost of construction including costs charged by third parties. No depreciation is charged on assets during construction. Upon completion, all accumulated costs of the asset are transferred to the relevant tangible property and equipment category and subsequently subject to applicable depreciation rates.

Gains and losses on disposal of property and equipment are recognized in the income statement.

The art works are recognized at their fair value. The changes in the fair value are recognized in equity in the revaluation reserves for paintings.

Depreciation on all assets except assets in the course of construction is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Fixed asset	Useful life 2008
Buildings	5 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 6 years
Furniture	5 to 10 years

The useful life of the real estate and the equipment is reviewed and adjusted on an annual basis at minimum, i.e. if necessary and it will be applied prospectively. Land, art works and numismatics are not depreciated.

M Intangible assets

Intangible assets consist of computer software. The initial cost of acquiring the intangible asset is recognized as an asset and amortized on a straight-line basis over the estimated useful life, not exceeding a period of 3 to 5 years.

N Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be appropriate. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

O Jubilee coins

Jubilee coins are not a legal tender and they typically have an artistic or collector's premium such that they are sold at prices which are higher than the intrinsic value of the metal from which they are formed. The National Bank mints jubilee coins for commemorative anniversaries, based on Decisions of the Government of the Republic of Macedonia. Jubilee coins are valued at a sale price as set by National Bank Council.
Revenue from sale of jubilee coins is recognized when it is probable that future economic benefits will flow to the National Bank and these benefits can be measured reliably.

P Fiduciary activities

The National Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf and in the name of the Government. The income arising thereon is excluded from these financial statements, and the assets are presented on a net basis. The National Bank receives fee income for providing these services (Note 7).

Q Currency in circulation

Banknotes and coins in circulation issued by the National Bank are presented in the balance sheet as a liability in favor of the holder, at face value. When coins and notes are withdrawn from circulation the relevant demand deposits liabilities are increased, while the liability in favor of the holders is reduced.

R National Bank bills issued

National Bank bills are issued only in domestic currency and are with maturity of twenty eight days. The bills are issued by the National Bank for monetary policy purposes and are recorded at discounted values, reflecting the consideration paid by banks to acquire them. Interest is accrued over the period to maturity.

S Deposits

Deposits are recognized initially at fair value. Subsequently deposits are stated at amortized cost.

T Provisions

Provisions are recognized when the National Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

U Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Subsequent to the initial recognition, interest-bearing borrowings are stated at amortized cost. If debt is settled before maturity, any difference between the amount repaid and the carrying amount is recognized in the income statement for the period.

V Revenue recognition

Interest income and expense
Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Fee and other income
Fees and other income are generally recognized on an accrual basis when the service has been provided. Loan disbursement fees are deferred and recognized as an adjustment to the effective interest rate on the loan.

Net income from trading securities
Net income from trading securities includes accrued interest from coupon securities, realized profit and loss as a result of sales and unrealized positive and negative changes in the fair value of trading securities (security-by-security principle).

W Net unrealized exchange rate and fair value differences

Unrealized exchange rate and price differences are arising as a result of translation to MKD of the value of the assets and liabilities denominated in foreign currency, and changes in the market value, at exchange rate at the balance sheet date.

X Employment benefits

Pension insurance contribution - defined contributions plan
Liabilities for defined pension insurance contributions in the pension system of the Republic of Macedonia are recognized as a cost in the income statement for the period when the liability occurred.

Other long-term employment benefits
Other long-term employment benefits include severance payment for retirement and right of jubilee awards for employees who have worked more than 10, 20 and 30 years with the employer. These benefits are specified in the Employment Law and the National Bank Labor Agreement.

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its current value by applying weighted interest rate prevalent on the securities market for the 3-year bonds issued by the Republic of Macedonia.

Y Taxation

Under the provisions of Article 36c of the amended Corporate Income Tax Law, as published on July 31, 2003 and effective as of January 1, 2003, retroactively, the National Bank is exempted from income tax. The National Bank is required to calculate withholding tax for services provided by foreign legal entities as specified by the amendments to the Corporate Income Tax Law dated December 31, 2005.

3 Financial risk management

The balance sheet of the National Bank is largely comprised of financial instruments. These instruments expose the National Bank to a number of risks, including the credit risk, market risk, exchange rate risk, interest rate risk and liquidity risk.

A Credit risk

The credit risk is the risk of reduction in the value of the foreign reserves due to insolvency or due to downgrade of the credit rating of financial institutions or issuers of securities and instruments in which the foreign reserves are placed. The exposure to credit risk is managed by selection and setting limits on exposure to countries and financial institutions with high credit rating. The credit risk is also mitigated by asset diversification. The foreign reserves are placed in instruments issued by governments and central banks of OECD member states, international financial institutions and commercial banks from OECD countries which have been assigned one of the two top grades for short-term debt rating by at least two international renowned rating agencies. Individual limits to foreign commercial banks are set to maximum 10% of the foreign reserves. Debt securities in which the foreign reserves are invested are kept on custody accounts with central banks of OECD member states, international financial institutions and commercial banks from OECD countries which have been assigned one of the two top grades for short-term debt rating by at least two international renowned rating agencies.

The counterparties of the Bank are segmented into rating scale, which is shown below. The purpose of the rating scale is to classify counterparties and bond issuers by credit standing. Credit standing of counterparties and bond issuers is based on the long-term rating of the credit rating agencies. The long-term counterparty ratings are assessments and opinions on a bank's ability to repay punctually its foreign and/or domestic currency deposit obligations. Issuer ratings are assessments and opinions on the ability of issuers to honor financial obligations and contracts.

Rating scale	Long-term external rating: Standard &Poor's or equivalent
Investment grade	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB,BBB-
Non-investment grade	BB+, BB, BB-, B+, B, B- or lower

The size and concentration of the exposure of the National Bank to credit risk can be obtained directly from the balance sheet and notes to balance sheet positions that describe financial assets. The table below shows main concentrations of credit risk by type of assets:

ASSETS	**2008**	**2007**
Foreign currency deposits		
Current accounts	12,049,317	12,157,117
Term deposits	2,509,537	43,688,766
Foreign securities		
Debt Securities	68,456,452	30,942,087
Gold Deposits	8,219,324	7,601,351
Special Drawing Rights	59,585	60,484
Foreign assets	**91,294,215**	**94,449,805**
Receivable from Government related to IMF	562,174	551,548
Government securities	734,696	712,389
Receivable from Government	**1,296,870**	**1,263,937**
Receivables from banks	15,912	15,912
At 31 December	**92,606,997**	**95,729,654**

The credit risk is managed by determining a financial institution - commercial bank or issuer of security and setting quantitative limits based on criteria set by the Governor of the National Bank.

