

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

**Financial Statements prepared in accordance with
International Financial Reporting Standards**

For the year ended 31 December 2010

Content

	Page
Independent auditor's report	1-2
Income statement	4
Statement of comprehensive income	4
Statement of financial position	5-6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9-57



Independent auditor's report

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

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank"), which comprise the statement of financial position as of 31 December 2010 and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the National Bank as of 31 December 2010, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija Doo

PricewaterhouseCoopers REVIZIJA DOO

Skopje,

7 March 2011

GENERAL INFORMATION

Members of the Council

Petar Gosev, Governor
Dimitar Bogov, Vice Governor (from 31th July 2010)
Emilija Nacevska, Vice Governor (until 25th July 2010)
Fadil Bajrami, Vice Governor
Verica Hadzi-Vasileva - Markovska
Goran Petreski
Liman Kurtisi
Drage Janev
Tihomir Petreski
Saso Arsov

Registered office

Kuzman Josifovski Pitu No.1
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***INCOME STATEMENT**

		Year ended 31 December	
	Note	2010	2009
Interest income	5	300,126	164,185
Interest expense	6	(1,768,054)	(1,333,479)
Net interest income		(1,467,928)	(1,169,294)
Fee income	7	207,326	207,343
Fee expense	8	(14,166)	(7,799)
Net fee income		193,160	199,544
Net unrealized exchange rate and fair value differences	9	4,795,377	1,710,283
Net income from trading securities	10	435,495	1,071,996
Dividend income	11	21,521	7,670
Other operating income	12	151,572	213,277
Personnel expenses	13	(346,494)	(358,057)
Depreciation and amortization charge	26,27	(77,814)	(74,834)
Other expenses	14	(222,137)	(207,254)
Provisions and write offs	15	217,717	(17,513)
Profit for the year		3,700,469	1,375,818

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2010	2009
Profit for the year from the income statement		3,700,469	1,375,818
Other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		3,700,469	1,375,818

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	At 31 December	
		2010	2009
Foreign currencies	16	88,813	154,535
Foreign currency deposits	17	21,320,909	28,299,309
Foreign securities	18	69,772,893	55,163,675
Gold	19	14,256,019	10,291,334
Special Drawing Rights	20	57,728	3,886,612
Foreign assets		105,496,362	97,795,465
Receivable from Government related to IMF	21	4,697,709	560,415
Government securities	22	781,426	757,701
Receivable from Government		5,479,135	1,318,116
IMF Membership	23	4,835,434	4,777,531
Loans to banks	24	15,912	15,912
Other receivables	25	-	-
Receivables from banks		15,912	15,912
Property and equipment	26	906,427	945,500
Intangible assets	27	25,683	33,574
Jubilee coins	28	101,109	105,977
Receivables	29	27,958	24,802
Other assets	30	155,875	205,948
Total assets		117,043,895	105,222,825

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (continued)**

LIABILITIES AND EQUITY	Note	At 31 December	
		2010	2009
Currency in circulation	31	20,173,010	19,482,000
Bank deposits	32	16,569,637	15,045,092
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	33	13,187,616	12,239,921
National Bank bills issued	34	25,943,719	15,861,833
Deposit requirement of banks and savings houses	35	-	169,214
Government MKD deposits	36	8,322,635	5,022,061
Government foreign currency deposits	37	3,068,062	9,917,140
Government deposits		11,390,697	14,939,201
Restricted deposits	38	480,663	667,920
Payables based on Special Drawing Rights Allocation – on the behalf and for the account of Government	39a	4,697,709	4,388,831
Payables based on membership and deposits	39b	4,835,434	4,777,531
Payables to IMF	39	9,533,143	9,166,362
Other deposits	40	2,412,792	3,413,519
Other payables	41	169,192	576,555
Provisions	42	6,084	209,372
Other liabilities	43	729,329	704,292
Other liabilities		904,605	1,490,219
Total liabilities		100,595,882	92,475,281
Capital		1,289,789	1,289,789
General reserves		1,017,666	1,780,039
Other reserves		14,140,558	9,677,716
Total equity	44	16,448,013	12,747,544
Total liabilities and equity		117,043,895	105,222,825

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF CHANGES IN EQUITY**

	Note	Capital	General reserves	Special Reserves*	Art works revaluation	Accumulated gain/(loss)	Total capital and reserves
At 1 January 2009		1,289,789	1,708,077	8,779,872	1,777	-	11,779,515
Profit for the year		-	-	-	-	1,375,818	1,375,818
Total comprehensive income for 2009		-	-	-	-	1,375,818	1,375,818
Net unrealized positive price and exchange rate changes of gold		-	-	2,056,641	-	(2,056,641)	-
Net unrealized negative foreign exchange losses		-	-	(346,358)	-	346,358	-
Net unrealized negative price changes of securities		-	-	(369,229)	-	369,229	-
Realized price changes of securities		-	-	(444,987)	-	444,987	-
Appropriation to general reserves		-	71,962	-	-	(71,962)	-
Appropriation to budget		-	-	-	-	(407,789)	(407,789)
At 31 December 2009 / 1 January 2010		1,289,789	1,780,039	9,675,939	1,777	-	12,747,544
Profit for the year		-	-	-	-	3,700,469	3,700,469
Total comprehensive income for 2010		-	-	-	-	3,700,469	3,700,469
Net unrealized positive price and exchange rate changes of gold	44	-	-	3,975,497	-	(3,975,497)	-
Net unrealized positive foreign exchange gains	44	-	-	819,880	-	(819,880)	-
Net unrealized negative price changes of securities	44	-	-	(82,570)	-	82,570	-
Realized price changes of securities	44	-	-	(249,965)	-	249,965	-
Covering of negative distributable earnings	44	-	(762,373)	-	-	762,373	-
At 31 December 2010		1,289,789	1,017,666	14,138,781	1,777	-	16,448,013

* Defined as Revaluation reserve accounts in the Law on the National Bank.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF CASH FLOWS**

	Note	Year ended	
		31 December	
		2010	2009
Cash flow from operating activities			
Profit for the year		3,700,469	1,375,818
Adjusted for:			
Interest income	5	(300,126)	(164,185)
Interest expense	6	1,768,054	1,333,479
Unrealized gold price changes		(3,975,497)	(2,056,641)
Net income from trading securities		(590,766)	743,509
Impairment		1,721	123
(Release)/charge of provisions		(203,288)	20,030
Depreciation and amortization charge	26,27	77,814	74,834
Cash flows from operating profits before changes in operating assets and liabilities		478,381	1,326,967
Gold		10,812	(165)
Foreign securities		(14,018,452)	12,585,331
Restricted deposits		13,211	254,536
Receivable from government		(3,828,415)	-
Other assets		50,065	(30,801)
Currency in circulation		691,010	(1,317,162)
Bank deposits		1,523,115	4,770,983
Reserve requirement and deposit requirement of banks and savings houses		778,389	1,058,931
Government deposits including restricted and other deposits		(4,735,408)	(833,326)
SDR allocation liability		-	3,828,416
Other liabilities		(383,510)	(1,384,844)
Interest received		276,400	141,180
Interest paid		(1,764,231)	(1,332,087)
Net cash flows (used in)/from operating activities		(20,908,633)	19,067,959
Acquisition of property and equipment		(30,913)	(70,153)
Proceeds from the sale of property and equipment		63	251
Net cash flows used in investing activities		(30,850)	(69,902)
National Bank bills withdrawn/(issued)		10,079,688	(1,583,901)
Net cash flows used in financing activities		10,079,688	(1,583,901)
Net (decrease)/increase in cash and cash equivalents		(10,859,795)	17,414,156
Cash and cash equivalents at the beginning of the year		32,321,129	14,906,973
Cash and cash equivalents at the end of the year	45	21,461,334	32,321,129

