

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial Statements

for the year ended 31 December 2007

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Content

	Page
Independent auditor's report	1-2
Income statement	4
Balance sheet	5-6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9-53

Independent auditor's report

To the Council of National Bank of the Republic of Macedonia

Report on the financial statements

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank"), which comprise the balance sheet as of 31 December 2007 and the income statement, statement of changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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 2007, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers doel

PricewaterhouseCoopers doel

Skopje,

5 March 2008

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
Ljubomir Kekenovski (until 4th April 2007)
Drage Janev
Tihomir Petreski

Registered office

Kompleks banki bb
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Income statement

	Note	Year ended 31 December	
		2007	2006
Interest income	5	2,498,281	2,192,048
Interest expense	6	<u>(1,503,590)</u>	<u>(1,092,988)</u>
Net interest income		<u>994,691</u>	<u>1,099,060</u>
Fee income	7	300,915	234,846
Fee expense	8	<u>(6,628)</u>	<u>(9,781)</u>
Net fee income		<u>294,287</u>	<u>225,065</u>
Net unrealized exchange rate and fair value differences	9	322,814	(295,526)
Net income from trading securities	10	997,496	177,308
Other operating income	11	189,687	246,311
Staff expenses	12	(297,197)	(286,774)
Depreciation and amortization charge	25,26	(68,622)	(57,960)
Other expenses	13	(178,678)	(159,066)
Provisions and write offs	14	<u>(32,619)</u>	<u>(164,916)</u>
Profit for the year		<u><u>2,221,859</u></u>	<u><u>783,502</u></u>

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Balance sheet

ASSETS	Note	At 31 December	
		2007	2006
Gold	15	7,615,411	6,454,563
Foreign currency deposits	16	55,845,883	71,065,999
Foreign currencies	17	90,101	206,660
Foreign securities	18	30,977,470	9,807,416
Special Drawing Rights	19	60,484	138,555
Foreign assets		94,589,349	87,673,193
Receivable from Government related to IMF	20	551,548	587,196
Government securities	21	712,389	1,918,813
Receivable from Government		1,263,937	2,506,009
IMF Membership	22	4,708,063	4,994,565
Loans to banks	23	15,912	24,426
Other Receivables	24	-	-
Receivables from banks		15,912	24,426
Property and equipment	25	897,795	903,595
Intangible assets	26	30,899	31,347
Jubilee coins	27	88,719	90,023
Receivables	28	21,660	22,724
Other assets	29	101,027	61,595
Total assets		101,717,361	96,307,477

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Balance Sheet (continued)

LIABILITIES AND EQUITY	Note	At 31 December	
		2007	2006
Currency in circulation	30	19,893,323	17,768,218
Bank deposits	31	10,671,843	7,382,243
Reserve requirement of banks and savings houses	32	7,294,331	6,386,882
NBRM bills issued	33	21,040,271	9,480,027
Government MKD deposits	34	12,170,661	12,868,664
Government MKD deposits- treasury bills for monetary policy purposes	34	4,597,550	4,611,403
Government foreign currency deposits	35	5,520,143	17,686,878
Government deposits		22,288,354	35,166,945
Restricted deposits	36	1,738,804	492,954
Special Drawing Rights Allocation		551,548	587,196
Borrowing from IMF		-	2,593,312
Payables based on membership and deposits		4,708,063	4,994,565
Payables to IMF	37	5,259,611	8,175,073
Other deposits	38	2,009,321	1,899,555
Other payables	39	1,462,572	424,347
Provisions	40	278,826	246,164
Other liabilities	41	519,355	557,417
Other liabilities		2,260,753	1,227,928
Capital		1,289,789	1,289,789
General reserves		1,503,132	1,103,543
Other reserves		6,467,829	5,971,910
Accumulated loss		-	(37,590)
Capital and reserves	42	9,260,750	8,327,652
Total liabilities and equity		101,717,361	96,307,477

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Statement on changes in equity

	Note	Capital	General reserves	Special reserves	Paintings revaluation	Accumulated gain/loss	Total capital and reserves
At 1 January 2006		1,289,789	502,110	6,217,273	-	(209,042)	7,800,130
Paintings revaluation	25	-	-	-	1,777	-	1,777
Net income not recognized in the income statement		-	-	-	1,777	-	1,777
Profit for the year		-	-	-	-	783,502	783,502
Total recognized income for 2006		-	-	-	1,777	783,502	785,279
Net unrealized positive price and exchange rate changes of gold	42	-	-	638,349	-	(638,349)	-
Net negative foreign exchange gains	42	-	-	(933,874)	-	933,874	-
Net unrealized positive price changes of securities	42	-	-	48,742	-	(48,742)	-
Realized price changes	42	-	-	(357)	-	357	-
Appropriation to general reserves	42	-	601,433	-	-	(601,433)	-
Appropriation to budget	39	-	-	-	-	(257,757)	(257,757)
At 31 December 2006 / 1 January 2007		1,289,789	1,103,543	5,970,133	1,777	(37,590)	8,327,652
Profit for the year		-	-	-	-	2,221,859	2,221,859
Total recognized income for 2007		-	-	-	-	2,221,859	2,221,859
Net unrealized positive price and exchange rate changes of gold	42	-	-	1,160,736	-	(1,160,736)	-
Net negative foreign exchange gains	42	-	-	(837,921)	-	837,921	-
Net unrealized positive price changes of securities	42	-	-	221,251	-	(221,251)	-
Realized price changes	42	-	-	(48,147)	-	48,147	-
Appropriation to general reserves	42	-	399,589	-	-	(399,589)	-
Appropriation to budget	39	-	-	-	-	(1,288,761)	(1,288,761)
At 31 December 2007		1,289,789	1,503,132	6,466,052	1,777	-	9,260,750