The table below presents an analysis of National Bank assets, by rating agency designation at 31 December 2008, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Receivables from Government	Loans to banks	Total
AAA	-	681	-	-	-	-	-	**681**
AA+	-	469	-	-	-	-	-	**469**
AA	-	39,359	-	170,925	-	-	-	**210,284**
AA-	4,051,964	14,597	-	-	-	-	-	**4,066,561**
A	-	145,095	18,427	-	-	-	-	**163,522**
A+	4,159,475	236,096	-	-	-	-	-	**4,395,571**
CB[1]	-	11,606,180	2,491,110	65,199,209	-	-	-	**79,296,499**
MI[2]	7,885	6,249	-	3,086,318	59,585	-	-	**3,160,037**
BBB-[3]	-	591	-	-	-	1,296,870	-	**1,297,461**
Unrated	-	-	-	-	-	-	15,912	**15,912**
Total	**8,219,324**	**12,049,317**	**2,509,537**	**68,456,452**	**59,585**	**1,296,870**	**15,912**	**92,606,997**

[1] Central Banks

[2] International Institutions

[3] Rating of the Republic of Macedonia

The table below presents an analysis of National Bank assets, by rating agency designation at 31 December 2007, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Receivables from Government	Loans to banks	Total
AAA	-	548	184,051	25,981,220	-	-	-	**26,165,819**
AA+	-	1,354	-	-	-	-	-	**1,354**
AA	7,594,059	676,695	2,126,575	-	-	-	-	**10,397,329**
AA-	-	37,527	-	-	-	-	-	**37,527**
A	-	430,552	-	-	-	-	-	**430,552**
A+	-	287,863	32,191	-	-	-	-	**320,054**
CB[4]	-	10,642,296	41,345,949	-	60,484	-	-	**52,048,729**
MI[5]	7,292	78,901	-	4,960,867	-	-	-	**5,047,060**
BBB-[6]	-	-	-	-	-	1,263,937	-	**1,263,937**
Unrated	-	1,381	-	-	-	-	15,912	**17,293**
Total	**7,601,351**	**12,157,117**	**43,688,766**	**30,942,087**	**60,484**	**1,263,937**	**15,912**	**95,729,654**

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the National Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2008. For this table, National Bank has allocated exposures to regions based on the country of domicile of our counterparties:

	EU Countries	Non-EU Countries	Republic of Macedonia	Other	Total
Gold deposits	5,080,930	3,138,394	-	-	**8,219,324**
Current accounts	11,505,942	19,036	-	524,339	**12,049,317**
Term deposits	2,509,537	-	-	-	**2,509,537**
Debt securities	59,643,134	3,086,318	-	5,727,000	**68,456,452**
Special Drawing Rights	-	-	-	59,585	**59,585**
Receivable from Government	-	-	1,296,870	-	**1,296,870**
Receivable from Banks	-	-	15,912	-	**15,912**
31 December 2008	**78,739,543**	**6,243,748**	**1,312,782**	**6,310,924**	**92,606,997**
31 December 2007	**79,102,406**	**10,104,359**	**1,279,849**	**5,243,040**	**95,729,654**

[4] Central Banks

[5] International Institutions

[6] Rating of the Republic of Macedonia

B Market risk

The National Bank monitors and manages both currency and interest rate risk as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1.1. Currency risk is a risk arising from diminishing the foreign reserves value as a result of change in the exchange rate relations of the currencies in which the foreign reserves are placed and kept. The interest rate risk denotes a risk from reducing the value of the foreign reserves due to the change in the market prices of the instruments in which the foreign reserves are placed as a result of the change in the interest rates and the yields on the international financial markets.

For the purpose of quantifying the market risks effect on the foreign reserves value and the market risk management, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistic methodology for assessing the maximum change in the foreign reserves value arising from changes in the financial instruments prices and change in the foreign exchange rate together with certain level of confidence for particular time framework. The Basle Agreement dating 1998 recommends the banks to apply a level of confidence of 99% in a 10-day interval when calculating VAR. The VAR methodology estimates how much the foreign reserves can reduce as a result of the fluctuation of prices and change in the foreign reserves of the currencies comprising the foreign reserves with a 99% confidence for a 10-day interval. The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange instruments and currencies comprising the foreign reserves at the end of the month. The value of VAR given a level of confidence of 99% denotes the maximum change in the foreign reserves in environment of common market conditions with probability of 99%.

The market risk management is performed by setting quantitative limits for foreign assets exposure that can be acceptable for the National Bank and they are monitored on a daily basis. In December 2008, the exposure of the foreign reserves managed by the National Bank (value exposed to risk) regarding the fluctuations of the prices of the instruments and the foreign exchange rates against the Euro equals MKD 1,338,788,000 (Euro 21,800,000), or 1.46% of the foreign reserves. The VAR originating from the change in the foreign exchange rate (includes change in the price of gold) amounts to MKD 1,024,971,000 (Euro 16,690,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 313,817,000 (Euro 5,110,000).

	31 December 2008	31 December 2007
Currency risk	1,024,971	503,077
Interest rate risk	313,817	70,382
Total VAR	1,338,788	573,459

C Foreign exchange risk

The exchange rates risk denotes a risk of foreign assets value reduction as a result of fluctuations of the foreign exchange rates of the currencies and the monetary gold.

The currency structure of the foreign reserves is determined by the currency structure of the interventions to support the foreign exchange rate of Denar per Euro and by the liabilities of the central bank and government abroad. Consequently, the Euro dominates in the currency structure of the foreign reserves. The share of the US Dollar in the currency structure of the foreign reserves is determined on the basis of the amount necessary for servicing the liabilities to abroad and according the currency structure of foreign trade, denominated in US Dollars.

Having in mind de facto fixed foreign exchange rate of the Denar against the Euro, the exposure to the currency risk of the National Bank to the Euro is minimal, compared to the US Dollar, where there is exposure as a result of its unrestricted fluctuation against the Euro, and thus, to the Denar.

The table below presents the exposure of the National Bank to the foreign exchange risk. The table includes the foreign reserves and liabilities of the National Bank according to their current value as of December 31, 2008, analyzed by currency.

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign assets	76,004,831	15,723,413	95,649	83,986	-	**91,907,879**
Receivable from the government	-	-	562,174	-	734,696	**1,296,870**
Membership with the IMF	-	-	-	-	4,410,718	**4,410,718**
Receivable from banks	-	-	-	-	15,912	**15,912**
Other assets	614	22	-	151	1,289,269	**1,290,056**
Total assets	**76,005,445**	**15,723,435**	**657,823**	**84,137**	**6,450,595**	**98,921,435**
LIABILITIES						
Currency in circulation	-	-	-	-	20,799,162	**20,799,162**
Deposits of banks	-	-	-	-	10,269,501	**10,269,501**
Reserve requirements	9,803,200	-	-	-	17,733	**9,820,933**
National Bank Bills	-	-	-	-	17,450,296	**17,450,296**
Deposit requirement	-	-	-	-	1,529,144	**1,529,144**
Deposits of the government	3,020,542	61,509	-	43,999	11,889,731	**15,015,781**
Restricted deposits	1,130,630	860,793	-	12,144	-	**2,003,567**
Borrowings from IMF	-	-	562,174	-	4,410,718	**4,972,892**
Other deposits	27,941	4,643	-	416	2,801,924	**2,834,924**
Other liabilities	765,424	20,736	-	26,714	1,632,846	**2,445,720**
Total liabilities	**14,747,737**	**947,681**	**562,174**	**83,273**	**70,801,055**	**87,141,920**
Gap analysis	**61,257,708**	**14,775,754**	**95,649**	**864**	**(64,350,460)**	**11,779,515**

The table below summarizes the National Bank's exposure to the currency risk. Included in the table are the Bank’s foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency, as at 31 December 2007:

