NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial Statements prepared in accordance with International Financial Reporting Standards

For the year ended 31 December 2009

Content

PRICEWATERHOUSECOOPERS

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Independent auditor's report

To the Council of the National Bank of the Republic of Macedonia

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank"), which comprise the statement of financial position as of 31 December 2009 and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 2009, 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,

8 March 2010

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

Registered office

Kuzman Josifovski Pitu No.1
1000, Skopje

INCOME STATEMENT

	Note	Year ended 31 December 2009	2008
Interest income	5	164,185	798,455
Interest expense	6	(1,333,479)	(1,814,779)
Net interest income		**(1,169,294)**	**(1,016,324)**
Fee income	7	207,343	225,627
Fee expense	8	(7,799)	(7,427)
Net fee income		**199,544**	**218,200**
Net unrealized exchange rate and fair value differences	**9**	**1,710,283**	**1,291,294**
Net income from trading securities	10	1,071,996	3,502,016
Dividend income	11	7,670	7,228
Other operating income	12	213,277	152,312
Personnel expenses	13	(358,057)	(328,827)
Depreciation and amortization charge	26,27	(74,834)	(70,188)
Other expenses	14	(207,254)	(204,816)
Provisions and write offs	**15**	**(17,513)**	**129,223**
Profit for the year		**1,375,818**	**3,680,118**

STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2009	2008
Profit for the year from the income statement	**1,375,818**	**3,680,118**
Other comprehensive income	-	-
Other comprehensive income for the year	**-**	**-**
Total comprehensive income for the year	**1,375,818**	**3,680,118**

STATEMENT OF FINANCIAL POSITION

		At 31 December	
ASSETS	**Note**	**2009**	**2008**
Foreign currencies	16	154,535	562,397
Foreign currency deposits	17	28,299,309	14,558,854
Foreign securities	18	55,163,675	68,492,515
Gold	19	10,291,334	8,234,528
Special Drawing Rights	20	3,886,612	59,585
Foreign assets		**97,795,465**	**91,907,879**
Receivable from Government related to IMF	21	560,415	562,174
Government securities	22	757,701	734,696
Receivable from Government		**1,318,116**	**1,296,870**
IMF Membership	**23**	**4,777,531**	**4,410,718**
Loans to banks	24	15,912	15,912
Other receivables	25	-	-
Receivables from banks		**15,912**	**15,912**
Property and equipment	26	945,500	942,967
Intangible assets	27	33,574	41,039
Jubilee coins	28	105,977	87,331
Receivables	29	24,802	28,223
Other assets	30	205,948	190,496
Total assets		**105,222,825**	**98,921,435**

STATEMENT OF FINANCIAL POSITION (continued)

		At 31 December	
LIABILITIES AND EQUITY	**Note**	**2009**	**2008**
Currency in circulation	**31**	**19,482,000**	**20,799,162**
Bank deposits	**32**	**15,045,092**	**10,269,501**
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	**33**	**12,239,921**	**9,820,933**
National Bank bills issued	**34**	**15,861,833**	**17,450,296**
Deposit requirement of banks and savings houses	**35**	**169,214**	**1,529,144**
Government MKD deposits	36	5,022,061	11,889,731
Government foreign currency deposits	37	9,917,140	3,126,050
Government deposits		**14,939,201**	**15,015,781**
Restricted deposits	**38**	**667,920**	**2,003,567**
Special Drawing Rights Allocation	39a	4,388,831	562,174
Payables based on membership and deposits	39b	4,777,531	4,410,718
Payables to IMF	**39**	**9,166,362**	**4,972,892**
Other deposits	**40**	**3,413,519**	**2,834,924**
Other payables	41	576,555	1,325,071
Provisions	42	209,372	189,342
Other liabilities	43	704,292	931,307
Other liabilities		**1,490,219**	**2,445,720**
Total liabilities		**92,475,281**	**87,141,920**
Capital		1,289,789	1,289,789
General reserves		1,780,039	1,708,077
Other reserves		9,677,716	8,781,649
Total equity	**44**	**12,747,544**	**11,779,515**
Total liabilities and equity		**105,222,825**	**98,921,435**

STATEMENT OF CHANGES IN EQUITY

	Note	Capital	General reserves	Special reserves	Art works revaluation	Accumulated (loss)/gain	Total capital and reserves
At 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 comprehensive income for 2008		-	-	-	-	3,680,118	3,680,118
Net unrealized positive price and exchange rate changes of gold		-	-	618,761	-	(618,761)	-
Positive foreign exchange gains		-	-	672,533	-	(672,533)	-
Net unrealized positive price changes of securities		-	-	1,177,896	-	(1,177,896)	-
Realized price changes		-		(155,370)	-	155,370	-
Appropriation to general reserves		-	204,945	-	-	(204,945)	-
Appropriation to budget		-	-	-	-	(1,161,353)	(1,161,353)
At 31 December 2008 / 1 January 2009		**1,289,789**	**1,708,077**	**8,779,872**	**1,777**	**-**	**11,779,515**
Profit for the year		-	-	-	-	1,375,818	1,375,818
Total comprehensive income for 2009		-	-	-	-	1,375,818	1,375,818
Net unrealized positive price and exchange rate changes of gold	44	-	-	2,056,641	-	(2,056,641)	-
Negative foreign exchange losses	44	-	-	(346,358)	-	346,358	-
Net negative price changes of securities	44	-	-	(369,229)	-	369,229	-
Realized price changes	44	-	-	(444,987)	-	444,987	-
Appropriation to general reserves	44	-	71,962	-	-	(71,962)	-
Appropriation to budget	41	-	-	-	-	(407,789)	(407,789)
At 31 December 2009		**1,289,789**	**1,780,039**	**9,675,939**	**1,777**	**-**	**12,747,544**

