

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Financial Statements**

**for the year ended 31 December 2006**

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## GENERAL INFORMATION

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## GENERAL INFORMATION

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### **Members of the Council**

Petar Gosev, Governor  
Emilija Nacevska, Vice Governor  
Fadil Bajrami, Vice Governor  
Verica Hadzi-Vasileva  
Goran Petreski  
Liman Kurtisi  
Ljubomir Kekenovski  
Drage Janev  
Tihomir Petreski

### **Registered office**

Kompleks banki bb  
1000, Skopje

## **Report of independent auditors**

### **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 "NBRM"), which comprise the balance sheet as of 31 December 2006 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 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 NBRM as of 31 December 2006, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers dooel*

**PricewaterhouseCoopers dooel**

**Skopje,**

**30 April 2007**

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial statements for the year ended 31 December 2006**

*(All amounts in MKD thousands unless otherwise stated)*

**Income statement**

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2006</b>	<b>2005</b>
Interest income	5	2,294,676	1,205,669
Interest expense	6	(1,092,988)	(751,332)
<b>Net interest income</b>		<b>1,201,688</b>	<b>454,337</b>
Fee income	7	237,420	213,348
Fee expense	8	(9,654)	(10,925)
<b>Net fee income</b>		<b>227,766</b>	<b>202,423</b>
<b>Net unrealized exchange rate and fair value differences</b>	<b>9</b>	<b>(246,784)</b>	<b>2,539,493</b>
Net income from trading securities	10	25,939	(6,658)
Other operating income	11	243,737	29,117
Staff expenses	12	(286,774)	(278,315)
Depreciation and amortization charge	25,26	(57,960)	(64,169)
Other expenses	13	(159,194)	(147,134)
<b>Provisions and write offs</b>	<b>14</b>	<b>(164,916)</b>	<b>(148,699)</b>
<b>Profit for the year</b>		<b>783,502</b>	<b>2,580,395</b>

The notes on pages 8 to 51 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial statements for the year ended 31 December 2006**

*(All amounts in MKD thousands unless otherwise stated)*

**Balance sheet**

ASSETS	Note	At 31 December	
		2006	2005
Gold	15	6,454,563	5,816,277
Foreign currency deposits	16	71,065,999	61,499,563
Foreign currencies	17	206,660	47,909
Foreign securities	18	9,807,416	1,810,586
Special Drawing Rights	19	138,555	40,671
<b>Foreign assets</b>		<b>87,673,193</b>	<b>69,215,006</b>
Receivable from Government related to IMF	20	587,196	620,630
Government securities	21	1,918,813	2,929,085
<b>Receivable from Government</b>		<b>2,506,009</b>	<b>3,549,715</b>
<b>IMF Membership</b>	<b>22</b>	<b>4,994,565</b>	<b>4,970,211</b>
Loans to banks	23	24,426	31,247
Other receivables	24	-	-
<b>Receivables from banks</b>		<b>24,426</b>	<b>31,247</b>
Property and equipment	25	903,595	908,697
Intangible assets	26	31,347	29,996
Jubilee coins	27	90,023	64,292
Receivables	28	22,724	21,676
Other assets	29	61,595	36,283
<b>Total assets</b>		<b>96,307,477</b>	<b>78,827,123</b>

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**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial statements for the year ended 31 December 2006**

*(All amounts in MKD thousands unless otherwise stated)*

**Balance Sheet (continued)**

LIABILITIES AND EQUITY	Note	At 31 December	
		2006	2005
<b>Currency in circulation</b>	<b>30</b>	<b>17,768,218</b>	<b>15,850,612</b>
<b>Bank deposits</b>	<b>31</b>	<b>7,382,243</b>	<b>4,973,550</b>
<b>Reserve requirement of banks and savings houses</b>	<b>32</b>	<b>6,386,882</b>	<b>5,333,913</b>
<b>NBRM bills issued</b>	<b>33</b>	<b>9,480,027</b>	<b>8,945,039</b>
Government MKD deposits	34	17,480,068	8,932,142
Government foreign currency deposits	35	17,686,877	15,625,341
<b>Government deposits</b>		<b>35,166,945</b>	<b>24,557,483</b>
<b>Restricted deposits</b>	<b>36</b>	<b>492,954</b>	<b>411,198</b>
Special Drawing Rights Allocation		587,196	620,630
Borrowing from IMF		2,593,312	3,221,857
Payables based on membership and deposits		4,994,565	4,970,211
<b>Payables to IMF</b>	<b>37</b>	<b>8,175,073</b>	<b>8,812,698</b>
<b>Other deposits</b>	<b>38</b>	<b>1,899,555</b>	<b>1,594,898</b>
Other payables	39	424,347	166,931
Provisions	40	246,164	154,272
Other liabilities	41	557,417	226,399
<b>Other liabilities</b>		<b>1,227,928</b>	<b>547,602</b>
Capital		1,289,789	1,289,789
General reserves		1,103,543	502,110
Other reserves		5,971,910	6,217,273
Accumulated loss		(37,590)	(209,042)
<b>Capital and reserves</b>	<b>42</b>	<b>8,327,652</b>	<b>7,800,130</b>
<b>Total liabilities and equity</b>		<b>96,307,477</b>	<b>78,827,123</b>

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**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial statements for the year ended 31 December 2006**

*(All amounts in MKD thousands unless otherwise stated)*

**Statement on changes in equity**

	Note	Capital	General reserves	Special reserves	Paintings revaluation	Accumulated loss	Total capital and reserves
<b>At 1 January 2005</b>		<b>1,289,789</b>	-	<b>3,677,780</b>	-	<b>(744,934)</b>	<b>4,222,635</b>
Restatement	2A	-	-	-	-	(209,042)	(209,042)
<b>Restated balance at 1 January 2005</b>		<b>1,289,789</b>	-	<b>3,677,780</b>	-	<b>(953,976)</b>	<b>4,013,593</b>
Profit for the year		-	-	-	-	2,580,395	2,580,395
Total recognised income for 2005		-	-	-	-	2,580,395	2,580,395
Loss coverage by government bonds	42	-	-	-	-	714,581	714,581
Calculated positive exchange rate and gold price changes	42	-	-	1,419,250	-	(1,419,250)	-
Calculated positive exchange rate differentials	42	-	-	1,119,886	-	(1,119,886)	-
Calculated positive securities price changes	42	-	-	357	-	(357)	-
Appropriation to general reserves	42	-	2,110	-	-	(2,110)	-
Appropriation to Budget	39	-	-	-	-	(8,439)	(8,439)
Capitalization of general reserves	42	-	500,000	-	-	-	500,000
<b>At 31 December 2005/ 1 January 2006</b>		<b>1,289,789</b>	<b>502,110</b>	<b>6,217,273</b>	-	<b>(209,042)</b>	<b>7,800,130</b>
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 recognised income for 2006		-	-	-	1,777	783,502	785,279
Calculated positive exchange rate and gold price changes	42	-	-	638,349	-	(638,349)	-
Calculated negative exchange rate differentials	42	-	-	(933,874)	-	933,874	-
Calculated positive securities price changes	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)
<b>At 31 December 2006</b>		<b>1,289,789</b>	<b>1,103,543</b>	<b>5,970,133</b>	<b>1,777</b>	<b>(37,590)</b>	<b>8,327,652</b>

The notes on pages 8 to 51 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
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*(All amounts in MKD thousands unless otherwise stated)*