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

1 General information

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

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

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

The net profits or losses of the National Bank are determined in conformity with the International Financial Reporting Standards. The distributable earnings are determined by deducting from the net profits the total amount of unrealized gains and by allocating an equivalent amount to the respective unrealized revaluation reserve accounts and by deducting from unrealized revaluation reserve accounts and adding to the distributable earnings. Unrealized revaluation losses will be transferred to the respective unrealized revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after that these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by capital.

The distributable earnings are appropriated to the general reserve account and to the Budget of the Republic of Macedonia: 70% to the general reserve account, i.e. 15% after reaching the level of the capital prescribed in this Law, and the residue is regarded as revenue of the Budget of the Republic of Macedonia. If the National Bank realizes negative distributable earnings, these earnings are charged to the general reserve account. If the value of National Bank's assets falls below the sum of its liabilities and capital the shortage will be covered by the State either with cash or by negotiable debt instruments with a specified maturity issued at market interest rates prevailing in the Republic of Macedonia.

*On 9 December 2010 a new Law on National Bank is enacted effective from 17 December 2010.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

1 General information (Continued)

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

The total number of employees as of 31 December 2010 is 443 (as of 31 December 2009: 433).

The financial statements were adopted by the Council of the National Bank of the Republic of Macedonia on 23 February 2011 and signed by the president of the National Bank Council on its behalf:

Petar Goshev, M.Sc.

President of the National Bank Council



2 Summary of significant accounting policies

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

A Basis of preparation of financial statements

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

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

a) Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Bank in 2010. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result

2 Summary of significant accounting policies

A Basis of preparation of financial statements

a) Adoption of New or Revised Standards and Interpretations (Continued)

in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments and interpretations did not have any significant effect on the National Bank financial statements.

b) New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and which the Bank has not early adopted:

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

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

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost.

2 Summary of significant accounting policies

A Basis of preparation of financial statements

b) New accounting pronouncements (Continued)

- The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.) The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure are required to enable the effects of those risks to be understood.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

- 2 Summary of significant accounting policies**
- A Basis of preparation of financial statements**
- b) New accounting pronouncements (Continued)**

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

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

B Foreign currency transactions

Functional and presentation currency

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

Transactions and balances

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

Exchange rate:	31 December 2010 MKD	31 December 2009 MKD
USD	46.31	42.67
EUR	61.50	61.17
SDR	71.59	66.89

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

C Offsetting

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

D Sale and repurchase agreements

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

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

E Deposits with banks

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

F Monetary gold

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

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

Realized and unrealized gains and losses from the valuation of gold arising as a result of the changes in the fair value and changes in the exchange rate of the MKD against the USD are credited or charged directly to the income statement. Interest from monetary gold is included in interest income.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

G Cash and cash equivalents

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

H Financial assets

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

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

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

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

Loans and receivables

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

Loans are recognized when cash is advanced to the borrowers and are carried at amortized cost using the effective interest method. Foreign currencies, foreign currency deposits, Special Drawing Rights, Receivables from Government related to IMF, Receivables from banks, and Receivables are classified as loans receivables.

2 Summary of significant accounting policies

H Financial assets (Continued)

Held to maturity

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

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

Available for sale

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

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

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

I Fair value

The fair value of financial instruments traded on organized financial markets is determined according to current bid prices. The fair value of unquoted investments is determined by reference to the market prices of similar investments or is based on the expected discounted cash flows.

J Impairment of financial assets

Assets carried at amortised cost

The National Bank assesses at each date of the statement of financial position whether there is objective evidence that a financial asset is impaired. A financial asset 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 that can be reliably estimated.

2 Summary of significant accounting policies

J Impairment of financial assets (Continued)

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

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

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

Assets classified as available for sale

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

K Trade and settlement date accounting

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

2 Summary of significant accounting policies
L Property and equipment

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

Gains and losses on disposal of property and equipment are recognized in the income statement. The art works are recognized at their fair value. The changes in the fair value are recognized in other comprehensive income in the revaluation reserves for paintings.

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

Fixed asset	Useful life 2010
Buildings	5 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 6 years
Furniture	5 to 10 years

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

M Intangible assets

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

N Impairment of non-financial assets

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

O Jubilee coins

Jubilee coins are not a legal tender and they typically have an artistic or collector's premium such that they are sold at prices which are higher than the intrinsic value of the metal from which they are formed. The National Bank mints jubilee coins for commemorative anniversaries, based on Decisions of the Government of the Republic of Macedonia. Jubilee coins are valued at a sale price as set by National Bank Council.

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

P Fiduciary activities

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

Q Currency in circulation

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

R National Bank bills issued

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

S Deposits

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies **T Provisions**

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

U Borrowings

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

V Revenue recognition

Interest income and expense

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

Dividend income

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

Fee and other income

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

Net income from trading securities

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

W Net unrealized exchange rate and fair value differences

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

X Employment benefits

Pension insurance contribution - defined contributions plan

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

Other long-term employment benefits

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

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its current value by applying weighted interest rate prevalent on the securities market for the 3.5-year (2009: 3.5-year) bonds issued by the Republic of Macedonia.

Y Taxation

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

Z Segment reporting

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

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

A Credit risk

The credit risk is the risk of reduction in the value of the foreign reserves due to insolvency or due to downgrade of the credit rating of financial institutions or issuers of securities and instruments in which the foreign reserves are placed.