CASH FLOW STATEMENT

	Note	Year ended 31 December 2009	2008
Cash flow from operating activities			
Profit for the year		**1,375,818**	**3,680,118**
Adjusted for:			
Interest income	5	(164,185)	(798,455)
Interest expense	6	1,333,667	1,814,779
Unrealized gold price changes		(2,056,641)	(618,761)
Net income from trading securities		743,509	(2,651,620)
Impairment		123	(38,139)
Provisions		20,030	(89,484)
Depreciation and amortization charge	26,27	74,834	70,188
Cash flows from operating profits before changes in operating assets and liabilities		**1,327,155**	**1,368,626**
Gold		(165)	(356)
Foreign securities		12,585,331	(34,863,425)
Restricted deposits		254,536	750,253
Other assets		(30,801)	(95,666)
Currency in circulation		(1,317,162)	905,839
Bank deposits		4,770,983	(404,314)
Reserve requirement and deposit requirement of banks and savings houses		1,058,931	4,055,226
Government deposits including restricted and other deposits		(833,326)	(6,178,230)
SDR allocation liability		3,828,416	-
Other liabilities		(1,384,844)	(886,820)
Interest received		141,180	776,149
Interest paid		(1,332,275)	(1,829,258)
Net cash flows from/(used) in operating activities		**19,067,959**	**(36,401,976)**
Acquisition of property and equipment		(70,153)	(126,041)
Proceeds from the sale of property and equipment		251	541
Net cash flows used in investing activities		**(69,902)**	**(125,500)**
National Bank bills issued		(1,583,901)	(3,577,064)
Net cash flows used in financing activities		**(1,583,901)**	**(3,577,064)**
Net decrease in cash and cash equivalents		17,414,156	(40,104,540)
Cash and cash equivalents at the beginning of the year		**14,906,973**	**55,011,513**
Cash and cash equivalents at the end of the year	**45**	**32,321,129**	**14,906,973**

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 this Law, and the residue is regarded as revenue of the Budget of the Republic of Macedonia. A 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 2009 is 433 (as of 31 December 2008: 433).

The financial statements were adopted by the Council of the National Bank of the Republic of Macedonia on 25 February 2010 and signed by the president of the National Bank Council on its behalf:

Petar Goshev, M.Sc.

President of the National Bank Council

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 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).

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.

a) ***Adoption of New or Revised Standards and Interpretations***

Certain new IFRSs became effective for the Bank in 2009. 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.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, 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 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; 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; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; 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; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. 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.

IFRS 8, Operating Segments**.** The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

IAS 23, Borrowing Costs, revised in March 2007. The main change 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. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are 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 revised IAS 1 had an impact on the presentation of the Bank's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

b) New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 or later periods and which the Bank has not early adopted

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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 date of the statement of financial position. 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 2009 MKD	31 December 2008 MKD
USD	42.67	43.56
EUR	61.17	61.41
SDR	66.89	67.10

C Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, 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 classified as designated at Fair value through profit or loss and is measured at fair value. The fair value of the monetary gold is linked with the price of the gold. 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 credited or charged directly to the income statement. Interest from monetary gold is included in interest income.

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.

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. Foreign currencies, foreign currency deposits, Special Drawing Rights, Receivables from Government related to IMF, Receivables from banks, and Receivables are classified as loans receivables.

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 other comprehensive income 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 other comprehensive income 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 amortised cost

The National Bank assesses at each date of the statement of financial position 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 National 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 date of the statement of financial position 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 other comprehensive income 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 other comprehensive income 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 2009
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 depreciation/amortisation and are tested annually for impairment. Assets that are subject to depreciation/amortisation 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 statement of financial position 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. National Bank bills are recognized initially at fair value and subsequently are stated at amortized cost.

S Deposits

Deposits are recognized initially at fair value. Subsequently deposits are stated at amortized cost. Deposits include Bank deposits, Reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD, Deposit requirements of banks and saving houses, Government deposits, Restricted deposits and other deposits.

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, 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.

Dividend income

Dividends on available-for-sale equity instruments are recognized in the income statement when the right to receive payment is established.

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 reporting 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 3.5-year (2008: 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.

Z Segment reporting

The National Bank's operations comprise a single operating segment, performed in one geographical area, Macedonia. The National Bank has a significant proportion of financial assets and financial liabilities, as a part of Foreign Reserve Management and Domestic Market Operations activities. These activities do not constitute separate operating segments.

3 Financial risk management

The statement of financial position 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.

In the foreign reserves management, the imposed guidelines for credit risk management are in line with the Foreign reserves management policy of the Republic of Macedonia. Hence, the foreign reserves were invested in instruments issued by governments and central banks of the OECD member countries, the international financial institutions and commercial banks residents of the OECD member states, which were rated with one of the two highest short-term credit ratings by minimum two internationally acknowledged rating agencies.