ASSETS	**EUR**	**USD**	**SDR**	**Other**	**MKD**	**Total**
Foreign assets	79,145,558	15,228,009	95,866	119,916	-	**94,589,349**
Receivable from the government	-	-	551,548	-	712,389	**1,263,937**
Membership with the IMF	-	-	-	-	4,708,063	**4,708,063**
Receivable from banks	-	-	-	-	15,912	**15,912**
Other assets	347	813	-	95	1,138,845	**1,140,100**
Total assets	**79,145,905**	**15,228,822**	**647,414**	**120,011**	**6,575,209**	**101,717,361**
LIABILITIES						
Currency in circulation	-	-	-	-	19,893,323	**19,893,323**
Deposits of banks	-	-	-	-	10,671,843	**10,671,843**
Reserve requirements	7,277,119	-	-	-	17,212	**7,294,331**
National Bank Bills	-	-	-	-	21,040,271	**21,040,271**
Deposits of the government	5,406,203	68,627	-	45,313	16,768,211	**22,288,354**
Restricted deposits	1,206,356	459,192	-	73,256	-	**1,738,804**
Borrowings from IMF	-	-	551,548	-	4,708,063	**5,259,611**
Other deposits	127	185	-	-	2,009,009	**2,009,321**
Other liabilities	364,026	19,793	-	24,213	1,852,721	**2,260,753**
Total liabilities	**14,253,831**	**547,797**	**551,548**	**142,782**	**76,960,653**	**92,456,611**
Gap analysis	**64,892,074**	**14,681,025**	**95,866**	**(22,771)**	**(70,385,444)**	**9,260,750**

D Interest rate risk

The National Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

Since the primary objective of the National Bank is to achieve and maintain price stability, it determines at its own discretion the monetary policy that it will implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability.

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2008 is presented below. It includes the National Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Interest-bearing items						
	Up to 1 month or at variable rate	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Non-interest bearing items**	**Total**
ASSETS							
Foreign assets	12,108,902	2,487,984	59,147,665	8,201,817	-	9,961,512	**91,907,880**
Receivable from the government	-	-	-	-	734,695	562,174	**1,296,869**
Membership with the IMF	-	-	-	-	-	4,410,718	**4,410,718**
Receivables from banks	-	-	-	-	15,912	-	**15,912**
Other assets	-	-	-	-	-	1,290,056	**1,290,056**
Total assets	**12,108,902**	**2,487,984**	**59,147,665**	**8,201,817**	**750,607**	**16,224,460**	**98,921,435**
LIABILITIES							
Currency in circulation	-	-	-	-	-	20,799,162	**20,799,162**
Deposits of banks	9,910,726	-	-	-	-	358,775	**10,269,501**
Reserve requirements	17,733	-	-	-	-	9,803,200	**9,820,933**
National Bank Bills	17,418,257	-	-	-	-	32,039	**17,450,296**
Deposit requirement	1,528,465	-	-	-	-	679	**1,529,144**
Deposits of the government	10,738,713	-	-	-	-	4,277,068	**15,015,781**
Restricted deposits	-	-	-	-	-	2,003,567	**2,003,567**
Borrowings from IMF	562,174	-	-	-	-	4,410,718	**4,972,892**
Other deposits	2,738,116	-	-	-	-	96,808	**2,834,924**
Other liabilities	-	-	-	-	-	2,445,720	**2,445,720**
Total liabilities	**42,914,184**	**-**	**-**	**-**	**-**	**44,227,736**	**87,141,920**
GAP ANALYSIS							
Gap per individual band	**(30,805,282)**	**2,487,984**	**59,147,665**	**8,201,817**	**750,607**	**(28,003,276)**	**11,779,515**
Cumulative gap	**(30,805,282)**	**(28,317,298)**	**30,830,367**	**39,032,184**	**39,782,791**	**11,779,515**	

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2007 was as follows:

	Interest-bearing items						
	Up to 1 month or at variable rate	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**over 5 years**	**Non-interest bearing items**	**Total**
ASSETS							
Foreign assets	38,724,757	16,984,668	27,541,077	7,584,793	-	3,754,054	**94,589,349**
Receivable from the government	-	-	-	-	712,389	551,548	**1,263,937**
Membership with the IMF	-	-	-	-	-	4,708,063	**4,708,063**
Receivables from banks	-	-	-	-	15,912	-	**15,912**
Other assets	-	-	-	-	-	1,140,100	**1,140,100**
Total assets	**38,724,757**	**16,984,668**	**27,541,077**	**7,584,793**	**728,301**	**10,153,765**	**101,717,361**
LIABILITIES							
Currency in circulation	-	-	-	-	-	19,893,323	**19,893,323**
Deposits of banks	8,435,907	-	-	-	-	2,235,936	**10,671,843**
Reserve requirements	17,212	-	-	-	-	7,277,119	**7,294,331**
National Bank Bills	20,995,322	-	-	-	-	44,949	**21,040,271**
Deposits of the government	19,841,467	-	-	-	-	2,446,887	**22,288,354**
Restricted deposits	-	-	-	-	-	1,738,804	**1,738,804**
Borrowings from IMF	551,548	-	-	-	-	4,708,063	**5,259,611**
Other deposits	1,857,121	-	-	-	-	152,200	**2,009,321**
Other liabilities	-	-	-	-	-	2,260,753	**2,260,753**
Total liabilities	**51,698,577**	**-**	**-**	**-**	**-**	**40,758,034**	**92,456,611**
GAP ANALYSIS							
Gap per individual band	**(12,973,820)**	**16,984,668**	**27,541,077**	**7,584,793**	**728,301**	**(30,604,269)**	**9,260,750**
Cumulative gap	**(12,973,820)**	**4,010,848**	**31,551,925**	**39,136,718**	**39,865,019**	**9,260,750**	

E Liquidity risk

Liquidity risk is the risk that insufficient liquid currency funds will be available to the National Bank in order to perform its normal operations. The main objective of the National Bank in managing the liquidity risk is explained in Note 1.1.

The criterion of liquidity is provided by placement of foreign reserves in short-term deposits and investment in debt securities on deep and liquid secondary markets. The National Bank manages the liquidity risk by determining and maintaining the size and deviation bands of the liquidity portfolio at levels sufficient for conducting monetary and foreign exchange policy, as well as for timely and regular payments on behalf of the Government of the Republic of Macedonia. The size and the deviation bands of the liquidity portfolio in Euros and US dollars are determined once a year by anticipating the monthly and annual needs for liquid instruments in each currency. The maximum maturity of the instruments in the liquidity portfolio is two weeks. Availability of foreign reserves liquidity is not confined to the liquidity portfolio, but also investments in debt securities are of sufficient liquidity.

Regarding liabilities in domestic currency, the National Bank is not exposed to this risk due to its central bank character.