**Cash flow statement**

	Note	<b>Year ended 31 December</b>	
		<b>2006</b>	<b>2005</b>
<b>Net gain before allocation</b>		<b>783,502</b>	<b>2,580,395</b>
Adjusted for:			
Interest income	5	(2,294,676)	(1,205,669)
Interest expenses	6	1,092,988	751,332
Unrealized gold price changes		(638,349)	(1,419,250)
Unrealized price changes from trading securities		(37,098)	6,301
Impairment		73,024	23,332
Provisions		91,892	16,000
Depreciation and amortization charge	25,26	57,960	64,169
<b>Net (loss)/ gain before changes in assets and liabilities</b>		<b>(870,757)</b>	<b>816,610</b>
Gold		63	(500,162)
Foreign securities		(7,906,769)	(683,769)
Term deposits over 90 days		4,603,155	(4,603,155)
Restricted deposits		(273,518)	(62,976)
Receivables from Government		1,002,041	286,678
Receivables from banks		6,821	5,853
Other assets		(65,897)	36,371
Currency in circulation		1,917,606	741,518
Bank deposits		2,406,372	2,303,449
Reserve requirement of banks and savings houses		1,052,969	1,962,436
Government deposits including restricted and other deposits		10,952,831	11,727,841
Proceeds from borrowings from IMF		-	777,760
Repayments of borrowings from IMF		(628,545)	(374,599)
Provisions		-	(23,390)
Other liabilities		328,635	(98,183)
Interest received		2,249,945	1,206,889
Interest paid		(1,045,398)	(747,069)
<b>Net cash flows from operating activities</b>		<b>13,729,554</b>	<b>12,772,102</b>
Acquisition of property and equipment		(53,417)	(23,452)
Proceeds from the sale of property and equipment		985	30
<b>Net cash flows used in investing activities</b>		<b>(52,432)</b>	<b>(23,422)</b>
NBRM bills issued		534,805	4,369,136
<b>Net cash flows from financing activities</b>		<b>534,805</b>	<b>4,369,136</b>
Unrealized effects		-	500,000
Net increase in cash and cash equivalents		14,211,927	17,617,816
<b>Cash and cash equivalents at the beginning of the year</b>		<b>56,478,166</b>	<b>38,860,350</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>43</b>	<b>70,690,093</b>	<b>56,478,166</b>

The notes on pages 8 to 51 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial statements for the year ended 31 December 2006**

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*(All amounts in MKD thousands unless otherwise stated)*

**1 General Information**

The National Bank of the Republic of Macedonia (hereinafter referred to as: "NBRM") is the central bank of the Republic of Macedonia and the sole issuing institution in the country. The organization and the operating of the NBRM are regulated by the Law on the National Bank of the Republic of Macedonia, ("NBRM Law"), 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, NBRM is a legal entity fully owned by the state, with financial and administrative independence. NBRM was constituted as a central bank of issue in 1992.

Pursuant to the NBRM Law, the main objective of the NBRM is maintaining the price stability. The NBRM is supporting the economic policy of the country, observing the financial stability, without jeopardizing the accomplishment of its main objective. The achievement of these objectives takes priority over the profit.

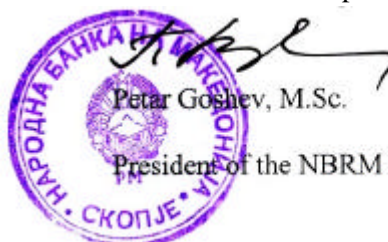
NBRM submits to the Parliament of the Republic of Macedonia a semi-annual and annual report on its operations, as well as on the supervision and the foreign reserves management, as well as financial statement audited by an external independent auditor.

Net income of NBRM 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 NBRM Law of December 2006, 70% of the net income (2005: 20% of the net income) is be appropriated to general reserves, i.e. 15% after reaching the level of core capital, 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 NBRM, 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 NBRM are the Council and the Governor.

The total number of employees as of 31 December 2006 was 417 (31 December 2005: 412).

The financial statements are adopted by the Council of the National Bank of the Republic of Macedonia on 27 April 2007 and signed by the president of the NBRM Council on its behalf:



Petar Goshnev, M.Sc.  
President of the NBRM Council

*(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 compilation of financial statements**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the IASB, and interpretations of the International Accounting Standards and International Financial Reporting Interpretation Committee approved by the IASC that remain in effect.

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

#### *Restatement of the opening balance of Accumulated loss*

Part of the restatement of the opening balance of the accumulated loss as at 1 January 2005 in the amount of MKD 171,452,000 is a result of a reconciliation of the balance of assets and liabilities related to monetary transactions. The NBRM ascertained that there is a balance of non-reconciled contra accounts in the balance sheet of 2001, originating from previous years. The rest of the balance in the amount of MKD 37,590,000 represents restatement of the Currency in circulation as a result of the revealed shortage of banknotes in one of the vaults of the NBRM in March 2007. In accordance with the information from the investigative court procedure, which is currently in progress, the NBRM has indications that the shortage of the banknotes in the vault dates before 1 January 2002, in the period when the distribution of currencies in the Republic of Macedonia was not under the authority of the NBRM.

The effect was recorded in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors and resulted with the restatement of the opening balance at 1 January 2005 in the Statements of changes in equity.

#### *Amendments to published standards and interpretations effective as of 1 January 2006*

The application of the amendments and interpretations listed below did not result in substantial changes to the NBRM's accounting policies:

- IAS 19 Amendment and IAS 1 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment – Net Investment in a Foreign Operation;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

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*(All amounts in MKD thousands unless otherwise stated)*

- IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the NBRM's operating activities and therefore have no material effect on the NBRM's policies.
- IAS 39 Amendment – The Fair Value Option. Prior to the amendment, the NBRM applied the unrestricted version of the fair value option in IAS 39. The NBRM meets the new criteria in the amendment and therefore continues to designate certain financial assets and financial liabilities at fair value through profit and loss.
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are now accounted for under IAS 39 and no longer accounted for under IFRS 4, as previously required under IFRS. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the NBRM's policies.

*Standards, interpretations and amendments to published standards that are not yet effective*

**IFRS 7, Financial Instruments: Disclosures, and complementary amendments to IAS 1, Presentation of Financial Statements - Capital Disclosures** (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, illiquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The NBRM assessed the impact of IFRS 7 and the amendments to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment to IAS 1. The NBRM will apply IFRS 7 and the amendment to IAS 1 from annual period beginning 1 January 2007.

There are a number of other new standards or amendments to the existing ones that are not relevant to the NBRM's operations. These amendments and standards include:

- IFRS 8, Operating Segments (effective 1 January 2008);
- IFRIC 7, Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 - Share-based Payment (effective 1 May, 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective 1 June, 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November, 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009).

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**Financial statements for the year ended 31 December 2006**

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*(All amounts in MKD thousands unless otherwise stated)*

**B Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the NBRM operates ('the functional currency'). The financial statements are presented in MKD, which is the NBRM'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 transactions. All exchange rate differentials are recognized in the income statement.

Exchange rate:	31 December 2006 MKD	31 December 2005 MKD
USD	46.45	51.86
EUR	61.17	61.18
SDR	70.08	74.07

**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, or realize the asset and settle the liability simultaneously.

**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 recognised 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 the same as loans and advances, (see note 2H) less any reduction for impairment (see note 2J).

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*(All amounts in MKD thousands unless otherwise stated)*

**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 NBRM. Monetary gold is held by the NBRM 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 NBRM vault and SDR holdings.

**H Financial assets**

The NBRM 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. NBRM 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 recognised 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 recognised 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 recognised in the profit and loss.

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*(All amounts in MKD thousands unless otherwise stated)*

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

*Available for sale*

Available-for-sale investments are those intended to be held 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 NBRM 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.