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

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

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

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

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

The size and concentration of the exposure of the National Bank to credit risk can be obtained directly from the statement of financial position and notes to the statement of financial position that describe financial assets. The table below shows maximum exposure of credit risk by type of assets:

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****A Credit risk (Continued)**

ASSETS	2010	2009
Foreign currency deposits		
- Current accounts	19,475,705	18,244,596
- Term deposits	1,845,204	10,054,713
Foreign securities		
- Debt Securities	69,734,412	55,127,724
Gold Deposits	14,229,665	10,272,328
Special Drawing Rights	57,728	3,886,612
Foreign assets	105,342,714	97,585,973
Receivable from Government related to IMF	4,697,709	560,415
Government securities	781,426	757,701
Receivable from Government	5,479,135	1,318,116
Loans to banks	15,912	15,912
Receivables	27,958	24,802
At 31 December	110,865,719	98,944,803

The credit risk is managed by determining a financial institution - commercial bank or issuer of security and setting quantitative limits based on criteria set by the Governor of the National Bank. The table below presents an analysis of National Bank neither past due nor impaired financial assets, by rating agency designation at 31 December 2010, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Receivables from Government	Loans to banks	Receivables	Total
AAA	-	641	-	68,861,610	-	-	-	-	68,862,251
AA+	-	-	-	872,802	-	-	-	-	872,802
AA	-	9,132	-	-	-	-	-	-	9,132
AA-	-	6,045	-	-	-	-	-	-	6,045
A	-	13,544	-	-	-	-	-	-	13,544
A+	172,975	134,205	-	-	-	-	-	-	307,180
BBB-	-	1,136	-	-	-	-	-	-	1,136
CB ¹	8,650,584	19,274,388	1,845,204	-	-	-	-	-	29,770,176
II ²	5,406,106	36,614	-	-	57,728	-	-	-	5,500,448
BB ³	-	-	-	-	-	5,479,135	-	-	5,479,135
Unrated	-	-	-	-	-	-	15,912	27,958	43,870
Total	14,229,665	19,475,705	1,845,204	69,734,412	57,728	5,479,135	15,912	27,958	110,865,719

¹ Central Banks² International Institutions³ Rating of the Republic of Macedonia

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

A Credit risk (Continued)

The table below presents an analysis of National Bank neither past due nor impaired financial assets, by rating agency designation at 31 December 2009, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Receivables from Government	Loans to banks	Receivables	Total
AAA	-	509	-	52,777,499	-	-	-	-	52,778,008
AA+	-	-	-	2,177,437	-	-	-	-	2,177,437
AA	-	5,304	-	-	-	-	-	-	5,304
AA-	5,063,824	12,433	-	-	-	-	-	-	5,076,257
A	-	24,491	3,670	-	-	-	-	-	28,161
A+	5,198,647	20,965	-	-	-	-	-	-	5,219,612
BBB-	-	1,346	-	-	-	-	-	-	1,346
CB	-	18,164,967	10,051,043	-	-	-	-	-	28,216,010
II	9,857	14,581	-	172,788	3,886,612	-	-	-	4,083,838
BB	-	-	-	-	-	1,318,116	-	-	1,318,116
Unrated	-	-	-	-	-	-	15,912	24,802	40,714
Total	10,272,328	18,244,596	10,054,713	55,127,724	3,886,612	1,318,116	15,912	24,802	98,944,803

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

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the National Bank's main credit exposure at their carrying amounts, as categorized by geographical region as of 31 December 2010. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	Non-EU Countries	Republic of Macedonia	Other countries	Total
Gold deposits	8,823,559	5,406,106	-	-	14,229,665
Current accounts	18,657,333	41,755	-	776,617	19,475,705
Term deposits	1,845,204	-	-	-	1,845,204
Debt securities	65,863,180	-	-	3,871,232	69,734,412
Special Drawing Rights	-	-	-	57,728	57,728
Receivable from Government	-	-	5,479,135	-	5,479,135
Receivable from Banks	-	-	15,912	-	15,912
Receivables	-	-	27,958	-	27,958

31 December 2010

95,189,276 5,447,861 5,523,005 4,705,577 110,865,719

31 December 2009

84,543,257 4,096,323 1,358,830 8,946,393 98,944,803

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

B Market risk

The National Bank monitors and manages both currency and interest rate risk as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1. Currency risk is a risk arising from a decline of the foreign reserves value as a result of change in the exchange rates of the currencies in which the foreign reserves are placed and kept. The interest rate risk denotes a risk from reducing the value of the foreign reserves due to the change in the market prices of the instruments in which the foreign reserves are placed as a result of the change in the interest rates and the yields on the international financial markets.

The market risk management is performed by setting quantitative limits for foreign assets risk exposure that can be acceptable for the National Bank and they are monitored on a daily basis.

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from changes in the financial instruments prices and change in the foreign exchange rate together with certain level of confidence for a particular time framework. The National bank applies a level of confidence of 99% in a 10-day interval when calculating VAR⁴. The fluctuation of the prices of the instruments and the foreign exchange rates are determined according to the historical changes in the prices and the foreign exchange instruments and currencies comprising the foreign reserves at the end of the month.

In December 2010, the exposure of the foreign reserves managed by the National Bank (value exposed to risk) regarding the fluctuations of the prices of the instruments and the foreign exchange rates against the Euro equals MKD 1,493,956,000 (Euro 24,290,000), or 1.42% of the foreign reserves. The VAR originating from the change in the foreign exchange rate (includes change in the price of gold) amounts to MKD 1,433,681,000 (Euro 23,310,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 60,275,000 (Euro 980,000).

	31 December 2010	31 December 2009
Currency risk	1,433,681	1,211,780
Interest rate risk	60,275	93,656
Total VAR	1,493,956	1,305,436

⁴ As recommended in the Basel Agreement from 1999

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****C Foreign exchange risk**

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

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

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

The table below presents the exposure of the National Bank to the foreign exchange risk. The table includes the foreign reserves and liabilities of the National Bank according to their current value as of December 31, 2010, analyzed by currency.

ASSETS

	EUR	USD	SDR	Other	MKD	Total
Foreign assets	84,043,076	21,199,086	96,209	157,991	-	105,496,362
Receivable from the government	-	-	4,697,709	-	781,426	5,479,135
Membership with the IMF	-	-	-	-	4,835,434	4,835,434
Receivable from banks	-	-	-	-	15,912	15,912
Other assets	597	3	2,873	14	1,213,565	1,217,052
Total assets	84,043,673	21,199,089	4,796,791	158,005	6,846,337	117,043,895

LIABILITIES

Currency in circulation	-	-	-	-	20,173,010	20,173,010
Deposits of banks	922,616	-	-	-	15,647,021	16,569,637
Reserve requirements	13,170,995	-	-	-	16,621	13,187,616
National Bank Bills	-	-	-	-	25,943,719	25,943,719
Deposits of the government	2,995,225	70,818	-	2,019	8,322,635	11,390,697
Restricted deposits	479,664	-	-	999	-	480,663
Borrowings from IMF	-	-	4,697,709	-	4,835,434	9,533,143
Other deposits	-	-	-	-	2,412,792	2,412,792
Other liabilities	544,841	16,435	-	36,667	306,662	904,605

Total liabilities	18,113,341	87,253	4,697,709	39,685	77,657,894	100,595,882
Net on-balance sheet financial position	65,930,332	21,111,836	99,082	118,320	(70,811,557)	16,448,013

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)*
3 Financial risk management
C Foreign exchange risk (Continued)

The table below summarizes the National Bank's exposure to the currency risk. Included in the table are the National Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency, as at 31 December 2009:

ASSETS

	EUR	USD	SDR	Other	MKD	Total
Foreign assets	77,262,325	16,551,650	3,922,563	58,927	-	97,795,465
Receivable from the government	-	-	560,415	-	757,701	1,318,116
Membership with the IMF	-	-	-	-	4,777,531	4,777,531
Receivable from banks	-	-	-	-	15,912	15,912
Other assets	466	12	-	12	1,315,311	1,315,801
Total assets	77,262,791	16,551,662	4,482,978	58,939	6,866,455	105,222,825

LIABILITIES

Currency in circulation	-	-	-	-	19,482,000	19,482,000
Deposits of banks	813,859	-	-	-	14,231,233	15,045,092
Reserve requirements	12,225,709	-	-	-	14,212	12,239,921
National Bank Bills	-	-	-	-	15,861,833	15,861,833
Deposit requirement	-	-	-	-	169,214	169,214
Deposits of the government	9,855,214	60,137	-	1,789	5,022,061	14,939,201
Restricted deposits	605,806	62,114	-	-	-	667,920
Borrowings from IMF	-	-	4,388,831	-	4,777,531	9,166,362
Other deposits	-	-	-	-	3,413,519	3,413,519
Other liabilities	528,722	15,557	-	32,825	913,115	1,490,219
Total liabilities	24,029,310	137,808	4,388,831	34,614	63,884,718	92,475,281
Net on-balance sheet financial position	53,233,481	16,413,854	94,147	24,325	(57,018,263)	12,747,544

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****D Interest rate risk**

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

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

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2010 is presented below. It includes the National Bank's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	20,456,008	922,575	56,789,182	-	-	27,328,597	105,496,362
Receivable from the government	-	-	-	-	781,426	4,697,709	5,479,135
Membership with the IMF	-	-	-	-	-	4,835,434	4,835,434
Receivables from banks	-	-	-	-	15,912	-	15,912
Other assets	-	-	-	-	-	1,217,052	1,217,052
Total assets	20,456,008	922,575	56,789,182	-	797,338	38,078,792	117,043,895
LIABILITIES							
Currency in circulation	-	-	-	-	-	20,173,010	20,173,010
Deposits of banks	16,206,532	-	-	-	-	363,105	16,569,637
Reserve requirements	13,186,901	-	-	-	-	715	13,187,616
National Bank Bills	25,904,921	-	-	-	-	38,798	25,943,719
Deposits of the government	10,209,463	-	-	-	-	1,181,234	11,390,697
Restricted deposits	-	-	-	-	-	480,663	480,663
Borrowings from IMF	-	-	-	-	-	9,533,143	9,533,143
Other deposits	2,361,619	-	-	-	-	51,173	2,412,792
Other liabilities	-	-	-	-	-	904,605	904,605
Total liabilities	67,869,436	-	-	-	-	32,726,446	100,595,882
Total interest repricing gap	(47,413,428)	922,575	56,789,182	-	797,338	5,352,346	16,448,013

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)*
3 Financial risk management
D Interest rate risk (Continued)

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2009 was as follows:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	32,119,212	64,844	44,234,667	10,252,685	-	11,124,057	97,795,465
Receivable from the government	-	-	-	-	757,701	560,415	1,318,116
Membership with the IMF	-	-	-	-	-	4,777,531	4,777,531
Receivables from banks	-	-	-	-	15,912	-	15,912
Other assets	-	-	-	-	-	1,315,801	1,315,801
Total assets	32,119,212	64,844	44,234,667	10,252,685	773,613	17,777,804	105,222,825
LIABILITIES							
Currency in circulation	-	-	-	-	-	19,482,000	19,482,000
Deposits of banks	14,626,624	61,173	-	-	-	357,295	15,045,092
Reserve requirements	12,239,191	-	-	-	-	730	12,239,921
National Bank Bills	15,825,233	-	-	-	-	36,600	15,861,833
Deposit requirement	169,139	-	-	-	-	75	169,214
Deposits of the government	13,931,915	-	-	-	-	1,007,286	14,939,201
Restricted deposits	-	-	-	-	-	667,920	667,920
Borrowings from IMF	4,388,831	-	-	-	-	4,777,531	9,166,362
Other deposits	3,354,576	-	-	-	-	58,943	3,413,519
Other liabilities	-	-	-	-	-	1,490,219	1,490,219
Total liabilities	64,535,509	61,173	-	-	-	27,878,599	92,475,281
Total interest repricing gap	(32,416,297)	3,671	44,234,667	10,252,685	773,613	(10,100,795)	12,747,544

3 Financial risk management

E Liquidity risk

Liquidity risk is the risk that insufficient liquid currency funds will be available to the National Bank in order to perform its normal operations. The main objective of the National Bank in managing the liquidity risk is explained in Note 1.

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

The table below presents the cash flows payable by the National Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table below are the contractual undiscounted cash flows for financial liabilities, and expected maturity date for financial assets.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****E Liquidity risk (Continued)**

31 December 2010	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	20,173,010	-	-	-	-	20,173,010
Deposits of banks	1,285,680	-	15,283,957	-	-	16,569,637
Reserve requirements	715	-	13,186,901	-	-	13,187,616
National Bank Bills	25,943,719	-	-	-	-	25,943,719
Deposits of the government	11,390,697	-	-	-	-	11,390,697
Restricted deposits	350,212	28,935	101,516	-	-	480,663
Borrowings from IMF	9,533,143	-	-	-	-	9,533,143
Other deposits	2,412,792	-	-	-	-	2,412,792
Other liabilities	890,771	-	13,834	-	-	904,605
Total liabilities (contractual maturity dates)	71,980,739	28,935	28,586,208	-	-	100,595,882
Assets held for managing liquidity risk (expected maturity dates)	98,065,912	922,616	432,638	15,745,734	835,819	116,002,719

31 December 2009	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	19,482,000	-	-	-	-	19,482,000
Deposits of banks	1,109,725	61,173	13,874,194	-	-	15,045,092
Reserve requirements	730	-	12,239,191	-	-	12,239,921
National Bank Bills	15,861,833	-	-	-	-	15,861,833
Deposit requirement	169,214	-	-	-	-	169,214
Deposits of the government	14,939,201	-	-	-	-	14,939,201
Restricted deposits	189,494	87,426	345,120	45,880	-	667,920
Borrowings from IMF	9,166,362	-	-	-	-	9,166,362
Other deposits	3,413,519	-	-	-	-	3,413,519
Other liabilities	1,069,364	407,789	13,066	-	-	1,490,219
Total liabilities (contractual maturity dates)	65,401,442	556,388	26,471,571	45,880	-	92,475,281
Assets held for managing liquidity risk (expected maturity dates)	92,986,642	64,881	10,146,315	124,056	815,879	104,137,773

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****F Fair value of financial assets and liabilities**