The table below presents the cash flows payable by the National Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the National Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

31 December 2008	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	20,799,162	-	-	-	-	**20,799,162**
Deposits of banks	358,775	-	9,910,726	-	-	**10,269,501**
Reserve requirements	-	-	9,820,933	-	-	**9,820,933**
National Bank Bills	17,450,296	-	-	-	-	**17,450,296**
Deposit requirement	1,529,144	-	-	-	-	**1,529,144**
Deposits of the government	15,015,781	-	-	-	-	**15,015,781**
Restricted deposits	208,816	718,160	1,076,591	-	-	**2,003,567**
Borrowings from IMF	4,972,892	-	-	-	-	**4,972,892**
Other deposits	2,834,924	-	-	-	-	**2,834,924**
Other liabilities	1,272,149	1,161,353	12,218	-	-	**2,445,720**
Total liabilities (contractual maturity dates)	**64,441,939**	**1,879,513**	**20,820,468**	**-**	**-**	**87,141,920**

31 December 2007	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	19,893,323	-	-	-	-	**19,893,323**
Deposits of banks	2,235,937	-	8,435,906	-	-	**10,671,843**
Reserve requirements		-	7,294,331	-	-	**7,294,331**
National Bank Bills	21,073,200	-	-	-	-	**21,073,200**
Deposits of the government	22,288,354	-	-	-	-	**22,288,354**
Restricted deposits	394,214	368,126	976,464	-	-	**1,738,804**
Borrowings from IMF	5,259,611	-	-	-	-	**5,259,611**
Other deposits	2,009,321	-	-	-	-	**2,009,321**
Other liabilities	962,059	1,288,761	9,933	-	-	**2,260,753**
Total liabilities (contractual maturity dates)	**74,116,019**	**1,656,887**	**16,716,634**	**-**	**-**	**92,489,540**

F Fair value

Fair value represents the amount at which an asset could be replaced or a liability settled on an arms length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not carried at fair value.

	Carrying value		Fair value	
	2008	**2007**	**2008**	**2007**
Financial assets				
Foreign securities, held to maturity	-	92,331	-	92,358
Foreign equity securities, carried at cost	36,064	35,382	36,064	35,382
Government securities	734,696	712,389	734,696	712,389
Loans to banks	15,912	15,912	15,912	15,912
Financial liabilities				
Currency in circulation	20,799,162	19,893,323	20,799,162	19,893,323
Bank deposits	10,269,501	10,671,843	10,269,501	10,671,843
Reserve requirement of banks and saving houses	9,820,933	7,294,331	9,820,933	7,294,331
National Bank bills issued	17,450,296	21,040,271	17,450,296	21,040,271
Deposit requirement of banks and saving houses	1,529,144	-	1,529,144	-
Government MKD deposit -	11,889,731	12,170,661	11,889,731	12,170,661
Treasury Bills for monetary purposes	-	4,597,550	-	4,597,550
Government foreign currency deposits	3,126,050	5,520,143	3,126,050	5,520,143
Payables to IMF	4,972,892	5,259,611	4,972,892	5,259,611
Other and restricted deposits	4,838,491	3,748,125	4,838,491	3,748,125

Financial assets

The fair value for foreign securities held to maturity is based on quoted market prices, at the balance sheet date.

As explained in Note 17, included in available-for-sale securities are BIS shares with a value of MKD 36,064,000 (2007: MKD 35,382,000), for which fair value cannot be reliably determined and therefore they are carried at cost. However, due to the specific role of BIS, fair value of these shares is considered to approximate their carrying value.

Government securities include bonds issued by the Government of the Republic of Macedonia for specific purposes – recovery of one bank. Due to the fact that these bonds are not listed and in addition, there are no other similar instruments with similar characteristics, the National Bank's management believes that the fair value of these securities approximates their carrying value.

Loans to banks are carried at amortized cost and are net of provisions for impairment. These types of loans were granted with the same interest rate and there are no other similar loans with similar characteristics. Therefore their fair value approximates their carrying value.

Financial liabilities

The fair value of currency in circulation is considered to be its face value.

The fair values of deposits carried at amortized cost, are considered to approximate their carrying values.

The fair value of the National Bank bills issued approximates the carrying value due to their short-term nature.

Due to the specific role of IMF holdings, SDR allocation and borrowings, fair values do not differ from their carrying amounts.

4 Critical accounting estimates, and judgments in applying accounting policies

The National Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment of available for sale equity investments

The National 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 decline requires judgment. In making this judgment, the National Bank evaluates among other factors, the volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee industry, changes in technology, or decrease in the operational and financing cash flows.

(b) *Held-to-maturity investments*

The National Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the National Bank evaluates its intention and ability to hold such investments to maturity. If the National Bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value, and not at amortized cost.

5 Interest income

	Loans granted	Deposits	Securities	Total December 31, 2008	Total December 31, 2007
Government	-	-	22,307	**22,307**	41,387
Domestic banks	252	-	-	**252**	286
Foreign entities	-	773,160	2,687	**775,847**	2,453,914
Other	49	-	-	**49**	2,694
Total for 2008	**301**	**773,160**	**24,994**	**798,455**	**2,498,281**
Total for 2007	2,980	2,447,686	47,615	2,498,281	-

6 Interest expense

	Loans received	Deposits received	Securities issued	Total December 31, 2008	Total December 31, 2007
Government	-	231,023	-	**231,023**	593,774
Domestic banks	-	225,302	1,358,454	**1,583,756**	868,674
Foreign entities	-	-	-	**-**	41,142
Total for 2008	**-**	**456,325**	**1,358,454**	**1,814,779**	**1,503,590**
Total for 2007	41,142	753,560	708,888	1,503,590	-

7 Fee income

	2008	2007
Fees from providing cash to banks	60,457	52,864
Fees based on settlement of payments (RTGS)	50,419	43,867
Fees from domestic banks for maintaining account based on debt turnover on account	52,641	43,018
Fees from sale of administrative and court government stamps	18,521	18,922
Fees from compensation for activities related to custodian of pension funds	9,962	10,062
Fees from administering foreign credit lines	2,197	5,605
Fees from foreign exchange operating	15,750	13,596
Fees from purchasing a right for purchasing foreign currency	-	97,560
Other fees	15,680	15,421
Total	**225,627**	**300,915**

The revenues based on fees from providing cash to banks, settlement of the payments through RTGS and fee for debt turnover on the account relate to services that the National Bank provides to domestic banks and other account holders in RTGS.

The fees originating from sale of administrative and court government stamps pertain to the registered income from sale of administrative and court government stamps belonging to the National Bank, in accordance with the concluded agreement with the Ministry of Finance regulating the activities for their printing and distribution.

With the introduction of the second pension pillar in the Republic of Macedonia in January 2006, the National Bank has become a custodian of pension funds, thus earning monthly fees of 0.4% of the total paid-in contributions (0.7% until April 2007).

The fees from foreign exchange operations refer to the registered income from sale of foreign currency to government bodies and conducting operations for the Government in the international payment operations.

The amount of the fees that National Bank charges are regulated in the Decision on the single tariff for compensations for services provided by the National Bank adopted by the National Bank Council, as well as by individual agreements concluded with certain government bodies.

8 Fee expense

	2008	**2007**
Fees to foreign banks	7,427	6,624
Other fees to domestic banks	-	4
Total	**7,427**	**6,628**

The fees paid to foreign banks refer to executed transactions with National Bank deposits and other foreign exchange transactions with foreign banks.