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Cash flow statement

	Note	Year ended	
		31 December	
		2007	2006
Net gain before allocation		2,221,859	783,502
Adjusted for:			
Interest income	5	(2,498,282)	(2,294,676)
Interest expenses	6	1,503,590	1,092,988
Unrealized gold price changes		(1,160,736)	(638,349)
Unrealized price changes from trading securities		(217,517)	(37,098)
Impairment		(43)	73,024
Provisions		32,662	91,892
Depreciation and amortization charge	25,26	68,622	57,960
Net (loss)/ gain before changes in assets and liabilities		(49,845)	(870,757)
Gold		(112)	63
Foreign securities		(20,487,245)	(7,906,769)
Term deposits over 90 days		-	4,603,155
Restricted deposits		(227,517)	(273,518)
Receivables from Government		1,206,423	1,002,041
Receivables from banks		6,914	6,821
Other assets		(71,738)	(65,897)
Currency in circulation		2,125,105	1,917,606
Bank deposits		3,286,309	2,406,372
Reserve requirement of banks and savings houses		904,360	1,052,969
Government deposits including restricted and other deposits		(11,533,158)	10,952,831
Repayments of borrowings from IMF		(2,593,312)	(628,545)
Other liabilities		(269,363)	328,635
Interest received		2,032,990	2,249,945
Interest paid		(1,485,544)	(1,045,398)
Net cash flows from operating activities		(27,155,733)	13,729,554
Acquisition of property and equipment		(62,404)	(53,417)
Proceeds from the sale of property and equipment		30	985
Net cash flows used in investing activities		(62,374)	(52,432)
NBRM bills issued		11,539,527	534,805
Net cash flows from financing activities		11,539,527	534,805
Net increase in cash and cash equivalents		(15,678,580)	14,211,927
Cash and cash equivalents at the beginning of the year		70,690,093	56,478,166
Cash and cash equivalents at the end of the year	43	55,011,513	70,690,093

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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

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

The total number of employees as of 31 December 2007 was 418 (as of 31 December 2006,: 417).

The financial statements are adopted by the Council of the National Bank of the Republic of Macedonia on 28 February 2008 and signed by the president of the National Bank Council on its behalf:

Petar Goshev, M.Sc.



President of the National Bank Council

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

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

A Basis of preparation of financial statements

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

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

Changes in both accounting estimates and accounting policies

In 2007, an analysis of the current value and the useful life of the real estate, equipment and intangible assets of the National Bank was made, which resulted in estimation of the useful life of the assets. In July 2007, the Accounting Rules for Recording Real Estate, Equipment and Intangible Assets were adopted, the implementation of which commenced on September 1, 2007 and according to which the following useful life was determined:

	Useful life since September 2007	Useful life until August 2007
Buildings	from 5 to 50 years	from 10 to 77 years
Equipment	from 3 to 10 years	from 5 to 10 years
Transport equipment	from 5 to 6 years	from 6 to 7 years
Office furniture	from 5 to 10 years	from 5 to 10 years
Intangible assets	from 3 to 5 years	5 years

The calculated amortization was in amount of MKD 9,300,000 in the first month of the implementation of the new estimated life, and during the subsequent months it equals MKD 8,300,000. The amount of the calculated monthly amortization by applying the previously set useful life and amortization rates of the assets totaled MKD 4,000,000.

According to the accounting rules, the useful life of the assets will be estimated at least annually as necessary. The effects of these rules will be applied prospectively; in the future periods (see Note 2L and 2M).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank from 1 January 2007. 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. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these financial statements.

Other new standards or interpretations. The Bank has adopted the following other new standards or interpretations which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Bank's financial statements.

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 2008 or later periods and which the Bank has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management does not expect IFRS 8 to affect the Bank's financial statements.

Other new standards or interpretations. The Bank has not early adopted the following other new standards or interpretations:

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

The new standards and interpretations are not expected to significantly affect the Bank's financial statements.

B Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

Exchange rate:	31 December 2007	31 December 2006
	MKD	MKD
USD	41.66	46.45
EUR	61.20	61.17
SDR	65.83	70.08

C Offsetting

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

(All amounts in MKD thousands unless otherwise stated)

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 and advances, (see note 2H) less any reduction for impairment (see note 2J).

F Monetary gold

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

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

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

G Cash and cash equivalents

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

(All amounts in MKD thousands unless otherwise stated)

H Financial assets

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and advances

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

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

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the National Bank's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are carried at amortized cost using the effective interest method.

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Available for sale

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

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

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

I Fair value

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

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

J Impairment of financial assets

Assets carried at amortized cost

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

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

Future cash flows in a bank of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the National Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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.

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

Assets classified as available for sale

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

K Trade and settlement date accounting

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

L Property and equipment

All property and equipment, other than paintings, is 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 paintings are recognized at their fair value. The changes in the fair value are recognized in equity in the revaluation reserves for paintings.

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

Fixed asset	Useful life since September 2007	Useful life until August 2007
Buildings	5 to 50 years	10 to 77 years
Equipment	3 to 10 years	5 to 10 years
Vehicles	5 to 6 years	6 to 7 years
Furniture	5 to 10 years	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, paintings 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 (as of August 31, 2007 of 5 years).

N Impairment of non-financial assets

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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 commemorate anniversaries, based on Decisions of the Government of the Republic of Macedonia. Jubilee coins are valued at a sale price as set by National Bank Council.

Revenue from sale of jubilee coins is recognized when it is probable that future economic benefits will flow to the National Bank and these benefits can be measured reliably.

P Fiduciary activities

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

Q Currency in circulation

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

R National Bank bills issued

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

S Deposits

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

T Provisions

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

U Borrowings

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

V Revenue recognition

Interest income and expense

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

Fee and other income

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

Net income from trading securities

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

W Net unrealized exchange rate and fair value differences

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

X Employment benefits

Pension insurance contribution - defined contributions plan

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

Other long-term employment benefits

Other long-term employment benefits include severance payment for retirement and right of jubilee awards for employees who have worked more than 10, 20 and 30 years with the employer. These benefits are specified in the Employment Law ("Official Gazette of the Republic of Macedonia" no. 62/2005, July 28, 2005) and the National Bank Labor Agreement dated December 28, 2006. The liability for long-term employment benefits, other than pension insurance contributions, is a net 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 of 9% p.a., prevalent on the securities market for the 3-year bonds issued by the Republic of Macedonia.