*(All amounts in MKD thousands unless otherwise stated)*

## **J Impairment of financial assets**

### *Assets carried at amortized cost*

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

Estimates of changes in future cash flows for banks of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the NBRM 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 NBRM assesses at each balance sheet date whether there is objective evidence that a

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

**K Trade and settlement date accounting**

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

**L Property and equipment**

All property and equipment, other than 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 the capital 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:

Buildings	10 to 77 years
Equipment	5 to 10 years
Vehicles	6 to 7 years
Furniture	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Land, paintings and numismatics are not depreciated.

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**M Intangible assets**

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

**N Impairment of non-financial assets**

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

**O Jubilee coins**

Jubilee coins are not a legal tender and they typically have an artistic or collector's premium such that they are sold at prices which are higher than the intrinsic value of the metal from which they are formed. The NBRM 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 NBRM's Council.

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

**P Fiduciary activities**

The NBRM 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 NBRM receives fee income for providing these services (Note 7).

**Q Currency in circulation**

Banknotes and coins in circulation issued by NBRM 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 NBRM bills issued**

NBRM bills are issued only in domestic currency and are with maturity of twenty eight days. The bills are issued by NBRM 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.

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**S Deposits**

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

**T Provisions**

Provisions are recognised when the 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 recognised in the income statement for the period.

**V Revenue recognition**

*Interest income and expense*

Interest income is recognized at the moment of its occurring. Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis 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 include realized profit and loss as a result of sales and unrealized 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

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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 NBRM 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, NBRM is exempted from income tax.

The NBRM 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.

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**3 Financial risk management**

**A** The balance sheet of NBRM is largely comprised of financial instruments. These instruments expose NBRM to a number of risks, including liquidity risk, interest rate risk, foreign exchange risk, and credit risk.

**B Credit risk**

Credit risk is the risk of reducing the value of the foreign assets due to a change in the financial position of the contractual financial institution or commercial bank where the foreign reserves are kept, or of the issuer of the instrument in which the foreign reserves are placed. The size and concentration of the exposure of NBRM to credit risk can be obtained directly from the balance sheet and notes to balance sheet positions that describe financial assets. In the case of NBRM, the main credit risk arises in respect of correspondent banks where foreign exchange deposits and other foreign assets are placed.

The table below shows main concentrations of credit risk by counterparty:

	<b>Deposits</b>	<b>Securities</b>	<b>2006</b>	<b>2005</b>
BIS Basel	10,688,945	3,584,184	14,273,129	15,845,925
Federal Reserve Bank of New York	2,276,433	1,854,049	4,130,482	8,576,785
Banque de France	12,202,574	912,343	13,114,917	14,767,026
Bank of England	10,537,344	-	10,537,344	12,254,972
Deutsche Bundesbank	3,419,171	3,395,395	6,814,566	4,125,646

The credit risk is managed by determining a financial institution – commercial bank or issuer of a security based on criteria set by the NBRM Council.

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**C Currency risk**

Currency risk is the risk that the value of the NBRM foreign reserves will be reduced as a result of fluctuation in the foreign exchange rates and the monetary gold.

The currency structure of 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. Thus, the Euro dominates in the currency structure of foreign reserves. The participation of USD in the currency structure of foreign reserves is limited to the amount needed for servicing of the debt liabilities abroad, denominated in USD.

Keeping in mind the fixed rate of the Denar toward the Euro, the foreign exchange risk of NBRM toward the Euro is minimal, unlike the USD, where the exposure is present due to the free fluctuations between the USD and Euro, and its impact on the Denar exchange rate.

The table below summarises the NBRM's exposure to the currency risk. Included in the table are the NBRM's foreign currency-denominated assets and liabilities at carrying amounts, categorised by currency, as at 31 December 2006.

**ASSETS**

	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
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
<b>Total assets</b>	<b>72,064,413</b>	<b>15,004,499</b>	<b>763,420</b>	<b>441,994</b>	<b>8,033,151</b>	<b>96,307,477</b>

**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
<b>Total liabilities</b>	<b>23,317,277</b>	<b>1,539,588</b>	<b>3,180,508</b>	<b>96,010</b>	<b>59,846,442</b>	<b>87,979,825</b>
<b>Gap analysis</b>	<b>48,747,136</b>	<b>13,464,911</b>	<b>(2,417,088)</b>	<b>345,984</b>	<b>(51,813,291)</b>	<b>8,327,652</b>

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The table below summarises the NBRM's exposure to the currency risk. Included in the table are the Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorised by currency, as at 31 December 2005:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	52,499,321	16,241,323	80,484	393,878	-	69,215,006
Receivable from the government	-	-	620,630	-	2,929,085	3,549,715
Membership with the IMF	-	-	-	-	4,970,211	4,970,211
Receivable from banks	-	-	-	-	31,247	31,247
Other assets	-	-	-	-	1,060,944	1,060,944
<b>Total assets</b>	<b>52,499,321</b>	<b>16,241,323</b>	<b>701,114</b>	<b>393,878</b>	<b>8,991,487</b>	<b>78,827,123</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	15,850,612	15,850,612
Deposits of banks	-	-	-	-	4,973,550	4,973,550
Reserve requirements	5,323,066	-	-	-	10,847	5,333,913
NBRM Bills	-	-	-	-	8,945,039	8,945,039
Deposits of the government	15,396,267	221,351	-	7,813	8,932,052	24,557,483
Restricted deposits	81,723	294,688	-	34,787	-	411,198
Borrowings from IMF	-	-	3,842,487	-	4,970,211	8,812,698
Other deposits	-	-	-	-	1,594,898	1,594,898
Other liabilities	134,519	5,405	-	7,868	399,810	547,602
<b>Total liabilities</b>	<b>20,935,575</b>	<b>521,444</b>	<b>3,842,487</b>	<b>50,468</b>	<b>45,677,019</b>	<b>71,026,993</b>
<b>Gap analysis</b>						
<b>Gap per individual band</b>	<b>31,563,746</b>	<b>15,719,879</b>	<b>(3,141,373)</b>	<b>343,410</b>	<b>(36,685,532)</b>	<b>7,800,130</b>



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**D Interest rate risk**

NBRM 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 NBRM 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 NBRM's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2006 is presented below. It includes the NBRM'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		
<b>ASSETS</b>							
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
Receivables from banks	-	-	5,836	-	18,590	-	24,426
Other assets	-	-	-	-	-	1,109,284	1,109,284
<b>Total assets</b>	<b>24,419,739</b>	<b>56,131,085</b>	<b>312,849</b>	<b>7,439,681</b>	<b>709,350</b>	<b>7,294,773</b>	<b>96,307,477</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	17,768,218	17,768,218
Deposits of banks	7,375,672	-	-	-	-	6,571	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
<b>Total liabilities</b>	<b>54,506,346</b>	<b>-</b>	<b>318,649</b>	<b>160,299</b>	<b>-</b>	<b>32,994,531</b>	<b>87,979,825</b>
<b>GAP ANALYSIS</b>							
<b>Gap per individual band</b>	<b>(30,086,607)</b>	<b>56,131,085</b>	<b>(5,800)</b>	<b>7,279,382</b>	<b>709,350</b>	<b>(25,699,758)</b>	<b>8,327,652</b>
<b>Cumulative gap</b>	<b>(30,086,607)</b>	<b>26,044,478</b>	<b>26,038,678</b>	<b>33,318,060</b>	<b>34,027,410</b>	<b>8,327,652</b>	<b>-</b>

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The NBRM's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2005 was as follows:

	<b>Interest-bearing items</b>					<b>Non-interest bearing items</b>	<b>Total</b>
	<b>Up to 1 month or at variable rate</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>bearing items</b>	
<b>ASSETS</b>							
Foreign assets	50,400,599	7,736,832	4,743,919	6,079,492	-	254,164	69,215,006
Receivable from the government	-	-	307,013	1,944,054	669,786	628,862	3,549,715
Membership with the IMF	-	-	-	-	-	4,970,211	4,970,211
Receivable from banks	-	-	5,837	5,836	19,574	-	31,247
Other assets	-	-	-	-	-	1,060,944	1,060,944
<b>Total assets</b>	<b>50,400,599</b>	<b>7,736,832</b>	<b>5,056,769</b>	<b>8,029,382</b>	<b>689,360</b>	<b>6,914,181</b>	<b>78,827,123</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	15,850,612	15,850,612
Deposits of banks	4,969,300	-	-	-	-	4,250	4,973,550
Reserve requirements	10,847	-	-	-	-	5,323,066	5,333,913
NBRM Bills	8,920,990	-	-	-	-	24,049	8,945,039
Deposits of the government	22,808,969	-	-	-	-	1,748,514	24,557,483
Restricted deposits	-	-	-	-	-	411,198	411,198
Borrowings from IMF	2,906,597	-	404,169	531,721	-	4,970,211	8,812,698
Other deposits	1,556,117	-	-	-	-	38,781	1,594,898
Other liabilities	-	-	-	-	-	547,602	547,602
<b>Total liabilities</b>	<b>41,172,820</b>	<b>-</b>	<b>404,169</b>	<b>531,721</b>	<b>-</b>	<b>28,918,283</b>	<b>71,026,993</b>
<b>GAP ANALYSIS</b>							
<b>Gap per individual band</b>	<b>9,227,779</b>	<b>7,736,832</b>	<b>4,652,600</b>	<b>7,497,661</b>	<b>689,360</b>	<b>(22,004,102)</b>	<b>7,800,130</b>
<b>Cumulative gap</b>	<b>9,227,779</b>	<b>16,964,611</b>	<b>21,617,211</b>	<b>29,114,872</b>	<b>29,804,232</b>	<b>7,800,130</b>	<b>-</b>

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The table below summarises the effective interest rate for monetary financial instruments at the balance sheet date:

**At 31 December**

	2006				2005			
	EUR	USD	SDR	MKD	EUR	USD	SDR	MKD
<b>Assets</b>	%	%	%	%	%	%	%	%
Term Gold deposits	0.55	0.31	-	-	0.55	-	-	-
Foreign currency sight deposits in central banks	3.50	5.25	-	-	2.25	4.25	-	-
Foreign currency term deposits in commercial banks	3.55	5.28	-	-	2.37	4.05	-	-
Foreign currency term deposits in central banks	3.42	-	-	-	2.33	-	-	-
Foreign securities – debt securities	3.80	4.70	-	-	2.42	-	-	-
Special Drawing Rights – holdings	-	-	4.07	-	-	-	3.03	-
Government bonds	-	-	-	6.5	-	-	-	6.5
<b>Liabilities</b>								
Banks denar reserve requirement	-	-	-	2	-	-	-	2
Government bills for monetary purposes	-	-	-	6.36	-	-	-	-
Central Bank Bills	-	-	-	5.81	-	-	-	8,37
Government foreign currency deposits	0.50	0.50	-	-	0.50	0.50	-	-
Government denar deposits	-	-	-	0.70	-	-	-	0.70
Borrowing from IMF – nonconcessional arrangements	-	-	5.30	-	-	-	4.29	-
Borrowing from IMF - concessional arrangements	-	-	0.50	-	-	-	0.50	-

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**E Liquidity risk**

Liquidity risk is the risk that insufficient liquid currency funds will be available to the NBRM in order to perform its normal operations.

Regarding liabilities in domestic currency, NBRM is not exposed to this risk due to its central bank character. Regarding liabilities in foreign currencies, NBRM limits this risk by managing foreign assets with liquidity in mind.

Although the NBRM has shortage of short-term assets over short-term liabilities maturing within one month and one to three months, the NBRM considers its deposit base as being stabile and liquidity not jeopardized.

The table below summarizes the maturity profile of the NBRM's assets and liabilities based on contractual repayment date determined on the basis of the remaining period at the balance sheet date to the contractual maturity date, on 31 December 2006:

	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
Foreign assets	24,985,798	56,131,085	-	6,518,641	37,669	87,673,193
Receivable from the government	587,196	-	307,013	921,040	690,760	2,506,009
Membership with the IMF	4,994,565	-	-	-	-	4,994,565
Receivable from banks	-	-	5,836	-	18,590	24,426
Other assets	73,793	-	-	-	1,035,491	1,109,284
<b>Total assets</b>	<b>30,641,352</b>	<b>56,131,085</b>	<b>312,849</b>	<b>7,439,681</b>	<b>1,782,510</b>	<b>96,307,477</b>
<b>LIABILITIES</b>						
Currency in circulation	17,768,218	-	-	-	-	17,768,218
Deposits of banks	7,382,243	-	-	-	-	7,382,243
Reserve requirements	6,386,882	-	-	-	-	6,386,882
NBRM Bills	9,480,027	-	-	-	-	9,480,027
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
<b>Total liabilities</b>	<b>84,783,040</b>	<b>286,770</b>	<b>707,949</b>	<b>2,202,066</b>	<b>-</b>	<b>87,979,825</b>
<b>GAP ANALYSIS</b>						
<b>Gap per individual band</b>	<b>(54,141,688)</b>	<b>55,844,315</b>	<b>(395,100)</b>	<b>5,237,615</b>	<b>1,782,510</b>	<b>8,327,652</b>
<b>Cumulative gap</b>	<b>(54,141,688)</b>	<b>1,702,627</b>	<b>1,307,527</b>	<b>6,545,142</b>	<b>8,327,652</b>	<b>-</b>

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The maturity profile of the assets and liabilities on 31 December 2005 was as follows:

	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
<b>ASSETS</b>						
Foreign assets	50,614,951	7,736,832	4,743,919	6,079,492	39,812	69,215,006
Receivable from the government	628,862	-	307,013	1,944,054	669,786	3,549,715
Membership with the IMF	4,970,211	-	-	-	-	4,970,211
Receivable from banks	-	-	5,837	5,836	19,574	31,247
Other assets	49,189	-	-	-	1,011,755	1,060,944
<b>Total assets</b>	<b>56,263,213</b>	<b>7,736,832</b>	<b>5,056,769</b>	<b>8,029,382</b>	<b>1,740,927</b>	<b>78,827,123</b>
<b>LIABILITIES</b>						
Currency in circulation	15,850,612	-	-	-	-	15,850,612
Deposits of banks	4,973,550	-	-	-	-	4,973,550
Reserve requirements	5,333,913	-	-	-	-	5,333,913
NBRM Bills	8,945,039	-	-	-	-	8,945,039
Deposits of the government	24,557,483	-	-	-	-	24,557,483
Restricted deposits	129,426	18,713	263,059	-	-	411,198
Borrowings from IMF	5,590,841	-	448,313	2,773,544	-	8,812,698
Other deposits	1,594,898	-	-	-	-	1,594,898
Other liabilities	535,680	8,439	753	2,730	-	547,602
<b>Total liabilities</b>	<b>67,511,442</b>	<b>27,152</b>	<b>712,125</b>	<b>2,776,274</b>	<b>-</b>	<b>71,026,993</b>
<b>GAP ANALYSIS</b>						
<b>Gap per individual band</b>	<b>(11,248,229)</b>	<b>7,709,680</b>	<b>4,344,644</b>	<b>5,253,108</b>	<b>1,740,927</b>	<b>7,800,130</b>
<b>Cumulative gap</b>	<b>(11,248,229)</b>	<b>-3,538,549</b>	<b>806,095</b>	<b>6,059,203</b>	<b>7,800,130</b>	<b>-</b>

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**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 (excluding accrued interest).