9 Net unrealized exchange and fair value differences

	2008	**2007**
Unrealized positive exchange rate differences	3,217,123	1,000,891
Unrealized negative exchange rate differences	(2,544,590)	(1,838,813)
Unrealized positive exchange rate and price differences from gold	5,618,800	2,588,071
Unrealized negative exchange rate and price differences from gold	(5,000,039)	(1,427,335)
Total	**1,291,294**	**322,814**

10 Net income from trading securities

	2008	2007
Realized profit from trading securities sold	289,059	212,564
Realized losses from trading securities sold	(6,583)	(505)
Interest income on trading securities	2,045,850	567,920
Unrealized positive price changes from trading securities	1,177,896	221,251
Unrealized negative price changes from trading securities	(4,206)	(3,734)
Total	**3,502,016**	**997,496**

11 Other operating income

	2008	2007
Realized positive exchange rate differences, net	96,640	80,654
Income based on dividend from BIS	7,228	7,521
Income based on sale of jubilee coins	1,056	1,065
Other income	54,616	82,334
Income based on grants	-	18,113
Total	**159,540**	**189,687**

The realized positive exchange rate differentials, net arise from purchase and sale of foreign currency with domestic banks, arbitrage operations with foreign banks, as well as from the spread between middle and ask rate when selling foreign currency to the government bodies for the purpose of executing international foreign exchange payments.

12 Staff expenses

	2008	2007
Wages and personal income tax	203,296	183,198
Pension cost – defined contribution plans	62,363	56,357
Required contributions	34,385	30,992
Other staff expenses	28,783	26,650
Total	**328,827**	**297,197**

In 2008, the remuneration of the key management of the National Bank was MKD 11,530,000 (2007: MKD 10,036,000), included in ‘Staff expenses’ above.

13 Other expenses

	2008	2007
Services	63,442	77,182
Costs of production of banknotes and coins	87,625	61,075
Material expenses	29,138	23,156
Other administrative expenses	18,720	14,357
Other expenses	5,891	2,908
Total	**204,816**	**178,678**

The costs of banknote and coin manufacture mainly relate to imported banknotes or imported special banknote printing paper, and materials purchased for minting coins. The banknote printing is made by private domestic or foreign manufacturers, and the coin minting is made by the National Bank. The National Bank applies a policy of differentiating the costs of manufacture of banknotes and coins over the period of their use.

14 Provisions and write offs

	Note	2008	2007
Released provisions related to lawsuits with insurance companies	41	(16,227)	-
(Release)/charge for provisions related to lawsuits with banks	41	(79,101)	32,662
Released provisions for receivables from banks	16	(39,161)	(36,317)
(Release)/charge provisions for receivables from other receivables	24	(1,600)	1,600
Charge/(Release) provisions for other assets	29	837	(6,086)
Provisions for receivables from employees	29	-	37,590
Provisions related to lawsuits with other entities	41	5,844	-
Other provisions	29	185	3,170
Total		**(129,223)**	**32,619**

15 Foreign currencies

Foreign currencies are cash foreign currency and checks held in the National Bank vault. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 44).

16 Foreign currency deposits

	2008	**2007**
Foreign currency sight deposits	11,775,454	11,564,337
Foreign currency term deposits	2,509,537	43,688,766
Provisions	-	(392,175)
Included in the cash and cash equivalents (Note 44)	**14,284,991**	**54,860,928**
Restricted accounts	273,863	984,955
Total	**14,558,854**	**55,845,883**

The deposits bear interest at rates contingent upon the deposit currency and were within the following range for the respective deposits:

Interest rate type	31 December 2008	31 December 2007
- overnight deposits in USD	1.66%	4.84%
- Euro overnight deposits	3.76%	3.76%
- time deposits in USD	1.05%	5.19%
- time deposits in EUR	3.83%	3.89%

Foreign currency deposits include accrued interest of MKD 21,553,000 (2007: MKD 196,942,000).

Sight deposits include deposits which until the end of January 2008 were pledged as a security for a guarantee in favor of a foreign bank under liquidation. These sight deposits were a condition for releasing National Bank deposits in this bank. For this purpose National Bank has reflected provisions for possible losses which cover 20% of the value of deposits which were released.

The National Bank has made a subordinated loan with the same bank of USD 5 million (as of December 31, 2007 MKD equivalent of MKD 208,282,000) which matured in 2002, and was fully provisioned. According to information provided by the bankruptcy trustees the liquidation process is in the final stage and consequently the subordinated loan was written off.

The movements in provision for losses in restricted deposits and in the subordinated deposit were as follows:

	2008	2007
Balance as at 1 January	**392,175**	**428,492**
Released provision (Note 14)	(39,161)	(36,317)
Write off	(353,014)	-
Balance as at 31 December	**-**	**392,175**

Released provisions include release based on foreign exchange differences as result of writing off the subordinated loan and differences between actual and calculated provision for the released deposits.

Foreign currency deposits by type of entity

	2008	2007
International financial institutions	6,249	78,901
Central banks	14,142,829	52,073,117
Foreign commercial banks	409,776	4,086,040
Total	**14,558,854**	**56,238,058**
Provisions	-	(392,175)
Total	**14,558,854**	**55,845,883**

The provision pertains to deposits in foreign commercial banks.

Foreign currency deposits by geographic location

	2008	2007
Europe	14,034,538	55,701,060
America	473,228	507,999
Other	51,088	28,999
Total	**14,558,854**	**56,238,058**
Provisions for deposits in Europe	-	(392,175)
Total	**14,558,854**	**55,845,883**

17 Foreign securities

The National Bank has investments in foreign debt securities and foreign equity securities. The investments in foreign debt securities are classified as securities held to maturity and trading securities.

	2008	2007
Securities held to maturity	**-**	**92,331**
3.5% annual Euro-denominated government note maturing October 2008	-	92,331
Trading securities	**68,456,451**	**30,849,757**
Foreign debt securities	68,456,451	30,849,757
Securities available for sale	**36,064**	**35,382**
Foreign equity securities	36,064	35,382
Total	**68,492,515**	**30,977,470**
Current	68,456,451	30,850,477
Non-current	36,064	126,993

The trading securities portfolio contains high quality debt securities. The investments in trading securities marked to market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 1.75% and 4.625% p.a. (2007: from 2% to 5.125%). Foreign trading securities include accrued interest of MKD 1,135,848,000 (2007: MKD 429,420,000).

The equity securities are composed of ordinary BIS shares with a nominal value of 5,000 SDR per share (paid up at 25% of their nominal value).

18 Gold

	2008	2007
Gold in the NBRM vault	15,204	14,060
Sight gold deposits	7,885	7,292
Term gold deposits	8,211,439	7,594,059
Total	**8,234,528**	**7,615,411**
Current	23,089	21,352
Non-current	8,211,439	7,594,059

As of December 31, 2008, the National Bank total gold reserves stood at 218,281.468 ounces (2007: 218,281.468 ounces) at a market value of US Dollar 865.00 (MKD 37,680) per ounce (2007: US Dollar 836.50 or MKD 34,846 per ounce). Interest rates on term gold deposits for 2008 equal: 0.535% and 0.57% p.a. on gold deposits based on the price of gold in EUR and 0.31% on gold deposits based on the price of gold in USD (2007: 0.535% and 0.57% p.a. on gold deposits based on the price of gold in EUR and 0.31% on gold deposits based on the price of gold in USD). Term gold deposits include accrued interest of MKD 9,622,000 (2007: MKD 9,266,000).

19 Special Drawing Rights (SDR)

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2008, the basic rate ranged from 1.85% to 3.50% p.a. (2007: from 3.79% to 4.38% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 44).