Y Taxation

Under the provisions of Article 36c of the amended Corporate Income Tax Law, as published on July 31, 2003 and effective as of January 1, 2003, retroactively, the National Bank is exempted from income tax. The National Bank is required to calculate withholding tax for services provided by foreign legal entities as specified by the amendments to the Corporate Income Tax Law dated December 31, 2005, published in the Official Gazette of the Republic of Macedonia no. 120.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

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

B Credit risk

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

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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

ASSETS	2007	2006
Gold Deposits	7,601,351	6,442,649
Foreign currency deposits		
Current accounts	12,157,117	11,643,723
Term deposits	43,688,766	59,422,276
Foreign securities		
Debt Securities	30,942,087	9,769,746
Special Drawing Rights	60,484	138,555
Foreign assets	94,449,805	87,416,949
Receivable from Government related to IMF	551,548	587,196
Government securities	712,389	1,918,813
Receivable from Government	1,263,937	2,506,009
Receivables from banks	15,912	24,426
At 31 December	95,729,654	89,947,384

The credit risk is managed by determining a financial institution - commercial bank or issuer of security based on criteria set by the National Bank Council. The table below presents an analysis of National Bank assets, by rating agency designation at 31 December 2007, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Receivables from Government	Loans to banks	Total
AAA	-	548	184,051	25,981,220	-	-	-	26,165,819
AA+	-	1,354	-	-	-	-	-	1,354
AA	7,594,059	676,695	2,126,575	-	-	-	-	10,397,329
AA-	-	37,527	-	-	-	-	-	37,527
A	-	430,552	-	-	-	-	-	430,552
A+	-	287,863	32,191	-	-	-	-	320,054
CB ¹	-	10,642,296	41,345,949	-	60,484	-	-	52,048,729
MI ²	7,292	78,901	-	4,960,867	-	-	-	5,047,060
BBB- ³	-	-	-	-	-	1,263,937	-	1,263,937
Unrated	-	1,381	-	-	-	-	15,912	17,293
Total	7,601,351	12,157,117	43,688,766	30,942,087	60,484	1,263,937	15,912	95,729,654

¹ Central Banks

² International Institutions

³ Rating of the Republic of Macedonia

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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 2007. For this table, National Bank has allocated exposures to regions based on the country of domicile of our counterparties:

	EU Countries	Non-EU Countries	Republic of Macedonia	Other	Total
Gold deposits	7,594,059	7,292	-	-	7,601,351
Current accounts	11,497,742	122,376	-	536,999	12,157,117
Term deposits	41,557,946	2,130,820	-	-	43,688,766
Debt securities	21,335,663	4,960,867	-	4,645,557	30,942,087
Special Drawing Rights	-	-	-	60,484	60,484
Receivable from Government	-	-	1,263,937	-	1,263,937
Receivable from Banks	-	-	15,912	-	15,912
31 December 2007	81,985,410	7,221,355	1,279,849	5,243,040	95,729,654
31 December 2006	62,831,239	20,251,964	2,530,435	4,333,746	89,947,384

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

C Market risk

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

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

The market risk management is performed by setting quantitative limits for foreign assets exposure that can be acceptable for the National Bank and they are monitored on a daily basis. In December 2007, 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 573,459,000 (Euro 9,370,000), or 0,62% 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 503,077,000 (Euro 8,220,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 70,382,000 (Euro 1,150,000).

	31 December 2007	31 December 2006
Currency risk	503,077	666,753
Interest rate risk	70,382	16,515
Total VAR	573,459	683,268

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Foreign exchange risk

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

The currency structure of the foreign reserves is determined by the currency structure of the interventions to support the foreign exchange rate of Denar per Euro and by the liabilities of the central bank and government abroad. Consequently, the Euro dominates in the currency structure of the foreign reserves. The share of the US Dollar in the currency structure of the foreign reserves is determined on the basis of the amount necessary for servicing the liabilities to abroad, 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, 2007, analyzed by currency.

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

The table below summarizes the National Bank's exposure to the currency risk. Included in the table are the Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency, as at 31 December 2006:

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign assets	72,061,162	15,003,784	176,224	432,023	-	87,673,193
Receivable from the government	-	-	587,196	-	1,918,813	2,506,009
Membership with the IMF	-	-	-	-	4,994,565	4,994,565
Receivable from banks	-	-	-	-	24,426	24,426
Other assets	3,251	715	-	9,971	1,095,347	1,109,284
Total assets	72,064,413	15,004,499	763,420	441,994	8,033,151	96,307,477
LIABILITIES						
Currency in circulation	-	-	-	-	17,768,218	17,768,218
Deposits of banks	-	-	-	-	7,382,243	7,382,243
Reserve requirements	6,372,759	-	-	-	14,123	6,386,882
NBRM Bills	-	-	-	-	9,480,027	9,480,027
Deposits of the government	16,495,894	1,142,833	-	48,150	17,480,068	35,166,945
Restricted deposits	116,828	357,321	-	18,805	-	492,954
Borrowings from IMF	-	-	3,180,508	-	4,994,565	8,175,073
Other deposits	-	-	-	-	1,899,555	1,899,555
Other liabilities	331,796	39,434	-	29,055	827,643	1,227,928
Total liabilities	23,317,277	1,539,588	3,180,508	96,010	59,846,442	87,979,825
Gap analysis	48,747,136	13,464,911	(2,417,088)	345,984	(51,813,291)	8,327,652