The National Bank manages the credit risk through diversification of investments. In that regard, quantitative limits for investments by individual countries and financial institutions are determined. Additionally, maximum amount of placed funds by securities' type and the size of the series issued are determined.

The monitoring of the exposure of the foreign reserves to credit risk is performed on a daily basis.

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 statement of financial position and notes to the statement of financial position that describe financial assets. The table below shows maximum exposure of credit risk by type of assets:

ASSETS	2009	2008
Foreign currency deposits		
Current accounts	18,244,596	12,049,317
Term deposits	10,054,713	2,509,537
Foreign securities		
Debt Securities	55,127,724	68,456,452
Gold Deposits	10,272,328	8,219,324
Special Drawing Rights	3,886,612	59,585
Foreign assets	**97,585,973**	**91,294,215**
Receivable from Government related to IMF	560,415	562,174
Government securities	757,701	734,696
Receivable from Government	**1,318,116**	**1,296,870**
Loans to banks	15,912	15,912
Receivables	24,802	28,223
At 31 December	**98,944,803**	**92,635,220**

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 neither past due nor impaired financial assets, by rating agency designation at 31 December 2009, 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	Receivables	Total
AAA	-	509	-	52,777,499	-	-	-	-	**52,778,008**
AA+	-	-	-	2,177,437	-	-	-	-	**2,177,437**
AA	-	5,304	-	-	-	-	-	-	**5,304**
AA-	5,063,824	12,433	-	-	-	-	-	-	**5,076,257**
A	-	24,491	3,670	-	-	-	-	-	**28,161**
A+	5,198,647	20,965	-	-	-	-	-	-	**5,219,612**
BBB-	-	1,346	-	-	-	-	-	-	**1,346**
CB[1]	-	18,164,967	10,051,043	-	-	-	-	-	**28,216,010**
MI[2]	9,857	14,581	-	172,788	3,886,612	-	-	-	**4,083,838**
BB[3]	-	-	-	-	-	1,318,116	-	-	**1,318,116**
Unrated	-	-	-	-	-	-	15,912	24,802	**40,714**
Total	**10,272,328**	**18,244,596**	**10,054,713**	**55,127,724**	**3,886,612**	**1,318,116**	**15,912**	**24,802**	**98,944,803**

[1] Central Banks

[2] International Institutions

[3] Rating of the Republic of Macedonia

The table below presents an analysis of National Bank neither past due nor impaired financial 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	Receivables	Total
AAA	-	681	-	65,370,134	-	-	-	-	**65,370,815**
AA+	-	469	-	-	-	-	-	-	**469**
AA	-	39,359	-	-	-	-	-	-	**39,359**
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	-	11,606,180	2,491,110	-	-	-	-	-	**14,097,290**
MI	7,885	6,249	-	3,086,318	59,585	-	-	-	**3,160,037**
BBB-	-	591	-	-	-	1,296,870	-	-	**1,297,461**
Unrated	-	-	-	-	-	-	15,912	28,223	**44,135**
Total	**8,219,324**	**12,049,317**	**2,509,537**	**68,456,452**	**59,585**	**1,296,870**	**15,912**	**28,223**	**92,635,220**

Financial assets which are individually impaired are presented in Other receivables (note 25) and Receivables (note 29).

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 2009. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	Non-EU Countries	Republic of Macedonia	Other countries	Total
Gold deposits	6,370,341	3,901,987	-	-	**10,272,328**
Current accounts	17,754,557	21,548	-	468,491	**18,244,596**
Term deposits	10,054,713	-	-	-	**10,054,713**
Debt securities	50,363,646	172,788	-	4,591,290	**55,127,724**
Special Drawing Rights	-	-	-	3,886,612	**3,886,612**
Receivable from Government	-	-	1,318,116	-	**1,318,116**
Receivable from Banks	-	-	15,912	-	**15,912**
Receivables	-	-	24,802	-	**24,802**
31 December 2009	**84,543,257**	**4,096,323**	**1,358,830**	**8,946,393**	**98,944,803**
31 December 2008	**78,739,543**	**6,243,748**	**1,341,005**	**6,310,924**	**92,635,220**

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. Currency risk is a risk arising from a decline of 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.

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.

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical 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 a particular time framework. The National bank applies a level of confidence of 99% in a 10-day interval when calculating VAR[4]. 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.

In December 2009, 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 1,305,436,000 (Euro 21,340,000), or 1.34% 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 1,211,780,000 (Euro 19,809,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 93,656,000 (Euro 1,531,000).

	31 December 2009	31 December 2008
Currency risk	1,211,780	1,024,971
Interest rate risk	93,656	313,817
Total VAR	1,305,436	1,338,788

[4] As recommended in the Basel Agreement from 1999

C Foreign exchange risk

The exchange rate 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 abroad and according to 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, 2009, analyzed by currency.