20 Receivables from Government related to IMF

	2008	**2007**
Receivable related to SDR allocation	562,174	551,548
Total	**562,174**	**551,548**
Current	562,174	551,548

The receivable related to the SDR allocation with the IMF resulting from the correspondent requirement for the Macedonian portion of the liability to the IMF for SDR, according to the Law on Legal Inheritance of the Republic of Macedonia of the Membership in the IMF (see Note 38a).

21 Government securities

	2008	**2007**
Securities held to maturity		
Bond for selective credits	734,696	712,389
Total	**734,696**	**712,389**
Non-current	734,696	712,389

The bond for selective credits held to maturity, is a security issued on behalf and for the account of the Republic of Macedonia, on the basis of the provisions of the 1995 Law on Reconstruction and Rehabilitation of a portion of the banks in the Republic of Macedonia.

The bond for selective credits, which becomes due for the whole amount in April 2020 is in a nominal amount of MKD 1,039,318,000 and is non-interest bearing. For the purposes of the IFRS, this bond is valued at fair value of the funds it was acquired with and is amortized to the maturity of the bond.

22 IMF Membership

According to the IMF Statute, ratified by the Parliament of the Republic of Macedonia and the Law on the Legal Inheritance of the Republic of Macedonia of the Membership in the International Monetary Fund, the National Bank acts as a fiscal agent of the Republic of Macedonia and simultaneously behaves as a depositary of the IMF in the Republic of Macedonia. As such, the National Bank keeps records of the quota of the Republic of Macedonia for membership with the IMF and of the account no.1 and the account no.2. The quota of the Republic of Macedonia for membership with the IMF stands at MKD 4,399,562,000 at the end of 2008, the account No. 1 amounts to MKD 11,062,000 and account No. 2 is valued at MKD 130,000. (2007: MKD 4,696,154,000, MKD 11,770,000 and MKD 139,000 respectively for the three positions, see note 38c). The changes are due to the evaluation of these positions by the SDR exchange rate on April 30, according to the IMF financial year.

23 Loans to banks

	2008	2007
Long-term loans from the conversion of the selective credits:		
1996	15,912	15,912
Total	**15,912**	**15,912**
Non-current	15,912	15,912

These loans originate from the restructuring of the so called selective credits of the National Bank used for refinancing of mainly agricultural loans of the banks in the former SFRY. The loans converted in 1996 mature on March 31, 2020. All selective loans bear annual interest of 1.5%, which becomes due semiannually.

24 Other receivables

	2008	2007
Receivable from bank under bankruptcy	1,034,569	1,034,569
Due auction deposits	9,268	9,268
Receivables from bank under liquidation	-	1,600
Total	**1,043,837**	**1,045,437**
Provision	(1,043,837)	(1,045,437)
Total	-	-

In January 2004, the National Bank paid out MKD 1,018,258,000 to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank reflected a receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The National Bank has receivables on the basis of guarantees granted by the bank under bankruptcy worth MKD 1,034,569,000. The National Bank fully provisioned the receivables from the bank under bankruptcy during the preceding years. The bankruptcy process is still underway.

Overdue receivables from banks also related to auction deposits of one bank not repaid on time. In 1999, a bankruptcy proceeding was initiated against this bank which is still underway. National Bank fully provisioned the receivables from the bank under bankruptcy during the preceding years.

Receivables from bank under liquidation represent transfer from long-term loans from the conversion of the selective credits granted to a bank. These long-term loans were maturing in the forthcoming years and the amounts of the receivable were fully provisioned at 31 December 2007. In April 2008 the receivables from the bank under liquidation were paid off, under which the provision was fully released worth MKD 1,600,000.

25 Property and equipment

	Land and buildings	Furniture, equipment and vehicles	Works of art	Investments in progress	Total assets for business purposes	Property and equipment for entertainment purposes	Total
On January 1, 2007							
Cost	860,965	406,055	53,735	14,001	1,334,756	35,699	1,370,455
Accumulated depreciation	(133,717)	(322,027)	-	-	(455,744)	(11,116)	(466,860)
Net book amount	**727,248**	**84,028**	**53,735**	**14,001**	**879,012**	**24,583**	**903,595**
On January 1, 2007, net of accumulated depreciation	**727,248**	**84,028**	**53,735**	**14,001**	**879,012**	**24,583**	**903,595**
Additions	3,859	24,633	4,919	6,237	39,648	-	39,648
Write offs	-	(30)	-	-	(30)	-	(30)
Transfers	861	(10)	-	(861)	(10)	10	-
Depreciation for the year	(15,961)	(27,011)	-	-	(42,972)	(2,446)	(45,418)
On December 31, 2007	**716,007**	**81,610**	**58,654**	**19,377**	**875,648**	**22,147**	**897,795**
On December 31, 2007							
Cost	865,685	426,548	58,654	19,377	1,370,264	36,058	1,406,322
Accumulated depreciation	(149,678)	(344,938)	-	-	(494,616)	(13,911)	(508,527)
Net book amount	**716,007**	**81,610**	**58,654**	**19,377**	**875,648**	**22,147**	**897,795**

25 Property and equipment (continued)

	Land and buildings	Furniture, equipment and vehicles	Works of art	Investments in progress	Total assets for business purposes	Property and equipment for entertainment purposes	Total
On January 1, 2008							
Cost	865,685	426,548	58,654	19,377	1,370,264	36,058	1,406,322
Accumulated depreciation	(149,678)	(344,938)	-	-	(494,616)	(13,911)	(508,527)
Net book amount	**716,007**	**81,610**	**58,654**	**19,377**	**875,648**	**22,147**	**897,795**
On January 1, 2008, net of accumulated depreciation	**716,007**	**81,610**	**58,654**	**19,377**	**875,648**	**22,147**	**897,795**
Additions	9,190	70,408	4,209	19,151	102,958	-	102,958
Write offs	-	(31)	(29)	-	(60)	(481)	(541)
Transfers	350	-	-	(350)	-		-
Depreciation for the year	(24,278)	(31,847)	-	-	(56,125)	(1,120)	(57,245)
On December 31, 2008	**701,269**	**120,140**	**62,834**	**38,178**	**922,421**	**20,546**	**942,967**
On December 31, 2008							
Cost	875,089	453,833	62,834	38,178	1,429,934	34,904	1,464,838
Accumulated depreciation	(173,820)	(333,693)	-	-	(507,513)	(14,358)	(521,871)
Net book amount	**701,269**	**120,140**	**62,834**	**38,178**	**922,421**	**20,546**	**942,967**

Property and equipment for entertainment purposes consists of two buildings and fixtures and fittings within the buildings.

As a part of the reforms of the payment system, in 2001, the National Bank took over the function for supplying with cash from the former Payment Operations Bureau (POB), and a part of the buildings, equipment and the furniture of the POB related to such function in ten towns throughout Macedonia. These fixed assets were transferred under National Bank's possession and currently are used and maintained by the National Bank. The National Bank made capital improvements shown as a part of investments in progress in the table above. Since the competent bodies have not yet made a final decision on the POB closing balance sheet and on the succession of the assets, the National Bank still has not got any legal title of this property. Therefore, no assessment has been made of the value of this property, and hence, they are not recorded in the financial statements of the National Bank.