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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 2007 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					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	38,724,757	16,984,668	27,541,077	7,584,793	-	3,754,054	94,589,349
Receivable from the government	-	-	-	-	712,389	551,548	1,263,937
Membership with the IMF	-	-	-	-	-	4,708,063	4,708,063
Receivables from banks	-	-	-	-	15,912	-	15,912
Other assets	-	-	-	-	-	1,140,100	1,140,100
Total assets	38,724,757	16,984,668	27,541,077	7,584,793	728,301	10,153,765	101,717,361
LIABILITIES							
Currency in circulation	-	-	-	-	-	19,893,323	19,893,323
Deposits of banks	8,435,907	-	-	-	-	2,235,936	10,671,843
Reserve requirements	17,212	-	-	-	-	7,277,119	7,294,331
NBRM Bills	20,995,322	-	-	-	-	44,949	21,040,271
Deposits of the government	19,841,467	-	-	-	-	2,446,887	22,288,354
Restricted deposits	-	-	-	-	-	1,738,804	1,738,804
Borrowings from IMF	551,548	-	-	-	-	4,708,063	5,259,611
Other deposits	1,857,121	-	-	-	-	152,200	2,009,321
Other liabilities	-	-	-	-	-	2,260,753	2,260,753
Total liabilities	51,698,577	-	-	-	-	40,758,034	92,456,611
GAP ANALYSIS							
Gap per	(12,973,820)	16,984,668	27,541,077	7,584,793	728,301	(30,604,269)	9,260,750
Cumulative gap	(12,873,820)	4,110,848	31,651,925	39,236,718	39,965,019	9,260,750	

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2006 was as follows:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	24,419,739	56,131,085	-	6,518,641	-	603,728	87,673,193
Receivable from the government	-	-	307,013	921,040	690,760	587,196	2,506,009
Membership with the IMF	-	-	-	-	-	4,994,565	4,994,565
Receivable from banks	-	-	5,836	-	18,590	-	24,426
Other assets	-	-	-	-	-	1,109,284	1,109,284
Total assets	24,419,739	56,131,085	312,849	7,439,681	709,350	7,294,773	96,307,477
LIABILITIES							
Currency in circulation	-	-	-	-	-	17,768,218	17,768,218
Deposits of banks	5,618,360	-	-	-	-	1,763,883	7,382,243
Reserve requirements	14,123	-	-	-	-	6,372,759	6,386,882
NBRM Bills	9,455,795	-	-	-	-	24,232	9,480,027
Deposits of the government	33,100,766	-	-	-	-	2,066,179	35,166,945
Restricted deposits	-	-	-	-	-	492,954	492,954
Borrowings from IMF	2,701,560	-	318,649	160,299	-	4,994,565	8,175,073
Other deposits	1,858,430	-	-	-	-	41,125	1,899,555
Other liabilities	-	-	-	-	-	1,227,928	1,227,928
Total liabilities	52,749,034	-	318,649	160,299	-	34,751,843	87,979,825
GAP ANALYSIS							
Gap per individual band	(28,329,295)	56,131,085	(5,800)	7,279,382	709,350	(27,457,070)	8,327,652
Cumulative gap	(28,329,295)	27,801,790	27,795,990	35,075,372	35,784,722	8,327,652	

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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

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

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

31 December 2007	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	19,893,323	-	-	-	-	19,893,323
Deposits of banks	2,235,937	-	8,435,906	-	-	10,671,843
Reserve requirements	-	-	7,294,331	-	-	7,294,331
NBRM Bills	21,073,200	-	-	-	-	21,073,200
Deposits of the government	22,288,354	-	-	-	-	22,288,354
Restricted deposits	394,214	368,126	976,464	-	-	1,738,804
Borrowings from IMF	5,259,611	-	-	-	-	5,259,611
Other deposits	2,009,321	-	-	-	-	2,009,321
Other liabilities	962,059	1,288,761	9,933	-	-	2,260,753
Total liabilities (contractual maturity dates)	74,116,019	1,656,887	16,716,634	-	-	92,489,540
ASSETS						
Total assets (expected maturity dates)	74,791,121	17,131,161	317,479	7,685,670	1,791,930	101,717,361

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

31 December 2006	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	17,768,218	-	-	-	-	17,768,218
Deposits of banks	1,763,883	-	5,618,360	-	-	7,382,243
Reserve requirements		-	6,386,882	-	-	6,386,882
NBRM Bills	9,498,000	-	-	-	-	9,498,000
Deposits of the government	35,166,945	-	-	-	-	35,166,945
Restricted deposits	157,217	29,013	306,724	-	-	492,954
Borrowings from IMF	5,581,761	-	391,246	2,202,066	-	8,175,073
Other deposits	1,899,555	-	-	-	-	1,899,555
Other liabilities	960,192	257,757	9,979	-	-	1,227,928
Total liabilities (contractual maturity dates)	72,795,771	286,770	12,713,191	2,202,066	-	87,997,798
ASSETS						
Total assets (expected maturity dates)	30,641,352	56,131,085	312,849	7,439,681	1,782,510	96,307,477

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

F Fair value

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

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

	Carrying value		Fair value	
	2007	2006	2007	2006
Financial assets				
Foreign securities, held to maturity	92,331	369,077	92,358	364,253
Foreign equity securities, carried at cost	35,382	37,669	35,382	37,669
Government securities	712,389	1,918,813	712,389	1,918,813
Loans to banks	15,912	24,426	15,912	24,426
Financial liabilities				
Currency in circulation	19,893,323	17,768,218	19,893,323	17,768,218
Bank deposits	10,671,843	7,382,243	10,671,843	7,382,243
Reserve requirement of banks and saving houses	7,294,331	6,386,882	7,294,331	6,386,882
NBRM bills issued	21,040,271	9,480,027	21,040,271	9,480,027
Government MKD deposit - Treasury Bills for monetary purposes	12,170,661	12,868,664	12,170,661	12,868,664
Government foreign currency deposits	4,597,550	4,611,403	4,597,550	4,611,403
Payables to IMF	5,520,143	17,686,877	5,520,143	17,686,877
Other and restricted deposits	5,259,611	8,175,073	5,259,611	8,175,073
	3,748,125	2,392,510	3,748,125	2,392,510

Financial assets

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

As explained in Note 18, included in available-for-sale securities are BIS shares with a value of MKD 35,382,000 (2006: MKD 37,669,000), 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 approximates their carrying value.