ASSETS	**EUR**	**USD**	**SDR**	**Other**	**MKD**	**Total**
Foreign assets	77,262,325	16,551,650	3,922,563	58,927	-	**97,795,465**
Receivable from the government	-	-	560,415	-	757,701	**1,318,116**
Membership with the IMF	-	-	-	-	4,777,531	**4,777,531**
Receivable from banks	-	-	-	-	15,912	**15,912**
Other assets	466	12	-	12	1,315,311	**1,315,801**
Total assets	**77,262,791**	**16,551,662**	**4,482,978**	**58,939**	**6,866,455**	**105,222,825**
LIABILITIES						
Currency in circulation	-	-	-	-	19,482,000	**19,482,000**
Deposits of banks	813,859	-	-	-	14,231,233	**15,045,092**
Reserve requirements	12,225,709	-	-	-	14,212	**12,239,921**
National Bank Bills	-	-	-	-	15,861,833	**15,861,833**
Deposit requirement	-	-	-	-	169,214	**169,214**
Deposits of the government	9,855,214	60,137	-	1,789	5,022,061	**14,939,201**
Restricted deposits	605,806	62,114	-	-	-	**667,920**
Borrowings from IMF	-	-	4,388,831	-	4,777,531	**9,166,362**
Other deposits	-	-	-	-	3,413,519	**3,413,519**
Other liabilities	528,722	15,557	-	32,825	913,115	**1,490,219**
Total liabilities	**24,029,310**	**137,808**	**4,388,831**	**34,614**	**63,884,718**	**92,475,281**
Net on-balance sheet financial position	**53,233,481**	**16,413,854**	**94,147**	**24,325**	**(57,018,263)**	**12,747,544**

The table below summarizes the National Bank's exposure to the currency risk. Included in the table are the National Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency, as at 31 December 2008:

	EUR	USD	SDR	Other	MKD	Total
ASSETS						
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**
Net on-balance sheet financial position	**61,257,708**	**14,775,754**	**95,649**	**864**	**(64,350,460)**	**11,779,515**

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 2009 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	32,119,212	64,844	44,234,667	10,252,685	-	11,124,057	**97,795,465**
Receivable from the government	-	-	-	-	757,701	560,415	**1,318,116**
Membership with the IMF	-	-	-	-	-	4,777,531	**4,777,531**
Receivables from banks	-	-	-	-	15,912	-	**15,912**
Other assets	-	-	-	-	-	1,315,801	**1,315,801**
Total assets	**32,119,212**	**64,844**	**44,234,667**	**10,252,685**	**773,613**	**17,777,804**	**105,222,825**
LIABILITIES							
Currency in circulation	-	-	-	-	-	19,482,000	**19,482,000**
Deposits of banks	14,626,624	61,173	-	-	-	357,295	**15,045,092**
Reserve requirements	12,239,191	-	-	-	-	730	**12,239,921**
National Bank Bills	15,825,233	-	-	-	-	36,600	**15,861,833**
Deposit requirement	169,139	-	-	-	-	75	**169,214**
Deposits of the government	13,931,915	-	-	-	-	1,007,286	**14,939,201**
Restricted deposits	-	-	-	-	-	667,920	**667,920**
Borrowings from IMF	4,388,831	-	-	-	-	4,777,531	**9,166,362**
Other deposits	3,354,576	-	-	-	-	58,943	**3,413,519**
Other liabilities	-	-	-	-	-	1,490,219	**1,490,219**
Total liabilities	**64,535,509**	**61,173**	**-**	**-**	**-**	**27,878,599**	**92,475,281**
Total interest repricing gap	**(32,416,297)**	**3,671**	**44,234,667**	**10,252,685**	**773,613**	**(10,100,795)**	**12,747,544**

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2008 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	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**
Total interest repricing gap	**(30,805,282)**	**2,487,984**	**59,147,665**	**8,201,817**	**750,607**	**(28,003,276)**	**11,779,515**

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.

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 and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows for financial liabilities, and expected maturity date for financial assets.

31 December 2009	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	19,482,000	-	-	-	-	**19,482,000**
Deposits of banks	1,109,725	61,173	13,874,194	-	-	**15,045,092**
Reserve requirements	730	-	12,239,191	-	-	**12,239,921**
National Bank Bills	15,861,833	-	-	-	-	**15,861,833**
Deposit requirement	169,214	-	-	-	-	**169,214**
Deposits of the government	14,939,201	-	-	-	-	**14,939,201**
Restricted deposits	189,494	87,426	345,120	45,880	-	**667,920**
Borrowings from IMF	9,166,362	-	-	-	-	**9,166,362**
Other deposits	3,413,519	-	-	-	-	**3,413,519**
Other liabilities	1,069,364	407,789	13,066	-	-	**1,490,219**
Total liabilities (contractual maturity dates)	**65,401,442**	**556,388**	**26,471,571**	**45,880**	**-**	**92,475,281**
Assets held for managing liquidity risk (expected maturity dates)	**92,986,642**	**64,881**	**10,146,315**	**124,056**	**815,879**	**104,137,773**

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**
Assets held for managing liquidity risk (expected maturity dates)	**86,229,163**	**2,545,065**	**69,618**	**8,211,439**	**794,813**	**97,850,098**

F Fair value of financial assets and liabilities

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**	
	2009	**2008**	**2009**	**2008**
Financial assets				
Foreign currencies	154,535	562,397	154,535	562,397
Foreign currencies deposits	28,299,309	14,558,854	28,299,309	14,558,854
Special Drawing Rights	3,886,612	59,585	3,886,612	59,585
Foreign equity securities, carried at cost	35,951	36,064	35,951	36,064
Government securities	757,701	734,696	757,701	734,696
Loans to banks	15,912	15,912	15,912	15,912
Financial liabilities				
Currency in circulation	19,482,000	20,799,162	19,482,000	20,799,162
Bank deposits	15,045,092	10,269,501	15,045,092	10,269,501
Reserve requirement of banks and saving houses	12,239,921	9,820,933	12,239,921	9,820,933
National Bank bills issued	15,861,833	17,450,296	15,861,833	17,450,296
Deposit requirement of banks and saving houses	169,214	1,529,144	169,214	1,529,144
Government MKD deposit -	5,022,061	11,889,731	5,022,061	11,889,731
Government foreign currency deposits	9,917,140	3,126,050	9,917,140	3,126,050
Payables to IMF	9,166,362	4,972,892	9,166,362	4,972,892
Other and restricted deposits	4,081,439	4,838,491	4,081,439	4,838,491

Financial assets

The fair values of foreign currencies, foreign currency deposits and Special Drawing Rights, and Receivables carried at amortized cost, are considered to approximate their carrying values due to their short-term nature.