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

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

	Carrying value		Fair value	
	2010	2009	2010	2009
Financial assets				
Foreign currencies	88,813	154,535	88,813	154,535
Foreign currencies deposits	21,320,909	28,299,309	21,320,909	28,299,309
Special Drawing Rights	57,728	3,886,612	57,728	3,886,612
Foreign debt securities held to maturity, carried at amortized cost	16,005,396	-	16,130,997	-
Foreign equity securities, carried at cost	38,481	35,951	38,481	35,951
Government securities	781,426	757,701	781,426	757,701
Loans to banks	15,912	15,912	15,912	15,912
Financial liabilities				
Currency in circulation	20,173,010	19,482,000	20,173,010	19,482,000
Bank deposits	16,569,637	15,045,092	16,569,637	15,045,092
Reserve requirement of banks and saving houses	13,187,616	12,239,921	13,187,616	12,239,921
National Bank bills issued	25,943,719	15,861,833	25,943,719	15,861,833
Deposit requirement of banks and saving houses	-	169,214	-	169,214
Government MKD deposit	8,322,635	5,022,061	8,322,635	5,022,061
Government foreign currency deposits	3,068,062	9,917,140	3,068,062	9,917,140
Payables to IMF	9,533,143	9,166,362	9,533,143	9,166,362
Other and restricted deposits	2,893,455	4,081,439	2,893,455	4,081,439

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

F Fair value of financial assets and liabilities (Continued)

Financial assets

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

The fair value for foreign debt securities held to maturity is based on quoted market prices, at the date of the statement of financial position.

As explained in Note 18, included in available-for-sale securities are BIS shares with a value of MKD 38,481,000 (2009: MKD 35,951,000), for which fair value cannot be reliably determined and therefore they are carried at cost. However, due to the specific role of BIS, fair value of these shares is considered to approximate their carrying value.

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

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

Financial liabilities

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

The fair values of deposits carried at amortized cost, are considered to approximate their carrying values due to that there are no other similar instruments with similar characteristics..

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****F Fair value of financial assets and liabilities (Continued)****Fair value hierarchy**

Fair values are determined according to the following hierarchy:

a) Level 1- Quoted Market Price

Financial instruments with quoted prices for identical instruments in active markets.

b) Level 2 - Valuations Techniques Using Observable Inputs

Financial instruments with quoted prices for similar instruments in active market or quoted prices for identical or similar instrument in inactive market and financial instruments valued using models where all significant inputs are observable.

c) Level 3- Valuations Techniques with Significant Non-observable inputs

Financial instruments valued using models where one or more significant inputs are not observable.

Assets and liabilities measured at fair value

31 December 2010	Level 1	Level 2	Level 3	Total
Trading securities				
-Foreign debt securities	53,729,016	-	-	53,729,016
Gold	14,256,019	-	-	14,256,019
Total financial assets	67,985,035	-	-	67,985,035

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

4 Critical accounting estimates, and judgments in applying accounting policies

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

(a) Held-to-maturity investments

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***5 Interest income**

	Loans granted	Deposits	Monetary gold	HTM Securities	Total December 31, 2010	Total December 31, 2009
Government	200	-	-	23,726	23,926	23,005
Domestic banks	239	-	-	-	239	300
Foreign entities	-	76,816	18,302	180,655	275,773	140,782
Other	188	-	-	-	188	98
Total for 2010	627	76,816	18,302	204,381	300,126	164,185
Total for 2009	398	113,534	27,248	23,005	164,185	-

6 Interest expense

	Deposits received	Securities issued	Total December 31, 2010	Total December 31, 2009
Government	80,557	-	80,557	110,642
Domestic banks	323,315	1,364,182	1,687,497	1,222,837
Total for 2010	403,872	1,364,182	1,768,054	1,333,479
Total for 2009	377,504	955,975	1,333,479	-

7 Fee income

	2010	2009
Fees from providing cash to banks	59,910	62,641
Fees from domestic banks for maintaining account based on debt turnover on account	57,752	49,596
Fees based on settlement of payments (RTGS)	48,965	43,487
Fees from foreign exchange operations	14,534	14,934
Fees from sale of administrative and court government stamps	12,187	14,299
Fees from compensation for activities related to custodian of pension funds	-	9,625
Other fees	13,978	12,761
Total	207,326	207,343

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***7 Fee income (Continued)**

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

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

8 Fee expense

	2010	2009
Fees to foreign banks	14,166	7,799
Total	14,166	7,799

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

9 Net unrealized exchange and fair value differences

	2010	2009
Unrealized positive exchange rate differences	3,743,536	1,546,709
Unrealized negative exchange rate differences	(2,923,656)	(1,893,067)
Unrealized positive exchange rate and price differences from gold	8,920,145	5,126,693
Unrealized negative exchange rate and price differences from gold	(4,944,648)	(3,070,052)
Total	4,795,377	1,710,283

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***10 Net income from trading securities**

	2010	2009
Realized profit from trading securities	36,956	81,406
Realized losses from trading securities	(358,674)	(311,751)
Interest income on trading securities	1,393,063	1,528,634
Unrealized positive price changes from trading securities	23,672	58,983
Unrealized negative price changes from trading securities	(659,522)	(285,276)
Total	435,495	1,071,996

11 Dividend income

	2010	2009
Dividend income on investments in BIS	21,521	7,670
Total	21,521	7,670

12 Other operating income

	2010	2009
Realized positive exchange rate differences, net	125,943	139,177
Income based on sale of jubilee coins	4,611	2,578
Other income	21,018	71,522
Total	151,572	213,277

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

13 Personnel expenses

	2010	2009
Wages and personal income tax	249,602	253,184
Pension cost – defined contribution plans	60,058	65,037
Required contributions	30,029	32,176
Other staff expenses	6,805	7,660
Total	346,494	358,057

In 2010, the remuneration of the key management of the National Bank was MKD 12,709,000 (2009: MKD 12,702,000), included in 'Personnel expenses' above.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***14 Other expenses**

	2010	2009
Costs of production of banknotes and coins	111,214	103,553
Services	62,943	61,217
Material expenses	31,937	27,604
Other administrative expenses	13,572	12,510
Other expenses	2,471	2,370
Total	222,137	207,254

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

15 Provisions and write offs

	Note	2010	2009
(Release)/Charge provisions related to lawsuits with banks	25,42	(218,532)	18,883
Charge/(Release) provisions for other assets	29	1,637	(2,624)
(Release)/Charge provisions related to lawsuits with natural persons /other entities	42	(906)	1,147
Other provisions	29	84	107
Total		(217,717)	17,513

16 Foreign currencies

Foreign currencies are cash foreign currency and checks held in the National Bank vault. Foreign currencies are included in cash equivalents for the purposes of the cash flow statement (Note 45).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***17 Foreign currency deposits**

	2010	2009
Foreign currency sight deposits	19,469,589	18,225,269
Foreign currency term deposits	1,845,204	10,054,713
Included in the cash and cash equivalents (Note 45)	21,314,793	28,279,982
Restricted accounts	6,116	19,327
Total	21,320,909	28,299,309

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

Interest rate type	31 December 2010	31 December 2009
- overnight deposits in USD	0.16%	0.14%
- Euro overnight deposits	0.33%	0.61%
- time deposits in EUR	0.35%	0.28%

Foreign currency deposits include accrued interest of MKD 54,000 (2009: MKD 286,000).