	<b>Carrying value</b>		<b>Fair value</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Financial assets</b>				
Foreign securities, held to maturity	364,608	514,372	364,253	515,562
Foreign equity securities, carried at cost	37,669	39,814	37,669	39,814
Government securities	1,918,813	2,920,853	1,918,813	2,920,853
Loans to banks	24,426	31,247	24,426	31,247
<b>Financial liabilities</b>				
Currency in circulation	17,768,218	15,850,612	17,768,218	15,850,612
Bank deposits	7,375,672	4,969,300	7,375,672	4,969,300
Reserve requirement of banks and saving houses	6,386,882	5,333,913	6,386,882	5,333,913
NBRM bills issued	9,455,795	8,920,990	9,455,795	8,920,990
Government MKD deposits	17,470,794	8,927,241	17,470,794	8,927,241
Government foreign currency deposits	17,680,092	15,621,773	17,680,092	15,621,773
Payables to IMF	8,175,073	8,812,698	8,175,073	8,812,698
Other and restricted deposits	2,392,510	2,006,097	2,392,510	2,006,097

**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 37,669,000 (2005: MKD 39,814,000), 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 NBRM's management believes that the fair value of these securities approximates their carrying value. Part of these securities has been redeemed in March 2007 at their carrying amount.

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 NBRM 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 NBRM 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 NBRM 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 NBRM 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 NBRM 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 NBRM evaluates its intention and ability to hold such investments to maturity. If the NBRM 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.

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**5 Interest income**

	<b>Loans granted</b>	<b>Deposits</b>	<b>Securities</b>	<b>Total 2006</b>	<b>Total 2005</b>
Government	-	-	156,208	156,208	122,040
Domestic banks	471	-	-	471	2,728
Foreign entities	-	2,015,888	122,109	2,137,997	1,080,901
<b>Total for 2006</b>	<b>471</b>	<b>2,015,888</b>	<b>278,317</b>	<b>2,294,676</b>	<b>1,205,669</b>
<b>Total for 2005</b>	<b>2,728</b>	<b>1,029,255</b>	<b>173,686</b>	<b>1,205,669</b>	<b>-</b>

**6 Interest expense**

	<b>Loans received</b>	<b>Deposits received</b>	<b>Securities issued</b>	<b>Total 2006</b>	<b>Total 2005</b>
Government	-	351,294	-	351,294	67,100
Domestic banks	-	111,453	517,015	628,468	609,921
Foreign entities	113,226	-	-	113,226	74,311
<b>Total for 2006</b>	<b>113,226</b>	<b>462,747</b>	<b>517,015</b>	<b>1,092,988</b>	<b>751,332</b>
<b>Total for 2005</b>	<b>74,311</b>	<b>149,594</b>	<b>527,427</b>	<b>751,332</b>	<b>-</b>

**7 Fee income**

	<b>2006</b>	<b>2005</b>
Fees from providing cash to banks	52,270	54,604
Fees based on settlement of payments (RTGS)	39,092	40,466
Fees from domestic banks for maintaining account based on debt turnover on account	32,643	27,092
Fees from sale of administrative and court government stamps	16,529	14,908
Fees from compensation for activities related to custodian of pension funds	9,278	-
Fees from administering foreign credit lines	7,716	9,000
Fees from foreign exchange operating	10,616	8,913
Fees from purchasing a right for purchasing foreign currency	51,238	33,810
Other fees	18,038	24,555
<b>Total</b>	<b>237,420</b>	<b>213,348</b>

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 NBRM 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 NBRM, in accordance with the concluded agreement with the Ministry of Finance regulating the activities for their printing and distribution.



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With the introduction of the second pension pillar in the Republic of Macedonia in January 2006, the NBRM has become a custodian of pension funds, thus calculating monthly fee of 0.7% of the total paid-in contributions.

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 51,238,000 (2005: MKD 33,810,000) were calculated on the basis of the compensation for purchased rights for purchasing foreign currency from the NBRM for securities sold to non-residents.

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

**8 Fee expense**

	<b>2006</b>	<b>2005</b>
Fees to foreign banks	9,630	10,907
Other fees to domestic banks	24	18
<b>Total</b>	<b>9,654</b>	<b>10,925</b>

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

**9 Net Unrealized exchange and fair value differences**

	<b>2006</b>	<b>2005</b>
Unrealized positive exchange rate differences	1,568,566	2,149,024
Unrealized negative exchange rate differences	(2,502,441)	(1,029,138)
Unrealized positive exchange rate and price differences from gold	2,793,887	2,421,512
Unrealized negative exchange rate and price differences from gold	(2,155,538)	(1,002,263)
Unrealized positive price differences from securities	48,742	357
<b>Total</b>	<b>(246,784)</b>	<b>2,539,493</b>

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**10 Net income from trading securities**

	<b>2006</b>	<b>2005</b>
Realized profit from trading securities sold	37,647	-
Realized losses from trading securities sold	(64)	-
Negative price changes from trading securities	(11,644)	(6,658)
<b>Total</b>	<b>25,939</b>	<b>(6,658)</b>

**11 Other operating income**

	<b>2006</b>	<b>2005</b>
Realized positive exchange rate differences, net	213,388	3,358
Income based on dividend from BIS	7,538	7,438
Income based on sale of jubilee coins	1,668	1,740
Other income	21,143	16,581
<b>Total</b>	<b>243,737</b>	<b>29,117</b>

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**

	<b>2006</b>	<b>2005</b>
Wages and personal income tax	177,117	172,335
Pension cost – defined contribution plans	54,509	53,848
Required contributions	30,636	28,618
Other staff expenses	24,512	23,514
<b>Total</b>	<b>286,774</b>	<b>278,315</b>

In 2006 the remuneration of the key management of the NBRM was of MKD 10,663,000 (2005: MKD 9,479,000), included in 'Other staff expenses' above.

**13 Other expenses**

	<b>2006</b>	<b>2005</b>
Services	59,963	49,389
Costs of production of banknotes and coins	44,890	54,059
Material expenses	28,471	24,896
Other administrative expenses	12,390	10,479
Other expenses	13,480	8,311
<b>Total</b>	<b>159,194</b>	<b>147,134</b>

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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 NBRM. The NBRM applies a policy of differentiating the costs of manufacture of banknotes and coins over the period of their use.

**14 Provisions and write offs**

	<b>Note</b>	<b>2006</b>	<b>2005</b>
Provisions for non-reconciled contra - accounts	29	-	109,367
Released provisions related to lawsuits with insurance companies	40	(23,038)	-
Provisions related to lawsuits with banks	40	114,930	16,000
Provisions for receivables from banks	16	59,219	22,946
Provisions for other receivables	29	13,458	-
Other provisions		347	386
<b>Total</b>		<b>164,916</b>	<b>148,699</b>

**15 Gold**

	<b>2006</b>	<b>2005</b>
Gold in the NBRM vault	11,914	80,867
Sight gold deposits	6,179	5,567
Term gold deposits	6,436,470	5,729,843
<b>Total</b>	<b>6,454,563</b>	<b>5,816,277</b>

As of December 31, 2006, the NBRM total gold reserves stand at 218,281.468 ounces (2005: 218,283.87 ounces) at a market value of US Dollar 635.70 (MKD 29,528,000) per ounce (31.12.2005: US Dollar 513 or MKD 26,603,000 per ounce). Interest rates on term gold deposits for 2006 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 (2005: 0.535% and 0.57% p.a. on gold deposits based on the price of gold in EUR). Term gold deposits include accrued interest of MKD 9,154,000 (2005: MKD 9,147,000).