As explained in Note 18, included in available-for-sale securities are BIS shares with a value of MKD 35,951,000 (2008: MKD 36,064,000), 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 due to that there are no other similar instruments with similar characteristics.

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 due to that there are no other similar instruments with similar characteristics..

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.

Fair value hierarchy

Fair values are determined according to the following hierarchy:

a) *Level 1- Quoted Market Price*
Financial instruments with quoted prices for identical instruments in active markets.

b) *Level 2 - Valuations Techniques Using Observable Inputs*
Financial instruments with quoted prices for similar instruments in active market or quoted prices for identical or similar instrument in inactive market and financial instruments valued using models where all significant inputs are observable.

c) *Level 3- Valuations Techniques with Significant Non-observable inputs*
Financial instruments valued using models where one or more significant inputs are not observable.

Assets and liabilities measured at fair value

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading securities				
-Foreign debt securities	55,127,724	-	-	55,127,724
Gold	10,291,334	-	-	10,291,334
Total financial assets	**65,419,058**	**-**	**-**	**65,419,058**

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	Monetary gold	HTM Securities	Total December 31, 2009	Total December 31, 2008
Government	-	-	-	23,005	**23,005**	22,307
Domestic banks	300	-	-	-	**300**	252
Foreign entities	-	113,534	27,248	-	**140,782**	775,847
Other	98	-	-	-	**98**	49
Total for 2009	**398**	**113,534**	**27,248**	**23,005**	**164,185**	**798,455**
Total for 2008	301	745,787	27,373	24,994	798,455	-

6 Interest expense

	Deposits received	Securities issued	Total December 31, 2009	Total December 31, 2008
Government	110,642	-	**110,642**	231,023
Domestic banks	266,862	955,975	**1,222,837**	1,583,756
Total for 2009	**377,504**	**955,975**	**1,333,479**	**1,814,779**
Total for 2008	456,325	1,358,454	1,814,779	-

7 Fee income

	2009	2008
Fees from providing cash to banks	62,641	60,457
Fees based on settlement of payments (RTGS)	43,487	50,419
Fees from domestic banks for maintaining account based on debt turnover on account	49,596	52,641
Fees from sale of administrative and court government stamps	14,299	18,521
Fees from compensation for activities related to custodian of pension funds	9,625	9,962
Fees from administering foreign credit lines	-	2,197
Fees from foreign exchange operations	14,934	15,750
Other fees	12,761	15,680
Total	**207,343**	**225,627**

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. Since November 2009, the National Bank stopped to performing the function of custodian of pension funds.

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

	2009	**2008**
Fees to foreign banks	7,799	7,427
Total	**7,799**	**7,427**

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

	2009	**2008**
Unrealized positive exchange rate differences	1,546,709	3,217,123
Unrealized negative exchange rate differences	(1,893,067)	(2,544,590)
Unrealized positive exchange rate and price differences from gold	5,126,693	5,618,800
Unrealized negative exchange rate and price differences from gold	(3,070,052)	(5,000,039)
Total	**1,710,283**	**1,291,294**

10 Net income from trading securities

	2009	2008
Realized profit from trading securities sold	81,406	289,059
Realized losses from trading securities sold	(311,751)	(6,583)
Interest income on trading securities	1,528,634	2,045,850
Unrealized positive price changes from trading securities	58,983	1,177,896
Unrealized negative price changes from trading securities	(285,276)	(4,206)
Total	**1,071,996**	**3,502,016**

11 Dividend income

	2009	2008
Dividend income on investments in BIS	7,670	7,228
Total	**7,670**	**7,228**

12 Other operating income

	2009	2008
Realized positive exchange rate differences, net	139,177	96,640
Income based on sale of jubilee coins	2,578	1,056
Other income	71,522	54,616
Total	**213,277**	**152,312**

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.

13 Personnel expenses

	2009	2008
Wages and personal income tax	253,184	203,296
Pension cost – defined contribution plans	65,037	62,363
Required contributions	32,176	34,385
Other staff expenses	7,660	28,783
Total	**358,057**	**328,827**

In 2009, the remuneration of the key management of the National Bank was MKD 12,702,000 (2008: MKD 11,530,000), included in ‘Personnel expenses’ above.

14 Other expenses

	2009	2008
Services	61,217	63,442
Costs of production of banknotes and coins	103,553	87,625
Material expenses	27,604	29,138
Other administrative expenses	12,510	18,720
Other expenses	2,370	5,891
Total	**207,254**	**204,816**

The costs of banknote and coin manufacture mainly relate to imported banknotes 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.