Foreign currency deposits by type of entity

	2010	2009
Central banks	21,119,592	28,223,491
Foreign commercial banks	164,703	61,237
International financial institutions	36,614	14,581
Total	21,320,909	28,299,309

Foreign currency deposits by geographic location

	2010	2009
Europe	20,544,291	27,830,818
America	657,595	458,463
Other	119,023	10,028
Total	21,320,909	28,299,309

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***18 Foreign securities**

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

	2010	2009
Trading securities	53,729,016	55,127,724
Foreign debt securities	53,729,016	55,127,724
Securities held to maturity	16,005,396	-
Foreign debt securities	16,005,396	-
Securities available for sale	38,481	35,951
Foreign equity securities	38,481	35,951
Total	69,772,893	55,163,675
Current	57,713,460	55,127,724
Non-current	12,059,433	35,951

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 0.875% and 5.375% p.a. (2009: from 0.875% to 5.625%). Foreign trading securities include accrued interest of MKD 720,792,000 (2009: MKD 826,746,000).

Securities intended to be held to maturity bear fixed income. Foreign securities held to maturity include accrued interest of MKD 259,663,000.

The equity securities are composed of ordinary BIS shares with a nominal value of 5,000 SDR per share (paid up at 25% of their nominal value). BIS shares represent unquoted equity instruments whose fair value can not be reliably determined and therefore are carried at cost.

19 Gold

	2010	2009
Sight gold deposits	14,056,690	9,856
Term gold deposits	172,975	10,262,472
Gold in the NBRM vault	26,354	19,006
Total	14,256,019	10,291,334
Current	14,083,044	28,862
Non-current	172,975	10,262,472

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***19 Gold (Continued)**

As of December 31, 2010, the National Bank total gold reserves stood at 218,253.31 ounces (2009: 218,281.468 ounces) at a market value of US Dollar 1,410.25 (MKD 65,314) per ounce (2009: US Dollar 1,104.00 or MKD 47,102 per ounce). Interest rates on term gold deposits for 2010 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 (2009: 0.535% and 0.57% p.a. on gold deposits based on the price of gold in EUR and 0.31% on gold deposits based on the price of gold in USD). Term gold deposits include accrued interest of MKD 952,000 (2009: MKD 9,787,000).

20 Special Drawing Rights (SDR)

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2010, the basic rate ranged from 0.22% to 0.40% p.a. (2009: from 0.23% to 0.83% p.a.). For Special Drawing Rights Allocation (see Note 39). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 45).

21 Receivables from Government related to IMF

	2010	2009
Receivable related to general and special net cumulative allocation	4,097,853	-
Receivable related to SDR allocation	599,856	560,415
Total	4,697,709	560,415
Current	4,697,709	560,415

The claim related to the general and special net cumulative allocation pertains to the assets which, according to the Law on regulating the liabilities of the Republic of Macedonia to IMF based on using assets from the general and special net cumulative SDR allocation, approved with the resolution of the Board of Governors of IMF (see Note 39a), are given for use to the Republic of Macedonia.

The receivable related to the SDR allocation with the IMF resulting from the correspondent requirement for the Macedonian portion of the liability to the IMF for SDR, according to the Law on Legal Inheritance of the Republic of Macedonia of the Membership in the IMF (see Note 39a).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***22 Government securities**

	2010	2009
Securities held to maturity		
Bond for selective credits	781,426	757,701
Total	781,426	757,701
Non-current	781,426	757,701

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

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

23 IMF Membership

According to the IMF Statute, ratified by the Parliament of the Republic of Macedonia and the Law on the Legal Inheritance of the Republic of Macedonia of the Membership in the International Monetary Fund, the National Bank acts as a fiscal agent of the Republic of Macedonia and simultaneously behaves as a depositary of the IMF in the Republic of Macedonia. As such, the National Bank keeps records of the quota of the Republic of Macedonia for membership with the IMF and of the account no.1 and the account no.2. The quota of the Republic of Macedonia for membership with the IMF stands at MKD 4,823,203,000 at the end of 2010, the account No. 1 amounts to MKD 12,088,000 and account No. 2 is valued at MKD 143,000. (2009: MKD 4,765,447,000, MKD 11,943,000 and MKD 141,000 respectively for the three positions, see note 39b). The changes are due to the evaluation of these positions by the SDR exchange rate on April 30, according to the IMF financial year.

24 Loans to banks

	2010	2009
Long-term loans from the conversion of the selective credits:		
- 1996	15,912	15,912
Total	15,912	15,912
Non-current	15,912	15,912

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***25 Other receivables**

	2010	2009
Receivable from bank under bankruptcy	1,018,419	1,034,569
Due auction deposits	9,268	9,268
Total	1,027,687	1,043,837
Provision	(1,027,687)	(1,043,837)
Total	-	-

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

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

The movements in provision for other receivables are as follows:

	2010	2009
Balance as at 1 January	1,043,837	1,043,837
Decrease of provisions for receivables from bank under bankruptcy (Note 15)	(16,150)	-
Balance as at 31 December	1,027,687	1,043,837

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***26 Property and equipment**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Investments in progress	Total assets for business purposes	Property and equipment for entertainment purposes	Total
On January 1, 2009							
Cost	875,089	453,833	62,834	38,178	1,429,934	34,904	1,464,838
Accumulated depreciation	(173,820)	(333,693)	-	-	(507,513)	(14,358)	(521,871)
Net book amount	701,269	120,140	62,834	38,178	922,421	20,546	942,967
On January 1, 2009, net of accumulated depreciation	701,269	120,140	62,834	38,178	922,421	20,546	942,967
Additions	21,262	20,256	-	21,317	62,835	85	62,920
Write offs	-	(26)	-	-	(26)	(225)	(251)
Transfers	-	-	-	-	-	-	-
Depreciation for the year	(24,717)	(34,611)	-	-	(59,328)	(808)	(60,136)
On December 31, 2009	697,814	105,759	62,834	59,495	925,902	19,598	945,500
On December 31, 2009							
Cost	896,351	469,456	62,834	59,495	1,488,136	34,442	1,522,578
Accumulated depreciation	(198,537)	(363,697)	-	-	(562,234)	(14,844)	(577,078)
Net book amount	697,814	105,759	62,834	59,495	925,902	19,598	945,500

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***26 Property and equipment (continued)**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Investments in progress	Total assets for business purposes	Property and equipment for entertainment purposes	Total
On January 1, 2010							
Cost	896,351	469,456	62,834	59,495	1,488,136	34,442	1,522,578
Accumulated depreciation	(198,537)	(363,697)	-	-	(562,234)	(14,844)	(577,078)
Net book amount	697,814	105,759	62,834	59,495	925,902	19,598	945,500
On January 1, 2010, net of accumulated depreciation	697,814	105,759	62,834	59,495	925,902	19,598	945,500
Additions	3,252	14,979	188	4,968	23,387	-	23,387
Write offs	-	(63)	-	-	(63)	-	(63)
Transfers	15,428	27,681	-	(43,109)	-	-	-
Depreciation for the year	(26,809)	(34,815)	-	-	(61,624)	(773)	(62,397)
On December 31, 2010	689,685	113,541	63,022	21,354	887,602	18,825	906,427
On December 31, 2010							
Cost	915,031	479,837	63,022	21,354	1,479,244	34,442	1,513,686
Accumulated depreciation	(225,346)	(366,296)	-	-	(591,642)	(15,617)	(607,259)
Net book amount	689,685	113,541	63,022	21,354	887,602	18,825	906,427