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

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

(All amounts in MKD thousands unless otherwise stated)

Financial liabilities

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

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

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

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

4 Critical accounting estimates, and judgments in applying accounting policies

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

(a) Impairment of available for sale equity investments

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

(b) Held-to-maturity investments

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

5 Interest income	Loans granted	Deposits	Securities	Total December 31, 2007	Total December 31, 2006
Government	-	-	41,387	41,387	156,208
Domestic banks	286	-	-	286	471
Foreign entities	-	2,447,686	6,228	2,453,914	2,035,369
Other	2,694	-	-	2,694	-
Total for 2007	2,980	2,447,686	47,615	2,498,281	2,192,048
Total for 2006	471	2,015,887	175,690	2,192,048	-

6 Interest expense	Loans received	Deposits received	Securities issued	Total December 31, 2007	Total December 31, 2006
Government	-	593,774	-	593,774	351,294
Domestic banks	-	159,786	708,888	868,674	628,468
Foreign entities	41,142	-	-	41,142	113,226
Total for 2007	41,142	753,560	708,888	1,503,590	1,092,988
Total for 2006	113,226	462,747	517,015	1,092,988	-

7 Fee income	2007	2006
Fees from providing cash to banks	52,864	52,270
Fees based on settlement of payments (RTGS)	43,867	39,092
Fees from domestic banks for maintaining account based on debt turnover on account	43,018	32,643
Fees from sale of administrative and court government stamps	18,922	16,529
Fees from compensation for activities related to custodian of pension funds	10,062	9,278
Fees from administering foreign credit lines	5,605	7,716
Fees from foreign exchange operating	13,596	10,616
Fees from purchasing a right for purchasing foreign currency	97,560	51,238
Other fees	15,421	15,463
Total	300,915	234,845

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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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 fee of 0.4% of the total paid-in contributions (0.7% until April 2007).

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

Fees of MKD 97,560,000 (2006: MKD 51,238,000) were arise from compensation for purchased rights for purchasing foreign currency from the National Bank for securities sold to non-residents.

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		
		2007	2006
	Fees to foreign banks	6,624	9,757
	Other fees to domestic banks	4	24
	Total	6,628	9,781

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		
		2007	2006
	Unrealized positive exchange rate differences	1,000,891	1,568,566
	Unrealized negative exchange rate differences	(1,838,813)	(2,502,441)
	Unrealized positive exchange rate and price differences from gold	2,588,071	2,793,887
	Unrealized negative exchange rate and price differences from gold	(1,427,335)	(2,155,538)
	Total	322,814	(295,526)

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

10 Net income from trading securities	2007	2006
Realized profit from trading securities sold	212,564	37,646
Realized losses from trading securities sold	(505)	(64)
Interest income on trading securities	567,920	102,628
Unrealized positive price changes from trading securities	221,251	48,742
Unrealized negative price changes from trading securities	(3,734)	(11,644)
Total	997,496	177,308

11 Other operating income	2007	2006
Realized positive exchange rate differences, net	80,654	213,387
Income based on dividend from BIS	7,521	7,538
Income based on sale of jubilee coins	1,065	1,668
Other income	82,334	23,718
Income based on grants (Note 13)	18,113	-
Total	189,687	246,311

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

12 Staff expenses	2007	2006
Wages and personal income tax	183,198	177,117
Pension cost – defined contribution plans	56,357	54,509
Required contributions	30,992	30,636
Other staff expenses	26,650	24,512
Total	297,197	286,774

In 2007, the remuneration of the key management of the National Bank was MKD 10,036,000 (2006: MKD 10,663,000), included in ‘Staff expenses’ above.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

13 Other expenses

	2007	2006
Services	77,182	59,835
Costs of production of banknotes and coins	61,075	44,890
Material expenses	23,156	28,471
Other administrative expenses	14,357	12,390
Other expenses	2,908	13,480
Total	178,678	159,066

The expenditures pertaining to services also include the amount of MKD 18,920,000 for services for implementation of IFRS in the banking sector. The remaining amount between the income on grant and expenditures is MKD 807,000 which relates to tax expenditures on grant (see Note 11).

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

14 Provisions and write offs

	Note	2007	2006
Released provisions related to lawsuits with insurance companies	40	-	(23,038)
Provisions related to lawsuits with banks	40	32,662	114,930
Provisions for receivables from banks	16	(36,317)	59,219
Provisions for receivables from other receivables	24	1,600	-
Provisions for other assets	29	(6,086)	13,458
Provisions for receivables from employees	29	37,590	-
Other provisions		3,170	347
Total		32,619	164,916

Income in the amount of MKD 6,086,000 was realized in 2007 as a result of a release of allocated special reserves from previous years, for receivable based on payables for temporarily deposited cash.

In 2007, receivables from former National Bank employees for an identified shortage of cash, of MKD 37,590,000 were fully provisioned, as well as MKD 2,678,000 impairment for calculated penalty interest for the receivables based on the identified shortage.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

15 Gold

	2007	2006
Gold in the NBRM vault	14,060	11,914
Sight gold deposits	7,292	6,179
Term gold deposits	7,594,059	6,436,470
Total	7,615,411	6,454,563
Current	21,352	18,093
Non-current	7,594,059	6,436,470

As of December 31, 2007, the National Bank total gold reserves stood at 218,281.468 ounces (2006: 218,281.468 ounces) at a market value of US Dollar 836.50 (MKD 34,846) per ounce (December 31, 2006: US Dollar 635.70 or MKD 29,528 per ounce). Interest rates on term gold deposits for 2007 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 (2006: 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 9,266,000 (2006: MKD 9,154,000).