15 Provisions and write offs

	Note	2009	2008
Released provisions related to lawsuits with insurance companies	42	-	(16,227)
Charge/(Release) provisions related to lawsuits with banks	42	18,883	(79,101)
Released provisions for receivables from banks	17	-	(39,161)
Released provisions for receivables from other receivables	25	-	(1,600)
(Release)/Charge provisions for other assets	29	(2,624)	837
Provisions related to lawsuits with other entities	42	1,147	5,844
Other provisions	29	107	185
Total		**17,513**	**(129,223)**

16 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 45).

17 Foreign currency deposits

	2009	2008
Foreign currency sight deposits	18,225,269	11,775,454
Foreign currency term deposits	10,054,713	2,509,537
Included in the cash and cash equivalents (Note 45)	**28,279,982**	**14,284,991**
Restricted accounts	19,327	273,863
Total	**28,299,309**	**14,558,854**

The deposits bear interest at rates contingent upon the deposit currency and have the following values for the respective deposits:

Interest rate type	31 December 2009	31 December 2008
- overnight deposits in USD	0.14%	1.66%
- Euro overnight deposits	0.61%	3.76%
- time deposits in USD	-	1.05%
- time deposits in EUR	0.28%	3.83%

Foreign currency deposits include accrued interest of MKD 286,000 (2008: MKD 21,553,000).

Sight deposits previously included 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 reflected provisions for possible losses which covered 20% of the value of deposits which were released in 2008.

The National Bank had also made a subordinated loan with the same bank of USD 5 million 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 in 2008.

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

	2009	2008
Balance as at 1 January	**-**	**392,175**
Released provision (Note 15)	-	(39,161)
Write off	-	(353,014)
Balance as at 31 December	**-**	**-**

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

	2009	2008
International financial institutions	14,581	6,249
Central banks	28,223,491	14,142,829
Foreign commercial banks	61,237	409,776
Total	**28,299,309**	**14,558,854**

Foreign currency deposits by geographic location

	2009	2008
Europe	27,830,818	14,034,538
America	458,463	473,228
Other	10,028	51,088
Total	**28,299,309**	**14,558,854**

18 Foreign securities

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

	2009	2008
Trading securities	**55,127,724**	**68,456,451**
Foreign debt securities	55,127,724	68,456,451
Securities available for sale	**35,951**	**36,064**
Foreign equity securities	35,951	36,064
Total	**55,163,675**	**68,492,515**
Current	55,127,724	68,456,451
Non-current	35,951	36,064

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 0.875% and 5.625% p.a. (2008: from 1.75% to 4.625%). Foreign trading securities include accrued interest of MKD 826,746,000 (2008: MKD 1,135,848,000).

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). BIS shares represent unquoted equity instruments whose fair value can not be reliably determined and therefore are carried at cost.

19 Gold

	2009	2008
Gold in the NBRM vault	19,006	15,204
Sight gold deposits	9,856	7,885
Term gold deposits	10,262,472	8,211,439
Total	**10,291,334**	**8,234,528**
Current	28,862	23,089
Non-current	10,262,472	8,211,439

As of December 31, 2009, the National Bank total gold reserves stood at 218,281.468 ounces (2008: 218,281.468 ounces) at a market value of US Dollar 1,104.00 (MKD 47,102) per ounce (2008: US Dollar 865.00 or MKD 37,680 per ounce). Interest rates on term gold deposits for 2009 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 (2008: 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 9,787,000 (2008: MKD 9,622,000).

20 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 2009, the basic rate ranged from 0.23% to 0.85% p.a. (2008: from 1.85% to 3.50% p.a.). For Special Drawing Rights Allocation see Note 39. Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 45).

21 Receivables from Government related to IMF

	2009	2008
Receivable related to SDR allocation	560,415	562,174
Total	**560,415**	**562,174**
Current	560,415	562,174

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 39a).

22 Government securities

	2009	2008
Securities held to maturity		
Bond for selective credits	757,701	734,696
Total	**757,701**	**734,696**
Non-current	757,701	734,696

The bond for selective credits held to maturity, is a security issued on behalf of 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 fully due 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 for which it was acquired and is amortised to the maturity of the bond.

23 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 4,765,447,000 at the end of 2009, the account No. 1 amounts to MKD 11,943,000 and account No. 2 is valued at MKD 141,000. (2008: MKD 4,399,562,000, MKD 11,026,000 and MKD 130,000 respectively for the three positions, see note 39b). The changes are due to the evaluation of these positions by the SDR exchange rate on April 30, according to the IMF financial year.

24 Loans to banks

	2009	2008
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.

25 Other receivables

	2009	2008
Receivable from bank under bankruptcy	1,034,569	1,034,569
Due auction deposits	9,268	9,268
Total	**1,043,837**	**1,043,837**
Provision	(1,043,837)	(1,043,837)
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.

26 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, 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**

26 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, 2009							
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**
On January 1, 2009, net of accumulated depreciation	**701,269**	**120,140**	**62,834**	**38,178**	**922,421**	**20,546**	**942,967**
Additions	21,262	20,256	-	21,317	62,835	85	62,920
Write offs	-	(26)	-	-	(26)	(225)	(251)
Transfers	-	-	-	-	-	-	-
Depreciation for the year	(24,717)	(34,611)	-	-	(59,328)	(808)	(60,136)
On December 31, 2009	**697,814**	**105,759**	**62,834**	**59,495**	**925,902**	**19,598**	**945,500**
On December 31, 2009							
Cost	896,351	469,456	62,834	59,495	1,488,136	34,442	1,522,577
Accumulated depreciation	(198,537)	(363,697)	-	-	(562,233)	(14,844)	(577,077)
Net book amount	**697,814**	**105,759**	**62,834**	**59,495**	**925,902**	**19,598**	**945,500**

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.