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***27 Intangible assets**

	2010	2009
At 1 January		
Cost	142,551	138,229
Investment in progress	6,611	3,841
Accumulated amortization	(115,588)	(101,031)
Net book amount	33,574	41,039
Year ended December		
Opening net book amount	33,574	41,039
Additions	7,437	4,463
Amortization charge	(15,417)	(14,698)
Investments in progress	89	2,770
Closing net book amount	25,683	33,574
At 31 December		
Cost	144,511	142,551
Investments in progress	6,701	6,611
Accumulated amortization	(125,529)	(115,588)
Net book amount	25,683	33,574

28 Jubilee coins

The jubilee coins are gold and silver coins which, as defined by the decision of the Government, were manufactured for the purposes of celebrating jubilees relevant for the country. On December 31, 2010, the National Bank held a total of 7,288 gold coins and 137 silver coins (2009: 7,559 gold coins and 216 silver coins). The jubilee coins in the National Bank vault are intended for sale.

29 Receivables

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

	2010	2009
Fees	22,087	21,825
Receivables for maintenance of premises	5,871	2,977
Other receivables	408,548	421,822
Impairment for other receivables	(408,548)	(421,822)
Total	27,958	24,802

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***29 Receivables (Continued)**

The movements in provision for receivables are as follows:

	2010	2009
Balance as at 1 January	421,822	418,615
Increase/ (Decrease) of provisions (Note 15)	1,637	(2,624)
Increase of other provisions (Note 15)	84	107
(Write off)/ Increase of doubtful and contested receivables	(14,995)	5,724
Balance as at 31 December	408,548	421,822

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

30 Other assets

	2010	2009
Prepaid expenses of printing banknotes	142,847	180,521
Other prepaid expenses	4,601	6,703
Office and other materials	7,957	6,315
Other assets	470	12,409
Total	155,875	205,948
Current	147,918	199,633
Non-current	7,957	6,315

31 Currency in circulation

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

Currency in circulation			2010		2009t
MKD	Nominal value	Pcs	Value in MKD thousands	Pcs	Value in MKD thousands
Coins	0.5	3,284,875	1,642	3,278,731	1,639
Coins	1	71,289,709	71,290	67,923,933	67,924
Coins	2	45,348,618	90,697	43,355,278	86,711
Coins	5	28,630,293	143,151	27,967,752	139,839
Coins	10	5,595,002	55,950	2,961,427	29,614
Coins	50	897,612	44,881	1,048,630	52,432
Banknotes	10	25,733,452	257,335	25,999,030	259,990
Banknotes	50	5,599,018	279,951	5,272,247	263,612
Banknotes	100	10,931,631	1,093,163	10,612,830	1,061,283
Banknotes	500	6,029,569	3,014,784	6,383,944	3,191,972
Banknotes	1000	14,788,731	14,788,731	13,973,884	13,973,884
Banknotes	5000	66,287	331,435	70,620	353,100
Total			20,173,010		19,482,000

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***32 Bank deposits**

	2010	2009
Bank deposits in MKD	15,647,021	14,231,233
Bank deposits in foreign currency	922,616	813,859
Total	16,569,637	15,045,092
Current	16,569,637	15,045,092

The liabilities based on deposits to banks reflect the balances on banks' accounts with the National Bank for settling transactions. The funds on the banks' accounts are included in the fulfillment of the banks' MKD reserve requirement, to which the National Bank pays remuneration in a specified percentage (see Note 33).

Since February 2009, in order to maintain foreign reserve liquidity and decreasing of credit risk exposure of the domestic banks, banks can place foreign exchange on deposit with the National Bank. The National Bank pays interest on these deposits at interest rates which depend on interest rates of funds placed in instruments issued by the governments, central banks or the international financial institutions of the member-countries in euro-area. Bank deposits in foreign currency include the accrued interest in the amount of MKD 41,000 (2009: MKD 255,000).

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

	2010	2009
Banks' foreign exchange reserve requirement	13,170,995	12,225,709
Savings houses' MKD reserve requirement	16,621	14,212
Total	13,187,616	12,239,921
Current	13,187,616	12,239,921

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

National Bank pays MKD reserve requirement remuneration of 2% to the average allocated funds on each bank's account in the period of fulfillment (2009: 2%). Since October 2009, the National Bank has paid remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a.

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***34 National Bank bills issued**

In 2010, the National Bank bills maturity was 28 days. At the National Bank bills auctions, volume tender was applied with predefined interest rate. The interest rates on the CB bills auctions registered downward trend and range between 8.00% in January and 4.00% in December. (In 2009: maturity of 28 days; type of tender: volume tender with predefined interest rate, interest rates from 7.00% - 8.50%).

The National Bank bills issued include accrued interest of MKD 38,798,000 (2009: MKD 36,600,000).

35 Deposit requirement of banks and savings houses

	2010	2009
Banks' deposit requirement	-	167,940
Saving houses' deposit requirement	-	1,274
Total	-	169,214
Current	-	169,214

Since August 2008 until December 2009, banks and saving houses are obliged to allocate deposit requirement with the National Bank. The allocation of the deposit requirement is carried out on the monthly basis, for the amount the banks and the saving houses would possibly exceed the set monthly growth rate of the credits to the households sector prescribed with the regulations. National Bank pays interest on the deposit requirement of banks and saving houses at an interest rate 1% p.a. Deposit requirement of banks and saving houses included accrued interest (2009: MKD 75,000).

36 Government MKD deposits

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

	2010	2009
Single Treasury account	7,446,150	4,069,032
Other MKD deposits	876,485	953,029
Total	8,322,635	5,022,061
Current	8,322,635	5,022,061

In 2010, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1.0 % p.a. (2009: 1.0% p.a.). Government deposits include the accrued undue interest in the amount of MKD 6,459,000 (2009: MKD 3,958,000).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the financial statements for the year ended 31 December 2010

(All amounts in MKD thousands unless otherwise stated)

37 Government foreign currency deposits

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

On December 31, 2010, these deposits amounts were MKD 3,068,062,000 (2009: MKD 9,917,140,000). In 2010, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2009: 0.7% p.a.).