26 Intangible assets

	2008	2007
At 1 January		
Cost	119,450	96,823
Investment in progress	129	-
Accumulated amortization	(88,680)	(65,476)
Net book amount	**30,899**	**31,347**
Year ended December		
Opening net book amount	30,899	31,347
Additions	19,242	22,627
Amortization charge	(12,943)	(23,204)
Investments in progress	3,841	129
Closing net book amount	**41,039**	**30,899**
At 31 December		
Cost	138,229	119,450
Investments in progress	3,841	129
Accumulated amortization	(101,031)	(88,680)
Net book amount	**41,039**	**30,899**

27 Jubilee coins

The jubilee coins are gold and silver coins which, as defined by the decision of the Government, were manufactured for the purposes of celebrating jubilees relevant for the country. On December 31, 2008, the National Bank held a total of 7,784 gold coins and 254 silver coins (2007: 7,889 gold coins and 324 silver coins). The jubilee coins in the National Bank vault are intended for sale.

28 Receivables

Receivables consist of receivables based on compensations and fees for services provided by the National Bank and receivables for maintenance of premises and other receivables:

	2008	2007
Fees	23,705	18,698
Receivables for maintenance of premises	4,518	2,962
Total	**28,223**	**21,660**

29 Other assets

	2008	2007
Prepaid expenses of printing banknotes	178,139	80,582
Other prepaid expenses	3,771	1,366
Office and other materials	8,142	10,835
Other assets	444	8,244
Other receivables	418,615	426,485
Impairment for other receivables	(418,615)	(426,485)
Total	**190,496**	**101,027**
Current	182,354	90,192
Non-current	8,142	10,835

The movements in provision for other assets are as follows:

	2008	2007
Balance as at 1 January	**426,485**	**381,355**
Increase / (Decrease) of provisions (Note 14)	837	(6,086)
Increase of provisions (Note 14)	-	37,590
Increase of other provisions (Note 14)	185	3,170
(Write off) / increase of doubtful and contested receivables	(8,892)	10,456
Balance as at 31 December	**418,615**	**426,485**

30 Currency in circulation

The liabilities of the NBRM based on currency in circulation are the following:

Currency in circulation	MKD	**2008**	**2007**
Coin in denomination of	0.5	1,609	1,603
Coin in denomination of	1	64,900	58,972
Coin in denomination of	2	84,540	74,765
Coin in denomination of	5	139,377	124,316
Note in denomination of	10	267,737	250,374
Note in denomination of	50	298,729	291,327
Note in denomination of	100	1,032,167	993,212
Note in denomination of	500	3,591,738	3,781,417
Note in denomination of	1000	14,776,220	13,696,327
Note in denomination of	5000	542,145	621,010
Currency in circulation		**20,799,162**	**19,893,323**

31 Bank deposits

The liabilities based on deposits to banks reflect the balances on the banks' accounts with the National Bank for settling payment transactions. The funds on the banks' accounts are included in the fulfillment of the banks' MKD reserve requirement, to which the National Bank pays remuneration in a specified percentage (see Note 32).

32 Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD

	2008	2007
Savings houses' MKD reserve requirement	17,732	17,212
Banks' foreign exchange reserve requirement	9,803,201	7,277,119
Total	**9,820,933**	**7,294,331**
Current	9,820,933	7,294,331

As specified by the regulations, the banks are obliged to fulfill the reserve requirement in both MKD and in foreign currency.

National Bank pays MKD reserve requirement remuneration of 2% to the average allocated funds on each bank's account in the period of fulfillment (2007: 2%). Since January 2005, the National Bank has not been paying any remuneration for the foreign exchange reserve requirement.

As specified by the regulations, the savings houses are obliged to fulfill the MKD reserve requirement. The reserve requirement of the savings houses is fulfilled at a fixed level. The National Bank pays reserve requirement remuneration to the savings houses at reserve requirement remuneration rate in MKD of the banks.

33 National Bank bills issued

In 2008, the National Bank bills maturity was 28 days. At the National Bank bills auctions, an interest rate tender was applied, which, since February 2008, has been replaced by the volume tender with predefined interest rate. The interest rates on the CB bills auctions registered an upward trend from 4.89% -7.00% (in 2007, interest rate tender, interest rates from 5.71%-4.77%). The National Bank bills issued include accrued interest of MKD 32,038,000 (2007: MKD 44,949,000).

34 Deposit requirement of banks and savings houses

	2008	2007
Banks' deposit requirement	1,529,144	-
Total	**1,529,144**	**-**
Current	1,529,144	-

Since August 2008, banks and saving houses are obliged to allocate deposit requirement with the National Bank. The allocation of the deposit requirement is carried out on the monthly basis, for the amount the banks and the saving houses would possibly exceed the set monthly growth rate of the credits to the households sector prescribed with the regulations. National Bank pays interest on the deposit requirement of banks and saving houses at an interest rate 1% p.a. Deposit requirement of banks include accrued interest of MKD 679,000.

35 Government MKD deposits

The National Bank performs deposit operations for the government and the government administration bodies, as defined by the Law on the National Bank.

	2008	2007
Single Treasury account	9,611,359	9,310,218
Other MKD deposits	2,278,372	2,860,443
Special deposit - Treasury bills for monetary policy purposes	-	4,597,550
Total	**11,889,731**	**16,768,211**
Current	11,889,731	16,768,211

In 2008, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1.0 % p.a. (2007: 1.0% p.a.). Government deposits include the accrued undue interest in the amount of MKD 12,485,000 (2007: MKD 16,462,000).

Since second quarter of 2008, National Bank ceased offering the treasury bills for monetary policy purposes.

36 Government foreign currency deposits

As specified by the Law on the National Bank of the Republic of Macedonia and the Foreign Exchange Operations Law, the National Bank is an agent of the government for performing international payment operations. The Central Government bodies and part of the public funds deposit their foreign currency inflows on foreign exchange accounts with the National Bank, only if the opening of such account is formally approved by the

Ministry of Finance. On December 31, 2008, these deposits amounts were MKD 3,126,050,000 (2007: MKD 5,520,143,000). In the 2008, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2007: 0.7% p.a.).

Until October 2008, the foreign currency deposits included the government deposits based on principal and interest from the commercial bank’s participation in the credit lines administered through the Apex Unit established at the National Bank. In November 2008, administrations of these credit lines are transferred to the Ministry of Finance (2007: MKD 454,481,000). The National Bank does not pay interest on these deposits.

37 Restricted deposits

The restricted deposits primarily include foreign assets of depositors (government) pending the completion of wire transfers abroad and funds of depositors (government) which represent 100% cover of a letter of credit issued by the National Bank for their account. The National Bank does not pay interest on these deposits.

38 Payables to IMF

Payables to IMF comprise the liabilities on the basis of net cumulative allocation, borrowings and liabilities on the basis of membership and IMF deposits.

a) Special Drawing Rights Allocation

By a decision of the IMF's Executive Board of December 14, 1992, Macedonia took over 5.4% of the liability on the basis of the net SDR allocation from former Yugoslavia of SDR 8,378,694, in accordance with the Law on legal succession of the membership of the Republic of Macedonia in the IMF.

According to the IMF Statute, the liability for the SDR allocation falls due for collection only in the case and in the amount of the cancelled previous SDR allocation, which requires a decision of the Council of IMF Governors, with 85% majority of votes, or in case of canceling the participation in the SDR Department within the framework of the IMF.