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**16 Foreign Currency Deposits**

	<b>2006</b>	<b>2005</b>
Foreign currency sight deposits	11,351,094	19,924,593
Foreign currency term deposits	59,422,276	36,834,266
	<hr/>	<hr/>
Provisions	(428,492)	(369,273)
	<hr/>	<hr/>
<b>Included in the cash and cash equivalents (Note 43)</b>	<b>70,344,878</b>	<b>56,389,586</b>
	<hr/>	<hr/>
Restricted accounts	721,121	506,822
Term deposits over 90 days	-	4,603,155
	<hr/>	<hr/>
<b>Total</b>	<b>71,065,999</b>	<b>61,499,563</b>
	<hr/>	<hr/>

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	2006	2005
- overnight deposits in USD	4.08% - 5.26%	1.61% - 4.20%
- Euro overnight deposits	2.10% - 3.54%	1.76% - 2.27%
- time deposits in USD	4.56% - 5.43%	2.54% - 4.06%
- time deposits in EUR	2.23% - 3.67%	1.97% - 2.42%

Foreign Currency Deposits include accrued interest of MKD 261,072,000 (2005: MKD 52,744,000).

Sight deposits include MKD 721,121,000 of deposits that are not freely available for NBRM use. Part of these deposits in the amount of MKD 475,810,000 were pledged as security for a guarantee in favor of a foreign bank under liquidation as a condition for releasing NBRM deposits of MKD 981,223,000 in this bank. As of December 31, 2006, NBRM has provided provisions in the amount of MKD 196,245,000 (2005: MKD 109,979,000) for possible losses on these deposits. NBRM has made a subordinated loan with the same bank of USD 5 million (as of December 31, 2006 MKD equivalent of MKD 232,248,000) maturing in 2002, which 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:

	<b>2006</b>	<b>2005</b>
<b>Balance as at 1 January</b>	<b>369,273</b>	<b>346,327</b>
Additional provision (Note 14)	59,219	22,946
	<hr/>	<hr/>
<b>Balance as at 31 December</b>	<b>428,492</b>	<b>369,273</b>
	<hr/>	<hr/>

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<b>Foreign currency deposits by type of entity</b>		
	<b>2006</b>	<b>2005</b>
International financial institutions	10,595	15,568,927
Central banks	32,212,258	40,648,887
Foreign commercial banks	39,271,640	5,651,022
	<hr/>	<hr/>
<b>Total</b>	<b>71,494,493</b>	<b>61,868,836</b>
	<hr/>	<hr/>
Provisions	(428,492)	(369,273)
	<hr/>	<hr/>
<b>Total</b>	<b>71,065,999</b>	<b>61,499,563</b>
	<hr/>	<hr/>

The provision pertains to deposits in foreign commercial banks.

<b>Foreign currency deposits by geographic location</b>		
	<b>2006</b>	<b>2005</b>
Europe	69,150,638	53,490,480
America	2,289,895	8,335,335
Other	53,960	43,021
	<hr/>	<hr/>
<b>Total</b>	<b>71,494,493</b>	<b>61,868,836</b>
	<hr/>	<hr/>
Provisions for deposits in Europe	(428,492)	(369,273)
	<hr/>	<hr/>
<b>Total</b>	<b>71,065,999</b>	<b>61,499,563</b>
	<hr/>	<hr/>

## **17 Cash Foreign Currency**

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

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**18 Foreign Securities**

The NBRM 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.

	2006	2005
<b>Securities held to maturity</b>	<b>369,077</b>	<b>519,318</b>
2.625% semiannual Treasury note denominated in USD maturing November 2006	-	156,085
3.5% annual Euro-denominated government note maturing October 2008	92,029	91,803
4.75% semiannual GBP-denominated BIS bond, maturing March 2007	277,048	271,430
<b>Trading securities</b>	<b>9,400,669</b>	<b>1,251,454</b>
Foreign debt securities	9,400,669	1,251,454
<b>Securities available for sale</b>	<b>37,669</b>	<b>39,814</b>
Foreign equity securities	37,669	39,814
<b>Total</b>	<b>9,807,416</b>	<b>1,810,586</b>

Securities intended to be held to maturity bear fixed income. Foreign securities held to maturity include accrued interest of MKD 4,469,000 (2005: MKD 4,946,000).

The trading securities portfolio contains high quality debt securities. The investments in trading securities are complied with the market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 2% and 4.875% p.a. (2005: from 3% to 4.5%). Foreign trading securities include accrued interest of MKD 66,610,000 (2005: MKD 13,171,000).

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 NBRM 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 2006, the basic rate ranged from 3.06% to 4.07% p.a. (2005: from 2.22% to 3.03% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 43).

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**20 Receivables from Government related to IMF**

	<b>2006</b>	<b>2005</b>
Receivable related to SDR allocation based on liability	587,196	620,630
<b>Total</b>	<b>587,196</b>	<b>620,630</b>

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**

	<b>2006</b>	<b>2005</b>
<b>Securities held to maturity</b>		
Bond for selective credits	690,760	669,786
Bond for rehabilitation of one commercial bank	1,228,053	1,543,299
Government Bonds for covering the NBRM loss	-	716,000
<b>Total</b>	<b>1,918,813</b>	<b>2,929,085</b>

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.

The bonds for rehabilitation and reconstruction of one commercial bank issued on behalf and for the account of the Republic of Macedonia are repayable in equal annual installments of MKD 307,013,000 by April 1, 2010. These bonds bear interest at variable interest rate equal to the NBRM discount rate, which in 2006 equaled 6.5% p.a. (2005: 6.5% p.a.).

In December 2006, the Ministry of Finance of the Republic of Macedonia made early repayment of the government bonds in the amount of MKD 716,000,000, issued in December 2005 for funding the NBRM's uncovered loss recognized in 2004. The government bonds were supposed to mature in 2010 and bore annual coupon interest of 7.45%.

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**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 NBRM 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 NBRM 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 4,981,932,000 at the end of 2006, the account no. 1 amounts to MKD 12,486,000 and account no.2 is valued at MKD 147,000. (2005: MKD 4,957,639,000, MKD 12,425,000 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**

	<b>2006</b>	<b>2005</b>
Long-term loans from the conversion of the selective credits:		
1993	5,836	11,673
1996	18,590	19,574
	<hr/>	<hr/>
<b>Total</b>	<b>24,426</b>	<b>31,247</b>

These loans originate from the restructuring of the so called selective credits of the NBRM 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.



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**24 Other receivables**

	<b>2006</b>	<b>2005</b>
Receivable from bank under bankruptcy	1,034,569	1,034,569
Due auction deposits	9,268	9,268
	<u>1,043,837</u>	<u>1,043,837</u>
Provision	<u>(1,043,837)</u>	<u>(1,043,837)</u>
<b>Total</b>	<u><u>-</u></u>	<u><u>-</u></u>

In January 2004, the NBRM 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 NBRM created receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The NBRM has receivables on the basis of guarantees granted by the bank under bankruptcy worth MKD 1,034,569,000. The NBRM receivable was fully disputed by the bankruptcy trustee. Therefore, the NBRM fully provisioned the receivables from the bank under bankruptcy during the preceding years. The process is still underway.