38 Restricted deposits

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

39 Payables to IMF

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

- a) Payables based on Special Drawing Rights Allocation – on the behalf and for the account of Government

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

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

Total liability of Macedonia for the SDR allocation at the end of 2010 amounted to SDR 65,616,876 (2009: SDR 65,616,876). According to the IMF Articles of Agreement, the liability for the SDR allocation falls due for collection only in the case and in the amount of the cancelled previous SDR allocation, which requires a decision of the Council of IMF Governors, with 85% majority of votes, or in case of canceling the participation in the SDR Department within the framework of the IMF.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***39 Payables to IMF (Continued)**

The National Bank pays interest on the existing share of the liability on the basis of the SDR allocation (SDR 65,616,876), at the basic interest rate of the IMF. Since 2005, National Bank has been refunded the interest paid of the liability of the SDR Allocation which took over from former Yugoslavia (SDR 8,378,694), from the Budget of the Republic of Macedonia. In accordance with the Agreement concluded between the National Bank and the Ministry of Finance of the Republic of Macedonia (see Note 21), the National Bank shall refund the assets for paid interest on the liability based on the general and special SDR allocation as well, from the Budget of the Republic of Macedonia.

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

	2010	2009
Liabilities on the basis of issued promissory note for membership in the IMF	4,823,203	4,765,447
Liabilities on the basis of account 1	12,088	11,943
Liabilities on the basis of account 2	143	141
Total	4,835,434	4,777,531
Current	4,835,434	4,777,531

40 Other deposits

	2010	2009
Liabilities on the basis from MKD deposits to other domestic entities	2,409,086	3,409,813
Liabilities on the basis from MKD deposits to international financial institutions	3,706	3,706
Total	2,412,792	3,413,519
Current	2,412,792	3,413,519

Liabilities based on MKD deposits from other domestic entities comprise brokerage houses' client accounts, the Central Depository of Securities account and the Deposit Insurance Fund account. The brokerage houses' client accounts and the Central Depository of Securities account are settlement accounts arising from securities transactions. National Bank does not pay any interest on these deposits. The account of the Deposit Insurance Fund is maintained at the National Bank as required by the Deposit Insurance Law. National Bank pays interest to the Deposit Insurance Fund of 0.5% per annum (2009: 0.85% per annum).

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***41 Other payables**

Payables are analyzed as follows:

	2010	2009
Liabilities from BNT bankruptcy	146,480	147,602
Payables arising from annuities received from sale of socially-owned flats	7,862	7,544
VAT	1,199	805
Payables from appropriation of net income	-	407,789
Other payables	13,651	12,815
Total	169,192	576,555

Payables from appropriation of net income relate to appropriation of net income, which was due to the Budget of the Republic of Macedonia, in accordance with the provisions of the Law on the National Bank. Appropriation of net income is approved by the National Bank Council (see Note 1).

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

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

42 Provisions

	2010	2009
Provisions for potential liabilities based on litigations with banks	-	202,382
Provisions for potential liabilities based on litigations with other entities	6,084	6,990
Total	6,084	209,372

Provisions for potential liabilities on the basis of litigations pertain to the amount of principal and interest the National Bank expects to be obliged to pay out to natural persons and legal entities which instituted proceedings against the National Bank (see Note 15). Due to the final decision of the relevant Court, a case with one domestic bank was resolved for the benefit of the National Bank, which has released special provisions in the amount of MKD 202,382,000.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***42 Provisions (Continued)**

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

	2010	2009
Balance as at 1 January	209,372	189,342
(Released) /Additional provisions for potential liabilities based on litigations with banks (Note 15)	(202,382)	18,883
(Released) / Additional provisions for potential liabilities based on litigation with other entities (Note 15)	(906)	1,147
Balance as at 31 December	6,084	209,372

43 Other liabilities

	2010	2009
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	423,623	414,769
Equity payments pending operational license	184,515	167,003
Jubilee coins counterpart	91,568	96,178
Liabilities to suppliers and other liabilities	15,021	12,016
Deferred income	14,602	14,326
Total	729,329	704,292

Liabilities for deposited funds on the basis of confiscated foreign currencies and deposited guarantees represent deposited foreign currency holdings of legal entities and natural persons that are confiscated by the competent government bodies as a mandatory measure. The competent government bodies pressed charges against those legal entities and natural persons, with the competent courts. Depending on the court decision, these foreign currencies are either returned to the original holder or transferred to the Budget of the Republic of Macedonia. The National Bank pays no interest on these funds.

Equity payments pending operational license include deposits related to a license application to the Ministry of Finance for an insurance company license, made in accordance with the Insurance Supervision Law. National Bank does not pay interest on these funds.

Jubilee coins counterpart arises as a result of the accounting policy for jubilee coins (see Note 20 and 28).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***44 Capital and reserves***Capital*

The National Bank's capital is defined in the Law on the National Bank and as of December 31, 2010, it amounted to MKD 1,289,789,000 (2009: MKD 1,289,789,000).

General reserves

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the special reserves*, 70% of the distributable earnings are transferred to the general reserves until the level of the capital of the National Bank is reached. After the capital is reached, 15% of the remaining income was transferred to the general reserves, while the remaining share is transferred to the Budget of the Republic of Macedonia. The general reserves are utilized to cover the general risks related to National Bank operations. As of 31 December 2010 these reserves were utilized to cover the negative distributable earnings for 2010 in amount of MKD 762,373,000.

Special reserves

	2010	2009
Special reserves from unrealized exchange rate and price changes		
○ Special reserves from foreign exchange gains	3,724,307	2,904,427
○ Special reserves from price and exchange rate changes of gold	10,316,853	6,341,356
○ Special reserves from price changes of securities for trading	97,621	430,156
Total	14,138,781	9,675,939

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

Special reserves from foreign exchange gains from foreign exchange assets and liabilities for 2010 are increased by MKD 819,880,000 on the basis of allocation of the net positive unrealized foreign exchange gains (2009: net negative foreign exchange losses of MKD 346,358,000 were covered from the Special reserves).

Special reserves from price and exchange rate changes of gold for 2010 are increased by MKD 3,975,497,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold. (2009: MKD 2,056,641,000).

* Defined as Revaluation reserve accounts in the Law on the National Bank.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the financial statements for the year ended 31 December 2010***(All amounts in MKD thousands unless otherwise stated)***44 Capital and reserves (Continued)**

Special reserves from price changes of securities for trading are reduced by MKD 82,570,000 due to covering the net negative price changes of securities for trading according to the security-by-security principle. Special reserves on the basis of the realized price changes from securities in the amount of MKD 249,965,000 were added to the negative distributable earnings for the current year.

45 Cash and cash equivalents	2010	2009
Foreign currencies in vault (Note 16)	88,813	154,535
Foreign currency deposits (Note 17)	21,314,793	28,279,982
SDR holdings, net (Note 20)	57,728	3,886,612
Total	21,461,334	32,321,129

46 Commitments and contingencies**a) Litigation**

The National Bank is a defendant in a several legal proceedings arising from its operations. The National Bank contests these claims and based on legal advice considers that no other material liabilities will be incurred, except for the amounts already provided for (Note 15 and Note 42).

47 Related parties transactions

The National Bank has related party transactions with the Government of the Republic of Macedonia and with the members of the Council. The transactions and outstanding balances with the related parties are presented in Note 5, Note 6, Note 13, Note 22, Note 36 and Note 37.

48 Events after the date of the statement of financial position

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