27 Intangible assets

	2009	2008
At 1 January		
Cost	138,229	119,450
Investment in progress	3,841	129
Accumulated amortization	(101,031)	(88,680)
Net book amount	**41,039**	**30,899**
Year ended December		
Opening net book amount	41,039	30,899
Additions	4,463	19,242
Amortization charge	(14,698)	(12,943)
Investments in progress	2,770	3,841
Closing net book amount	**33,574**	**41,039**
At 31 December		
Cost	142,551	138,229
Investments in progress	6,611	3,841
Accumulated amortization	(115,588)	(101,031)
Net book amount	**33,574**	**41,039**

28 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, 2009, the National Bank held a total of 7,559 gold coins and 216 silver coins (2008: 7,784 gold coins and 254 silver coins). The jubilee coins in the National Bank vault are intended for sale.

29 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:

	2009	2008
Fees	21,825	23,705
Receivables for maintenance of premises	2,977	4,518
Other receivables	421,822	418,615
Impairment for other receivables	(421,822)	(418,615)
Total	**24,802**	**28,223**

The movements in provision for receivables are as follows:

	2009	2008
Balance as at 1 January	**418,615**	**426,485**
(Decrease)/Increase of provisions (Note 15)	(2,624)	837
Increase of other provisions (Note 15)	107	185
Increase/ (write off) of doubtful and contested receivables	5,724	(8,892)
Balance as at 31 December	**421,822**	**418,615**

Impaired other receivables mainly represent receivables from individuals and legal entities for which legal process was started in previous years. The National Bank fully provisioned these receivables.

30 Other assets

	2009	2008
Prepaid expenses of printing banknotes	180,521	178,139
Other prepaid expenses	6,703	3,771
Office and other materials	6,315	8,142
Other assets	12,409	444
Total	**205,948**	**190,496**
Current	199,633	182,354
Non-current	6,315	8,142

31 Currency in circulation

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

Currency in circulation		**2009**		**2008**	
MKD	**Nominal value**	**Pcs**	**Value in MKD thousands**	**Pcs**	**Value in MKD thousands**
Coins	0.5	3,278,731	1,639	3,218,000	1,609
Coins	1	67,923,933	67,924	64,900,024	64,900
Coins	2	43,355,278	86,711	42,269,915	84,540
Coins	5	27,967,752	139,839	27,875,380	139,377
Coins	10	2,961,427	29,614	136,500	1,365
Coins	50	1,048,630	52,432	67,500	3,375
Banknotes	10	25,999.030	259,990	26,637,189	266,372
Banknotes	50	5,272,247	263,612	5,907,089	295,354
Banknotes	100	10,612,830	1,061,283	10,321,671	1,032,167
Banknotes	500	6,383,944	3,191,972	7,183,476	3,591,738
Banknotes	1000	13,973,884	13,973,884	14,776,220	14,776,220
Banknotes	5000	70,620	353,100	108,429	542,145
Total			**19,482,000**		**20,799,162**

32 Bank deposits

	2009	2008
Bank deposits in MKD	14,231,233	10,269,501
Bank deposits in foreign currency	813,859	-
Total	**15,045,092**	**10,269,501**
Current	15,045,092	10,269,501

The liabilities based on deposits to banks reflect the balances on banks' accounts with the National Bank for settling 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 33).

Since February 2009, in order to maintain foreign reserve liquidity and decreasing of credit risk exposure of the domestic banks, banks can place foreign exchange deposit with the National Bank. The National Bank pays interest on these deposits by interest rates which depend on interest rates of funds placed in instruments issued by the governments, central banks or the international financial institutions of the member-countries in euro-area. Bank deposits in foreign currency include the accrued interest in the amount of MKD 255,000.

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

	2009	2008
Savings houses' MKD reserve requirement	14,212	17,732
Banks' foreign exchange reserve requirement	12,225,709	9,803,201
Total	**12,239,921**	**9,820,933**
Current	12,239,921	9,820,933

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 (2008: 2%). Since October 2009, the National Bank has paid remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a.

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.

34 National Bank bills issued

In 2009, the National Bank bills maturity was 28 days. At the National Bank bills auctions, volume tender was applied with predefined interest rate. The interest rate on the CB bills auctions held in period from January- March 2009 was 7.00%, in April 2009 it was increased to 9.00%, which remained unchanged for the next seven months in 2009. In December 2009, interest rate decreased to 8.50 %. (in 2008: maturity of 28 days; two types of tenders: an interest rate tender until February 2008 and volume tender with predefined interest rate to the end of 2008, interest rates from 4.89% -7.00%).

The National Bank bills issued include accrued interest of MKD 36,600,000 (2008: MKD 32,038,000).

35 Deposit requirement of banks and savings houses

	2009	2008
Banks' deposit requirement	167,940	1,529,144
Saving houses' deposit requirement	1,274	-
Total	**169,214**	**1,529,144**
Current	169,214	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 75,000 MKD (2008: MKD 679,000).