Overdue receivables from banks are 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. NBRM fully provisioned the receivables from the bank under bankruptcy during the preceding years.

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**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
<b>January 1, 2005</b>							
Cost	849,015	427,145	43,698	12,821	1,332,679	35,744	1,368,423
Accumulated depreciation	(111,425)	(287,451)	-	-	(398,876)	(7,712)	(406,588)
<b>Net book amount</b>	<b>737,590</b>	<b>139,694</b>	<b>43,698</b>	<b>12,821</b>	<b>933,803</b>	<b>28,032</b>	<b>961,835</b>
<b>January 1, 2005 net of accumulated depreciation</b>	<b>737,590</b>	<b>139,694</b>	<b>43,698</b>	<b>12,821</b>	<b>933,803</b>	<b>28,032</b>	<b>961,835</b>
Purchases	3,064	4,994	3,550	112	11,720	-	11,720
Write-offs	-	(28)	-	-	(28)	(2)	(30)
Transfers	-	(12,401)	-	-	(12,401)	-	(12,401)
Depreciation for the year	(11,117)	(39,538)	-	-	(50,655)	(1,772)	(52,427)
<b>December 31, 2005</b>	<b>729,537</b>	<b>92,721</b>	<b>47,248</b>	<b>12,933</b>	<b>882,439</b>	<b>26,258</b>	<b>908,697</b>
<b>December 31, 2005</b>							
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)
<b>Net book amount</b>	<b>729,537</b>	<b>92,721</b>	<b>47,248</b>	<b>12,933</b>	<b>882,439</b>	<b>26,258</b>	<b>908,697</b>

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**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
<b>On January 1, 2006</b>							
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)
<b>Net book amount</b>	<b>729,537</b>	<b>92,721</b>	<b>47,248</b>	<b>12,933</b>	<b>882,439</b>	<b>26,258</b>	<b>908,697</b>
<b>On January 1, 2006, net of accumulated depreciation</b>	<b>729,537</b>	<b>92,721</b>	<b>47,248</b>	<b>12,933</b>	<b>882,439</b>	<b>26,258</b>	<b>908,697</b>
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)
<b>On December 31, 2006</b>	<b>727,248</b>	<b>84,028</b>	<b>53,735</b>	<b>14,001</b>	<b>879,012</b>	<b>24,583</b>	<b>903,595</b>
<b>On December 31, 2006</b>							
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)
<b>Net book amount</b>	<b>727,248</b>	<b>84,028</b>	<b>53,735</b>	<b>14,001</b>	<b>879,012</b>	<b>24,583</b>	<b>903,595</b>

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 NBRM 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 NBRM's possession and currently are used and maintained by the NBRM. The NBRM 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 NBRM 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 NBRM.

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**26 Intangible assets**

	<b>2006</b>	<b>2005</b>
<b>At 1 January</b>		
Cost	82,113	57,981
Accumulated amortization	(52,117)	(40,376)
<b>Net book amount</b>	<b>29,996</b>	<b>17,605</b>
<b>Year ended December</b>		
Opening net book amount	29,996	17,605
Additions	13,534	11,731
Transfers	1,176	12,401
Amortization charge	(13,359)	(11,741)
<b>Closing net book amount</b>	<b>31,347</b>	<b>29,996</b>
<b>At 31 December</b>		
Cost	96,823	82,113
Accumulated amortization	(65,476)	(52,117)
<b>Net book amount</b>	<b>31,347</b>	<b>29,996</b>

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**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, 2006, the NBRM held total of 7,992 gold coins and 387 silver coins (2005: 8,238 gold coins and 420 silver coins). The increased value of the inventories in jubilee coins is a result of the correction of the price of the gold coins in line with the Decision on determining the selling price of jubilee coins from May 2006. The jubilee coins in the NBRM vault are intended for sale.

**28 Receivables**

Receivables consist of receivables based on compensations and fees for services provided by the NBRM and receivables for maintenance of the complex of banks and other receivables:

	<b>2006</b>	<b>2005</b>
Fees	18,605	17,383
Receivables for maintenance of the complex of banks	4,119	4,293
<b>Total</b>	<b>22,724</b>	<b>21,676</b>

**29 Other Assets**

	<b>2006</b>	<b>2005</b>
Prepaid expenses of printing banknotes	46,872	17,818
Other prepaid expenses	1,082	1,969
Office and other materials	10,526	11,827
Other assets	3,115	4,669
Other receivables	294,278	280,820
Provisions to other receivables	(294,278)	(280,820)
<b>Total</b>	<b>61,595</b>	<b>36,283</b>

Part of the other receivables in the amount of MKD 280,820,000 are a balance of on-balance sheet assets and liabilities items from preceding years on which assets and liabilities related to monetary transactions are recorded. In 2005, NBRM identified that the balance of non-reconciled contra accounts in amount of MKD 171,453,000 has been present in the NBRM's balance sheet since 2001, and derives from preceding years.

The movements in provision for other assets are as follows:

	<b>2006</b>	<b>2005</b>
<b>Balance as at 1 January</b>	<b>280,820</b>	<b>171,453</b>
Additional provision (Note 14)	13,458	109,367
<b>Balance as at 31 December</b>	<b>294,278</b>	<b>280,820</b>

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**30 Currency in circulation**

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

<b>Currency in circulation</b>		<b>2006</b>	<b>2005</b>
	<b>MKD</b>		
Coin in denomination of	0.5	1,594	1,576
Coin in denomination of	1	53,836	50,824
Coin in denomination of	2	67,440	61,272
Coin in denomination of	5	109,845	97,530
Note in denomination of	10	229,268	211,383
Note in denomination of	50	275,413	260,343
Note in denomination of	100	954,720	896,259
Note in denomination of	500	3,232,658	3,137,675
Note in denomination of	1000	12,270,534	10,546,430
Note in denomination of	5000	572,910	587,320
<b>Currency in circulation</b>		<b>17,768,218</b>	<b>15,850,612</b>

**31 Bank Deposits**

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

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**32 Reserve requirement of banks and savings houses**

	<b>2006</b>	<b>2005</b>
Savings houses' MKD reserve requirement	14,123	10,847
Banks' foreign exchange reserve requirement	6,372,759	5,323,066
<b>Total</b>	<b>6,386,882</b>	<b>5,333,913</b>

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

NBRM pays MKD reserve requirement remuneration of 2% to the average allocated funds on each bank's account in the period of fulfillment (2005: 2%). Since January 2005, the NBRM 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 NBRM pays reserve requirement remuneration to the savings houses at reserve requirement remuneration rate in MKD of the banks.

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**33 NBRM bills issued**

In 2006, the NBRM bills maturity was 28 days. At the NBRM bills auctions, an interest rate tender was applied. The interest rates on the CB bills auctions registered a downward trend and ranged between 7.31% in January and 5.74% in December. The interest rates were at the lowest level in September, with the monthly weighted interest rate equaling 5.36% (in 2005: two maturities 7 days (by March 4, 2005) and 28 days; two types of tender: volume tender - unlimited amount and interest rate tender, starting from October 26, 2005; interest rates: 10% until October and 8.37% in December). The NBRM bills issued include accrued interest of MKD 24,232,000 (2005: MKD 24,049,000).

**34 Government MKD Deposits**

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

	<b>2006</b>	<b>2005</b>
Single Treasury account	10,311,032	6,566,799
Other MKD deposits	2,557,633	2,365,343
Special deposit - Treasury bills for monetary policy purposes	4,611,403	-
<b>Total</b>	<b>17,480,068</b>	<b>8,932,142</b>

In 2006, the interest paid by the NBRM on these deposits was calculated at an interest rate of 0.7% p.a. (2005: 0.7% p.a.). Government deposits include the accrued undue interest in the amount of MKD 9,273,000 (2005: MKD 4,901,000).