National Bank pays interest on the existing share of the liability on the basis of the SDR allocation, at the basic interest rate of the IMF, and since 2005, it has been refunded from the Budget of the Republic of Macedonia.

b) Payables based on membership and deposits (see Note 22):

	2008	2007
Liabilities on the basis of issued promissory note for membership in the IMF	4,399,562	4,696,154
Liabilities on the basis of account 1	11,026	11,770
Liabilities on the basis of account 2	130	139
Total	**4,410,718**	**4,708,063**
Current	4,410,718	4,708,063

39 Other deposits

	2008	2007
Liabilities on the basis from MKD deposits to other domestic entities	2,826,839	2,006,574
Liabilities on the basis from MKD deposits to international financial institutions	8,085	2,747
Total	**2,834,924**	**2,009,321**
Current	2,834,924	2,009,321

Liabilities based on MKD deposits from other domestic entities comprise brokerage houses' client accounts, the Central Depository of Securities account and the Deposit Insurance Fund account. The brokerage houses' client accounts and the Central Depository of Securities account are settlement accounts arising from securities transactions. National Bank does not pay any interest on these deposits. The account of the Deposit Insurance Fund is maintained at the National Bank as required by the Deposit Insurance Law. National Bank pays interest to the Deposit Insurance Fund of 0.85% per annum (2007: 0.85% per annum).

The accounts of the international financial institutions are deposited with the National Bank. National Bank pays no interest on these deposits.

40 Other payables

Payables are analyzed as follows:

	2008	2007
Payables from appropriation of net income	1,161,353	1,288,761
Liabilities from BNT bankruptcy	148,450	148,450
Payables arising from annuities received from sale of socially-owned flats	2,887	14,982
VAT	446	825
Other payables	11,935	9,554
Total	**1,325,071**	**1,462,572**

Payables from appropriation of net income relate to appropriation of net income, which is due to the Budget of the Republic of Macedonia, in accordance with the provisions of the Law on the National Bank.

Payables arising from the bankruptcy of the Bank for Foreign Trade (BNT) pertain to inherited payables of the National Bank on the basis of households' deposits present at the moment when the bank was declared bankrupt in 1995, in the amount of MKD 292,442,000. For the purpose of settlement of such liabilities, National Bank received certain property from the bankruptcy estate of the BNT that was immediately transferred to the government of the Republic of Macedonia without any compensation.

Payables arising from annuities received from the sale of socially-owned flats represent liabilities to the central budget of the Republic of Macedonia for outstanding MKD equivalent of foreign currency inflows from installments received from sale of socially-owned flats to their residents. The annuities received from residents are collected by the commercial banks and transferred to a special forex account of the Budget of the Republic of Macedonia held at the National Bank. The foreign exchange collected this way is transferred to National Bank and accumulated in a special account, with the MKD denomination being transferred to the government on a weekly basis.

41 Provisions

	2008	2007
Provisions for potential liabilities based on litigations with banks	183,498	262,599
Provisions for potential liabilities based on litigations with insurance companies	-	16,227
Provisions for potential liabilities based on litigations with other entities	5,844	-
Total	**189,342**	**278,826**

Provisions for potential liabilities on the basis of litigations pertain to the amount of principal and interest the National Bank expects to be obliged to pay out to the commercial banks (due to non-execution of a payment instrument for a bank in bankruptcy) and legal entities which instituted proceeding against the National Bank (see Note 14).

The movements in provisions for potential liabilities based on litigation were as follows:

	2008	2007
Balance as at 1 January	**278,826**	**246,164**
Released provisions related to lawsuits with insurance companies	(16,227)	-
(Released) / additional provisions for potential liabilities based on litigations with banks	(79,101)	32,662
Additional provisions for potential liabilities based on litigation with other entities	5,844	-
Balance as at 31 December	**189,342**	**278,826**

42 Other liabilities

	2008	2007
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	436,219	399,951
Jubilee coins counterpart	77,061	78,118
Deferred income	17,454	22,374
Equity payments pending operational license	383,827	-
Liabilities to suppliers and other liabilities	16,746	18,912
Total	**931,307**	**519,355**

Liabilities for deposited funds on the basis of confiscated foreign currencies and deposited guarantees represent deposited foreign currency holdings of legal entities and natural persons that are confiscated by the competent government bodies as a mandatory measure. The competent government bodies pressed charges against those legal entities and natural persons, with the competent courts. Depending on the court decision, these foreign currencies are either returned to the original holder or transferred to the Budget of the Republic of Macedonia. The National Bank pays no interest on these funds.
Equity payments pending operational license include deposits related to a license application to the Ministry of Finance for an insurance company license, made in accordance with the Insurance Supervision Law. National Bank does not pay interest on these funds.
Jubilee coins counterpart arises as a result of the accounting policy for jubilee coins (see Note 2O and 27).

43 Capital and reserves

Capital

The National Bank's capital is defined in the Law on the National Bank and as of December 31, 2008, it amounted to MKD 1,289,789,000 (2007: MKD 1,289,789,000).

General reserves

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the special reserves, 70% of the remaining income is transferred to the general reserves until the level of initial capital of the National Bank is reached. After the initial capital is reached, 15% of the remaining income was transferred to the general reserves, while the remaining share is transferred to the Budget of the Republic of Macedonia. The general reserves are utilized to cover the general risks related to National Bank operations.

Special reserves

	2008	2007
Special reserves from unrealized exchange rate and price changes		
o Special reserves from foreign exchange gains	3,250,785	2,578,252
o Special reserves from price and exchange rate changes of gold	4,284,715	3,665,954
o Special reserves from price changes of securities for trading	1,244,372	221,846
Total	**8,779,872**	**6,466,052**

Special reserves represent accumulated net unrealized positive foreign exchange gains and price changes from periodic exchange rate revaluations of foreign exchange assets and liabilities, which serve as a reserve against potential future adverse movements in exchange rates and prices.

Special reserves from foreign exchange gains from foreign exchange assets and liabilities for 2008 are increased by MKD 672,533,000 on the basis of allocation of the net positive unrealized foreign exchange gains (2007: net negative foreign exchange losses of MKD 837,921,000 were covered from the Special reserves).

Special reserves from price and exchange rate changes of gold for 2008 are increased by MKD 618,761,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold. (2007: MKD 1,160,736,000).

Special reserves from price changes of securities for trading are increased by MKD 1,177,896,000 on the basis of allocation of the net unrealized positive price changes of securities for trading according to the security-by-security principle. Special reserves on the basis of the realized price changes from securities in the amount of MKD 155,370,000 were allocated to the general reserves and the Budget of the Republic of Macedonia.

44 Cash and cash equivalents

	2008	2007
Foreign currency deposits (Note 16)	14,284,991	54,860,928
Foreign currencies in vault (Note 15)	562,397	90,101
SDR holdings, net (Note19)	59,585	60,484
Total	**14,906,973**	**55,011,513**

45 Commitments and contingencies

a) Litigation

National Bank is a defendant in a several legal proceedings arising from its operations. National Bank contests these claims and based on legal advice considers that no other material liabilities will be incurred, except for the amounts already provided for (see Notes 14 and Note 40).

46 Related parties transactions

The National Bank has related party transactions with the Government of the Republic of Macedonia and with the members of the Council. The transactions and outstanding balances with the related parties are presented in Note 5, Note 6, Note 12, Note 21, Note 35 and Note 36.