36 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.

	2009	2008
Single Treasury account	4,069,032	9,611,359
Other MKD deposits	953,029	2,278,372
Total	**5,022,061**	**11,889,731**
Current	5,022,061	11,889,731

In 2009, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1.0 % p.a. (2008: 1.0% p.a.). Government deposits include the accrued undue interest in the amount of MKD 3,958,000 (2008: MKD 12,485,000).

37 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, 2009, these deposits amounts were MKD 9,917,140,000 (2008: MKD 3,126,050,000). In the 2009, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2008: 0.7% p.a.).

38 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.

39 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 dated 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.

By a decision of the IMF's Executive Board dated August 7, 2009, Macedonia was granted General SDR Allocation in the amount of SDR 51,076,245. Entering in to force of the Fourth Amendment of Articles of Agreement on August 10, 2009, and based on a decision of the IMF's Executive Board adopted in 1997, Macedonia was granted Special SDR Allocation in amount of SDR 6,161,937.

Total liability of Macedonia for the SDR allocation at the end of 2009 amounted to SDR 65,616,876 (2008: SDR 8,378,694). According to the IMF Articles of Agreement, 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.

The National Bank pays interest on the existing share of the liability on the basis of the SDR allocation (SDR 65,616,876), at the basic interest rate of the IMF. Since 2005, National Bank has been refunded the interest paid of the liability of the SDR Allocation which took over from former Yugoslavia (SDR 8,378,694), from the Budget of the Republic of Macedonia.

b) Payables based on membership and deposits (see Note 23):

	2009	2008
Liabilities on the basis of issued promissory note for membership in the IMF	4,765,447	4,399,562
Liabilities on the basis of account 1	11,943	11,026
Liabilities on the basis of account 2	141	130
Total	**4,777,531**	**4,410,718**
Current	4,777,531	4,410,718

40 Other deposits

	2009	2008
Liabilities on the basis from MKD deposits to other domestic entities	3,409,813	2,826,839
Liabilities on the basis from MKD deposits to international financial institutions	3,706	8,085
Total	**3,413,519**	**2,834,924**
Current	3,413,519	2,834,924

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 (2008: 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.

41 Other payables

Payables are analyzed as follows:

	2009	**2008**
Payables from appropriation of net income	407,789	1,161,353
Liabilities from BNT bankruptcy	147,602	148,450
Payables arising from annuities received from sale of socially-owned flats	7,544	2,887
VAT	805	446
Other payables	12,815	11,935
Total	**576,555**	**1,325,071**

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. Appropriation of net income is approved by the National Bank Council (see Note 1).

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.

42 Provisions

	2009	**2008**
Provisions for potential liabilities based on litigations with banks	202,382	183,498
Provisions for potential liabilities based on litigations with other entities	6,990	5,844
Total	**209,372**	**189,342**

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 bank (due to non-execution of a payment instrument for a bank in bankruptcy) and legal entities which instituted proceedings against the National Bank (see Note 15).

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

	2009	**2008**
Balance as at 1 January	**189,342**	**278,826**
Released provisions related to lawsuits with insurance companies (Note 15)	-	(16,227)
Additional/(Released) provisions for potential liabilities based on litigations with banks (Note 15)	18,883	(79,101)
Additional provisions for potential liabilities based on litigation with other entities (Note 15)	1,147	5,844
Balance as at 31 December	**209,372**	**189,342**

43 Other liabilities

	2009	**2008**
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	414,769	436,219
Jubilee coins counterpart	96,178	77,061
Deferred income	14,326	17,454
Equity payments pending operational license	167,003	383,827
Liabilities to suppliers and other liabilities	12,016	16,746
Total	**704,292**	**931,307**

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 28).

44 Capital and reserves

Capital

The National Bank's capital is defined in the Law on the National Bank and as of December 31, 2009, it amounted to MKD 1,289,789,000 (2008: 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

	2009	**2008**
Special reserves from unrealized exchange rate and price changes		
o Special reserves from foreign exchange gains	2,904,427	3,250,785
o Special reserves from price and exchange rate changes of gold	6,341,356	4,284,715
o Special reserves from price changes of securities for trading	430,156	1,244,372
Total	**9,675,939**	**8,779,872**

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 2009 are reduced by MKD 346,358,000 due to covering the net negative unrealized foreign exchange losses (2008: net positive foreign exchange gains of MKD 672,533,000 were allocated in the Special reserves).

Special reserves from price and exchange rate changes of gold for 2009 are increased by MKD 2,056,641,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold. (2008: MKD 618,761,000).

Special reserves from price changes of securities for trading are reduced by MKD 369,229,000 due to covering the net negative 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 444,987,000 were allocated to the general reserves and the Budget of the Republic of Macedonia.

45 Cash and cash equivalents

	2009	2008
Foreign currencies in vault (Note 16)	154,535	562,397
Foreign currency deposits (Note 17)	28,279,982	14,284,991
SDR holdings, net (Note 20)	3,886,612	59,585
Total	**32,321,129**	**14,906,973**

46 Commitments and contingencies

a) Litigation

The National Bank is a defendant in a several legal proceedings arising from its operations. The 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 (Note 15 and Note 42).

47 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 13, Note 22, Note 36 and Note 37.

48 Events after the date of the statement of financial position

No material events subsequent to the date of the statement of financial position have occurred which require disclosure in the financial statements.