In order to absorb excess liquidity and develop the securities market, starting from March 2006, NBRM, 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 NBRM. During 2006, the interest rate on the three-month Treasury bills ranged between 6.77% in March and 6.26% in December. The lowest monthly weighted interest rate was registered in August and equaled 5.96%. Treasury bills for monetary policy purposes include accrued interest in the amount of MKD 38,469,000.



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### **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 NBRM 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 NBRM, only if the opening of such account is formally approved by the Ministry of Finance. In 2006, the NBRM paid interest on the government foreign currency deposits at an interest rate of 0.5% p.a. (2005: 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 NBRM. As of December 31, 2006 these deposits are valued at MKD 627,718,000 and are mostly funds based on repaid principal, primarily from the two private sector development loans approved by the World Bank (2005: MKD 564,994,000). NBRM does not pay interest on these deposits.

### **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 NBRM for their account. The NBRM 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.

NBRM 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 starting from 2005, it is being refunded from the Budget of the Republic of Macedonia.

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b) Liabilities on the basis of borrowings from IMF

The remaining portion of the borrowings that NBRM has withdrawn from IMF arising from the following arrangements:

	<b>2006</b>	<b>2005</b>
Enhanced Structural Adjustment Facility (ESAF)	382,374	808,300
Poverty Reduction and Growth Facility (PRGF)	96,573	127,590
Extended Fund Facility (EFF)	46,946	63,795
Stand-by Arrangement	1,331,558	1,444,412
Stand-by Arrangement	735,861	777,760
<b>Total</b>	<b>2,593,312</b>	<b>3,221,857</b>

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

Borrowings on the basis of ESAF and PRGF arrangements incur interest at fixed rates of 0.5% per annum. Other borrowing arrangements incur interest ranging between 4.29% and 5.30% p.a. (2005: between 3.12% and 4.28% p.a.).

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

	<b>2006</b>	<b>2005</b>
Liabilities on the basis of issued promissory note for membership in the IMF	4,981,932	4,957,639
Liabilities on the basis of account 1	12,486	12,425
Liabilities on the basis of account 2	147	147
<b>Total</b>	<b>4,994,565</b>	<b>4,970,211</b>

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**38 Other deposits**

	<b>2006</b>	<b>2005</b>
Liabilities on the basis from MKD deposits to other domestic entities	1,883,008	1,575,227
Liabilities on the basis from MKD deposits to international financial institutions	16,547	19,671
<b>Total</b>	<b>1,899,555</b>	<b>1,594,898</b>

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. NBRM does not pay any interest on these deposits. The account of the Deposit Insurance Fund is maintained at the NBRM as required by the Deposit Insurance Law. NBRM pays interest to the Deposit Insurance Fund of 0.7% per annum (2005: 0.7% per annum).

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

**39 Other payables**

Payables are analyzed as follows:

	<b>2006</b>	<b>2005</b>
Payables from appropriation of net income	257,757	8,439
Liabilities from BNT bankruptcy	149,323	154,195
Payables arising from annuities received from sale of socially-owned flats	6,265	2,049
VAT	1,473	2,199
Other payables	9,529	49
<b>Total</b>	<b>424,347</b>	<b>166,931</b>

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 NBRM Law.

Payables arising from the bankruptcy of the Bank for Foreign Trade (BNT) pertain to inherited payables of the NBRM 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, NBRM 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

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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 NBRM. The foreign exchange collected this way is transferred to NBRM and accumulated in a special account, with the MKD denomination being transferred to the government on a weekly basis.

**40 Provisions**

	<b>2006</b>	<b>2005</b>
Provisions for potential liabilities based on litigations with banks	229,937	115,007
Provisions for potential liabilities based on litigations with insurance companies	16,227	39,265
<b>Total</b>	<b>246,164</b>	<b>154,272</b>

Provisions for potential liabilities on the basis of litigations pertain to the estimated amount of principal and interest the NBRM 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 companies which instituted proceedings against the NBRM (for collection from their gyro accounts of the amounts due to the NBRM for the advances taken by the exchange offices, which were not paid back). In April 2006, for litigation with an insurance company, the Supreme Court pronounced a sentence in favor of the NBRM. The provisions for potential liabilities and interest totaling MKD 23,038,000, allocated for this litigation in the preceding years, were released and represent income for 2006. Litigations with commercial banks are still underway. The potential liabilities for 2006 on this basis went up by MKD 114,930,000 for penalty interest and principal (see Note 14).

**41 Other liabilities**

	<b>2006</b>	<b>2005</b>
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	331,305	145,502
Jubilee coins counterpart	79,182	53,022
Deferred income	11,770	4,094
Equity payments pending operational license	51,998	-
Deferred expenses IMF	18,765	16,643
Liabilities to suppliers and other liabilities	64,397	7,138
<b>Total</b>	<b>557,417</b>	<b>226,399</b>

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. NBRM 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

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Insurance Supervision Law. NBRM does not pay interest on these funds.

Jubilee coins counterpart arises as a result of the accounting policy for jubilee coins (see Note 2O).

## **42 Capital and reserves**

### *Capital*

The NBRM's capital is defined in the Law on the NBRM and as of December 31, 2006, it amounted to MKD 1,289,789,000 (2005: MKD 1,289,789,000).

### *General Reserves*

As stipulated by the NBRM Law 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 NBRM capital is reached (2005: 20% of the remaining income was transferred to the general reserves). The general reserves are utilized to cover the general risks related to NBRM operations. During 2005, on the basis of the amendments to the NBRM Law from July 21, 2005, the Republic of Macedonia replenished the general reserves of MKD 500,000,000.

### *Special reserves*

	<b>2006</b>	<b>2005</b>
Special reserves from unrealized exchange rate and price changes		
○ Special reserves from foreign exchange gains	3,416,173	4,350,048
○ Special reserves from price and exchange rate changes of gold	2,505,218	1,866,868
○ Special reserves from price changes of securities for trading	48,742	357
<b>Total</b>	<b>5,970,133</b>	<b>6,217,273</b>

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 2006 of MKD 933,874,000 (2005: net positive foreign exchange gains of MKD 1,119,886,000 were allocated to the Special reserves).

Special reserves from price and exchange rate changes of gold for 2006 increased by MKD 638,349,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold. (2005: MKD 1,419,250,000).

Special reserves from price changes of securities for trading went up by MKD 48,742,000

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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 357,000 were allocated to the general reserves and the Budget of the Republic of Macedonia.

<b>43 Cash and cash equivalents</b>	<b>2006</b>	<b>2005</b>
Foreign currency deposits (Note 16)	70,344,878	56,389,586
Foreign currencies in vault (Note 17)	206,660	47,909
SDR holdings, net (Note 19)	138,555	40,671
<b>Total</b>	<b>70,690,093</b>	<b>56,478,166</b>

**44 Commitments and contingencies**

**a) Litigation**

NBRM is a defendant in several legal proceedings arising from its operations. NBRM 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 NBRM has a 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 20, Note 21, Note 34 and Note 35.

**46 Subsequent events**

As at 2 April 2007 the Ministry of Finance of the Republic of Macedonia made early repayment of the government bonds for rehabilitation of one bank of the outstanding principal in the amount of MKD 1,228,053,000 and the accrued interest up to the early repayment date in the amount of MKD 6,798,000. The original maturity of these bonds was up to 1 April 2010 (see Note 21).