16 Foreign Currency Deposits

	2007	2006
Foreign currency sight deposits	11,564,337	11,351,094
Foreign currency term deposits	43,688,766	59,422,276
Provisions	(392,175)	(428,492)
Included in the cash and cash equivalents (Note 43)	54,860,928	70,344,878
Restricted accounts	984,955	721,121
Total	55,845,883	71,065,999

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

Interest rate type	31.12.2007	31.12.2006
- overnight deposits in USD	2.14% - 5.29%	4.08% - 5.26%
- Euro overnight deposits	3.05% - 4.04%	2.10% - 3.54%
- time deposits in USD	4.56% - 5.30%	4.56% - 5.43%
- time deposits in EUR	3.26% - 4.65%	2.23% - 3.67%

Foreign Currency Deposits include accrued interest of MKD 196,942,000 (2006: MKD 261,072,000).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

Sight deposits include MKD 984,955,000 of deposits that are not freely available for National Bank use. Part of these deposits in the amount of MKD 445,598,000 were pledged as security for a guarantee in favor of a foreign bank under liquidation as a condition for releasing National Bank deposits of MKD 919,466,000 in this bank. As of December 31, 2007, National Bank has reflected provisions in the amount of MKD 183,893,000 (2006: MKD 196,245,000) for possible losses on these deposits. The National Bank has made a subordinated loan with the same bank of USD 5 million (as of December 31, 2007 MKD equivalent of MKD 208,282,000) which matured in 2002, and is fully provisioned. As the bank is in liquidation, the maturity of this loan did not change its subordinated status.

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

	2007	2006
Balance as at 1 January	428,492	369,273
Additional /(Released) provision (Note 14)	(36,317)	59,219
Balance as at 31 December	392,175	428,492

Foreign currency deposits by type of entity

	2007	2006
International financial institutions	78,901	10,593
Central banks	52,073,117	32,212,258
Foreign commercial banks	4,086,040	39,271,640
Total	56,238,058	71,494,491
Provisions	(392,175)	(428,492)
Total	55,845,883	71,065,999

The provision pertains to deposits in foreign commercial banks.

Foreign currency deposits by geographic location

	2007	2006
Europe	55,701,060	69,154,554
America	507,999	2,285,979
Other	28,999	53,960
Total	56,238,058	71,494,493
Provisions for deposits in Europe	(392,175)	(428,492)
Total	55,845,883	71,065,999

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

17 Cash Foreign Currency

Cash foreign currency is cash foreign currency and checks held in the National Bank vault. Cash foreign currency is included in cash equivalents for the purposes of the cash flow statement (Note 43).

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 securities held to maturity and trading securities.

	2007	2006
Securities held to maturity	92,331	369,078
3.5% annual Euro-denominated government note maturing October 2008	92,331	92,029
4.75% semiannual GBP-denominated BIS bond, maturing March 2007	-	277,048
Trading securities	30,849,757	9,400,669
Foreign debt securities	30,849,757	9,400,669
Securities available for sale	35,382	37,669
Foreign equity securities	35,382	37,669
Total	30,977,470	9,807,416
Current	30,850,477	9,405,139
Non-current	126,993	402,277

Securities intended to be held to maturity bear fixed income. Foreign securities held to maturity include accrued interest of MKD 720,000 (2006: MKD 4,469,000).

The trading securities portfolio contains high quality debt securities. The investments in trading securities marked to market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 2% and 5.125% p.a. (2006: from 2% to 4.875%). Foreign trading securities include accrued interest of MKD 429,420,000 (2006: MKD 66,610,000).

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).

19 Special Drawing Rights (SDR)

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2007, the basic rate ranged from 3.79% to 4.38% p.a. (2006: from 3.06% to 4.07% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 43).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

20 Receivables from Government related to IMF

	2007	2006
Receivable related to SDR allocation based on liability	551,548	587,196
Total	551,548	587,196
Current	551,548	587,196

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 37a).

21 Government Securities

	2007	2006
Securities held to maturity		
Bond for selective credits	712,389	690,760
Bond for rehabilitation of one commercial bank	-	1,228,053
Total	712,389	1,918,813
Current	-	307,013
Non-current	712,389	1,611,800

The bond for selective credits and the bonds for rehabilitation and reconstruction of one commercial bank, held to maturity, are securities issued on behalf and for the account of the Republic of Macedonia, on the basis of the provisions of the 1995 Law on Reconstruction and Rehabilitation of a portion of the banks in the Republic of Macedonia.

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

On April 2, 2007, the Ministry of Finance carried out an early purchase of the bond for rehabilitation of one commercial bank, issued on the behalf of and for the account of the Republic of Macedonia, the payment of which should have been made in equal annual annuities of MKD 307,013,000 until April 1, 2010. This was an interest rate bearing bond according to variable interest rate equal to the discount rate of the National Bank in the amount of 6.5%, annually (2006: 6.5% annually). The receivable on the basis of the calculated monthly interest from the government securities was also completely collected on the same date.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

22 Membership in the IMF

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 4,696,154,000 at the end of 2007, the account No. 1 amounts to MKD 11,770,000 and account No. 2 is valued at MKD 139,000. (2006: MKD 4,981,932,000, MKD 12,486,000 and MKD 147,000 respectively for the three positions, see note 37c). The changes are due to the evaluation of these positions by the SDR exchange rate on April 30, according to the IMF financial year.

23 Loans to banks

	2007	2006
Long-term loans from the conversion of the selective credits:		
1993	-	5,836
1996	15,912	18,590
	<u>15,912</u>	<u>18,590</u>
Total	<u>15,912</u>	<u>24,426</u>
Current	-	5,836
Non-current	15,912	18,590
	<u>15,912</u>	<u>18,590</u>

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, while the loans converted in 1993 mature from 2003 to 2008, in ten equal semiannual installments. All selective loans bear annual interest of 1.5%, which becomes due semiannually.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

24 Other receivables	2007	2006
Receivable from bank under bankruptcy	1,034,569	1,034,569
Due auction deposits	9,268	9,268
Receivables from bank under liquidation	1,600	-
Total	1,045,437	1,043,837
Provision	(1,045,437)	(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 created 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 receivable was fully disputed by the bankruptcy trustee. Therefore, the National Bank fully provisioned the receivables from the bank under bankruptcy during the preceding years. The process is still underway.

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

Receivables from bank under liquidation represents transfer from long-term loans from the conversion of the selective credits, granted to a bank, towards which in October 2007, a liquidation proceeding was initiated. These long-term loans were maturing in the forthcoming years and the amount of the receivable is fully provisioned.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

25 Property and Equipment

	Land and buildings	Furniture, equipment and vehicles	Works of art	Investments in progress	Total assets for business purposes	Property and equipment for entertainment purposes	Total
On January 1, 2006							
Cost	852,079	391,241	47,248	12,933	1,303,501	35,719	1,339,220
Accumulated depreciation	(122,542)	(298,520)	-	-	(421,062)	(9,461)	(430,523)
Net book amount	729,537	92,721	47,248	12,933	882,439	26,258	908,697
On January 1, 2006, net of accumulated depreciation	729,537	92,721	47,248	12,933	882,439	26,258	908,697
Additions	7,254	25,202	4,713	2,714	39,883	-	39,883
Write offs	-	(967)	(3)	(14)	(984)	(1)	(985)
Revaluation of paintings	-	-	1,777	-	1,777	-	1,777
Transfers	1,632	(1,183)	-	(1,632)	(1,183)	7	(1,176)
Depreciation for the year	(11,175)	(31,745)	-	-	(42,920)	(1,681)	(44,601)
On December 31, 2006	727,248	84,028	53,735	14,001	879,012	24,583	903,595
On December 31, 2006							
Cost	860,965	406,055	53,735	14,001	1,334,756	35,699	1,370,455
Accumulated depreciation	(133,717)	(322,027)	-	-	(455,744)	(11,116)	(466,860)
Net book amount	727,248	84,028	53,735	14,001	879,012	24,583	903,595

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

25 Property and Equipment (continued)

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

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 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

26 Intangible assets

	2007	2006
At 1 January		
Cost	96,823	82,113
Accumulated amortization	(65,476)	(52,117)
Net book amount	31,347	29,996
Year ended December		
Opening net book amount	31,347	29,996
Additions	22,627	13,534
Transfers	-	1,176
Amortization charge	(23,204)	(13,359)
Investments in progress	129	-
Closing net book amount	30,899	31,347
At 31 December		
Cost	119,450	96,823
Investments in progress	129	-
Accumulated amortization	(88,680)	(65,476)
Net book amount	30,899	31,347

27 Jubilee coins

The jubilee coins are gold and silver coins which, as defined by the decision of the Government, were manufactured for the purposes of celebrating jubilees relevant for the country. On December 31, 2007, the National Bank held a total of 7,889 gold coins and 324 silver coins (2006: 7,992 gold coins and 387 silver coins). The jubilee coins in the National Bank vault are intended for sale.

28 Receivables

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

	2007	2006
Fees	18,698	18,605
Receivables for maintenance of premises	2,962	4,119
Total	21,660	22,724

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

29 Other Assets

	2007	2006
Prepaid expenses of printing banknotes	80,582	46,872
Other prepaid expenses	1,366	1,082
Office and other materials	10,835	10,526
Other assets	8,244	3,115
Other receivables	325,782	294,278
Impairment for other receivables	(325,782)	(294,278)
	<hr/>	<hr/>
Total	101,027	61,595
	<hr/>	<hr/>
Current	90,192	51,069
Non-current	10,835	10,526
	<hr/>	<hr/>

The movements in provision for other assets are as follows:

	2007	2006
Balance as at 1 January	294,278	280,820
Increase / (Decrease) of provisions (Note 14)	(6,086)	13,458
Increase of provisions (Note 14)	37,590	-
	<hr/>	<hr/>
Balance as at 31 December	325,782	294,278
	<hr/>	<hr/>

30 Currency in circulation

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

Currency in circulation		2007	2006
	MKD		
Coin in denomination of	0.5	1,603	1,594
Coin in denomination of	1	58,972	53,836
Coin in denomination of	2	74,765	67,440
Coin in denomination of	5	124,316	109,845
Note in denomination of	10	250,374	229,268
Note in denomination of	50	291,327	275,413
Note in denomination of	100	993,212	954,720
Note in denomination of	500	3,781,417	3,232,658
Note in denomination of	1000	13,696,327	12,270,534
Note in denomination of	5000	621,010	572,910
		<hr/>	<hr/>
Currency in circulation		19,893,323	17,768,218
		<hr/>	<hr/>

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

31 Bank Deposits

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

32 Reserve requirement of banks and savings houses

	2007	2006
Savings houses' MKD reserve requirement	17,212	14,123
Banks' foreign exchange reserve requirement	7,277,119	6,372,759
Total	7,294,331	6,386,882
Current	7,294,331	6,386,882

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 (2006: 2%). Since January 2005, the National Bank has not been paying any remuneration for the foreign exchange reserve requirement.

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

33 National Bank bills issued

In 2007, the National Bank bills maturity was 28 days. At the National Bank bills auctions, an interest rate tender was applied. The interest rates on the CB bills auctions registered a downward trend and ranged between 5.71% in January and 4.77% in December. The interest rates were at the lowest level in November, with the monthly weighted interest rate equaling 4.66% (in 2006: maturities 28 days, type of tender: interest rate tender, interest rates: from 7.31% in January to 5.74% in December). The National Bank bills issued include accrued interest of MKD 44,949,000 (2006: MKD 24,232,000).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

34 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.

	2007	2006
Single Treasury account	9,310,218	10,311,031
Other MKD deposits	2,860,443	2,557,633
Special deposit - Treasury bills for monetary policy purposes	4,597,550	4,611,403
Total	<u>16,768,211</u>	<u>17,480,067</u>
Current	<u>16,768,211</u>	<u>17,480,067</u>

In 2007, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1.0 % p.a. (2006: 0.7% p.a.). Government deposits include the accrued undue interest in the amount of MKD 16,462,000 (2006: MKD 9,273,000).

In order to absorb excess liquidity and develop the securities market, starting from March 2006, National Bank, in cooperation with the Ministry of Finance, started to use Treasury bills for monetary policy purposes. The Treasury bills for monetary policy purposes are issued at the regular auctions of three-month Treasury bills. The Treasury bills for monetary policy purposes at a discounted value are recorded as a special deposit of the Ministry of Finance. The interest on the Treasury bills for monetary policy purposes is an expenditure of the National Bank. During 2007, the interest rate on the three-month Treasury bills ranged between 6.51 % in January and 5.15 % in December. The lowest monthly weighted interest rate was registered in September and equaled 3.71%. Treasury bills for monetary policy purposes include accrued interest in the amount of MKD 37,834,000 (2006: MKD 38,469,000).

35 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, 2007, these deposits amounts were MKD 5,520,143,000 (2006: MKD 17,686,877,000). In the 2007, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2006: 0.5% p.a.).

The foreign currency deposits include government deposits based on principal and interest from the commercial banks participants in the credit lines administered through the Apex Unit established at the National Bank. As of December 31, 2007 these deposits are valued at MKD 454,481,000 (2006: MKD 627,718,000). The National Bank does not pay interest on these deposits.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

36 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.

37 Borrowing from IMF

Borrowing from IMF comprises the liabilities on the basis of net cumulative allocation, borrowings and liabilities on the basis of membership and IMF deposits.

a) Liabilities on the basis of net cumulative allocation

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

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

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

b) Liabilities on the basis of borrowings from IMF

	2007	2006
Enhanced Structural Adjustment Facility (ESAF)	-	382,374
Poverty Reduction and Growth Facility (PRGF)	-	96,573
Extended Fund Facility (EFF)	-	46,946
Stand-by Arrangement	-	1,331,558
Stand-by Arrangement	-	735,861
Total	-	2,593,312
Current	-	391,246
Non-current	-	2,202,066

The funds from the withdrawn borrowings from the IMF are primarily for the purpose of supporting the balance of payments.

On May 23, 2007, the National Bank made full early payment of the liabilities of the Republic of Macedonia to the IMF (concessional and nonconcessional loans) in the total amount of MKD 2,008,700,000 (SDR 29,200,000, i.e. EUR 32,800,000).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

c) Liabilities on the basis of membership in the IMF(see Note 22):

	2007	2006
Liabilities on the basis of issued promissory note for membership in the IMF	4,696,154	4,981,932
Liabilities on the basis of account 1	11,770	12,486
Liabilities on the basis of account 2	139	147
Total	4,708,063	4,994,565
Current	4,708,063	4,994,565

38 Other deposits

	2007	2006
Liabilities on the basis from MKD deposits to other domestic entities	2,006,574	1,883,008
Liabilities on the basis from MKD deposits to international financial institutions	2,747	16,547
Total	2,009,321	1,899,555
Current	2,009,321	1,899,555

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 (2006: 0.7% per annum).

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

39 Other payables

Payables are analyzed as follows:

	2007	2006
Payables from appropriation of net income	1,288,761	257,757
Liabilities from BNT bankruptcy	148,450	149,323
Payables arising from annuities received from sale of socially-owned flats	14,982	6,265
VAT	825	1,473
Other payables	9,554	9,529
Total	<u>1,462,572</u>	<u>424,347</u>

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

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

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

40 Provisions

	2007	2006
Provisions for potential liabilities based on litigations with banks	262,599	229,937
Provisions for potential liabilities based on litigations with insurance companies	16,227	16,227
Total	<u>278,826</u>	<u>246,164</u>

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

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

	2007	2006
Balance as at 1 January	246,164	154,272
Released provisions related to lawsuits with insurance companies	-	(23,038)
Additional provisions for potential liabilities based on litigations with banks	32,662	114,930
Balance as at 31 December	278,826	246,164

41 Other liabilities

	2007	2006
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	399,951	331,305
Jubilee coins counterpart	78,118	79,182
Deferred income	22,374	11,770
Equity payments pending operational license	-	51,998
Deferred expenses IMF	-	18,765
Liabilities to suppliers and other liabilities	18,912	64,397
Total	519,355	557,417

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 20 and 27).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

42 Capital and reserves

Capital

The National Bank's capital is defined in the Law on the National Bank and as of December 31, 2007, it amounted to MKD 1,289,789,000 (2006: 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

	2007	2006
Special reserves from unrealized exchange rate and price changes		
o Special reserves from foreign exchange gains	2,578,252	3,416,173
o Special reserves from price and exchange rate changes of gold	3,665,954	2,505,218
o Special reserves from price changes of securities for trading	221,846	48,742
	<hr/>	<hr/>
Total	<u>6,466,052</u>	<u>5,970,133</u>

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 are reduced due to covering the amount of the net negative foreign exchange gains for 2007 of MKD 837,921,000 (2006: net negative foreign exchange of MKD 933,874,000 were covered from the Special reserves).

Special reserves from price and exchange rate changes of gold for 2007 increased by MKD 1,160,736,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold. (2006: MKD 638,349,000).

Special reserves from price changes of securities for trading went up by MKD 221,251,000 on the basis of allocation of the net unrealized positive price changes of securities for trading according to the security-by-security principle. Special reserves on the basis of the realized price changes from securities in the amount of MKD 48,147,000 were allocated to the general reserves and the Budget of the Republic of Macedonia.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Notes to the financial statements for the year ended 31 December 2007

(All amounts in MKD thousands unless otherwise stated)

43 Cash and cash equivalents	2007	2006
Foreign currency deposits (Note 16)	54,860,928	70,344,878
Foreign currencies in vault (Note 17)	90,101	206,660
SDR holdings, net (Note 19)	60,484	138,555
Total	55,011,513	70,690,093

44 Commitments and contingencies

a) Litigation

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

45 Related parties transactions

The National Bank has related party transactions with the Government of the Republic of Macedonia and with the members of the Council. The transactions and outstanding balances with the related parties are presented in Note 5, Note 6, Note 12, Note 21, Note 34 and Note 35.