

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

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

For the year ended 31 December 2012

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	9-62



Grant Thornton

Independent Auditors' Report

Grant Thornton DOO
M.H. Jasmin 52 v-1/7
1000 Skopje
Macedonia

T +389 2 3214 700
F +389 2 3214 710
www.grant-thornton.com.mk

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 of the Statement of financial position as at 31 December 2012, and the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 4 to 62.

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 misstatements.

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 National Banks'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 National Banks'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 financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2012, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

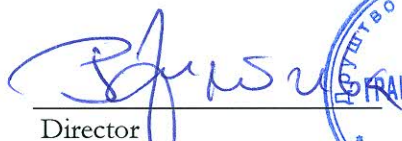
Other matter

The financial statements of the National Bank as at and for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those financial statements on 2 March 2012.

Skopje,

22 February 2013


Grant Thornton DOO,


Director
Ruza Filipceva




Certified auditor
Marjan Andonov

GENERAL INFORMATION

Members of the National Bank of the Republic of Macedonia Council

Dimitar Bogov, Governor
Maja Kadiavska Vojnovik, Vice Governor
Fadil Bajrami, Vice Governor
Anita Angelovska-Bezovska, Vice Governor (from 22 April 2012)
Verica Hadzi-Vasileva - Markovska
Goran Petreski
Liman Kurtisi (until 6 October 2012 and from 4 December 2012)
Drage Janev (until 21 April 2012)
Tihomir Petreski
Saso Arsov

Registered office

Bvd. Kuzman Josifovski Pitu No.1
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***INCOME STATEMENT**

		Year ended 31 December	
	Note	2012	2011
Interest income	5	553,657	531,687
Interest expense	6	(1,590,321)	(1,503,296)
Net interest income		(1,036,664)	(971,609)
Fee income	7	239,754	235,870
Fee expense	8	(10,701)	(5,904)
Net fee income		229,053	229,966
Net unrealized price and exchange rate differences	9	438,397	2,412,687
Net income from trading securities	10	538,206	541,354
Dividend income	11	9,809	8,650
Other operating income	12	224,366	368,230
Personnel expenses	13	(371,270)	(361,252)
Depreciation and amortization charge	27,28	(78,948)	(77,192)
Other expenses	14	(173,757)	(203,555)
Provisions and write offs	15	(5,630)	3,667
Loss/ Profit for the year, net		(226,438)	1,950,946

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2012	2011
Loss /Profit for the year from the income statement, net		(226,438)	1,950,946
Other comprehensive income		-	-
- Items that will be reclassified subsequently to profit and loss		-	-
- Items that will not be reclassified subsequently to profit and loss		-	-
Other comprehensive income for the year		-	-
Total comprehensive loss / income for the year		(226,438)	1,950,946

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA
Financial statements for the year ended 31 December 2012
(All amounts in MKD thousands unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

ASSETS	Note	At 31 December	
		2012	2011
Foreign currencies	16	182,714	363,003
Foreign currency deposits	17	25,913,801	24,668,079
Foreign securities	18	91,809,082	85,795,222
Gold	19	16,974,141	16,424,613
Special Drawing Rights	20	75,050	35,967
Foreign assets		134,954,788	127,286,884
Receivables from foreign currency repo transactions	21	8,367,713	14,337,310
Receivables from Government related to IMF	22	18,894,805	19,289,504
Government securities	23	831,129	805,895
Receivables from Government		19,725,934	20,095,399
IMF Membership	24	4,969,099	4,643,057
Loans to banks	25	2,717,031	15,912
Other receivables	26	-	-
Receivables from banks		2,717,031	15,912
Property and equipment	27	845,680	887,586
Intangible assets	28	28,319	39,609
Jubilee coins	29	144,657	144,424
Operating receivables	30	28,096	32,143
Other assets	31	111,482	137,228
Total assets		171,892,799	167,619,552

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (continued)**

LIABILITIES AND EQUITY	Note	At 31 December	
		2012	2011
Currency in circulation	32	23,979,250	22,767,435
Bank deposits	33	22,243,693	16,735,731
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	34	13,053,966	14,149,158
National Bank bills issued	35	25,975,784	32,229,886
Liabilities based on foreign currency repo transactions	36	9,690,392	14,304,267
Government MKD deposits	37	21,166,638	9,231,166
Government foreign currency deposits	38	10,978,792	12,063,953
Government deposits		32,145,430	21,295,119
Restricted deposits	39	71,133	137,267
Payables based on Special Drawing Rights Allocation – on behalf and for the account of the Government	40a	4,714,717	4,812,499
Borrowing from IMF- on behalf and for the account of the Government	40b	14,180,088	14,477,005
Payables based on membership and deposits	40c	4,969,099	4,643,057
Payables to IMF	40	23,863,904	23,932,561
Other deposits	41	1,920,551	2,898,739
Other payables	42	172,143	199,308
Provisions	43	3,543	907
Other liabilities	44	623,215	592,648
Other liabilities		798,901	792,863
Total liabilities		153,743,004	149,243,026
Capital		1,289,789	1,289,789
General reserves		1,070,691	1,070,010
Other reserves		15,789,315	16,016,727
Total equity	45	18,149,795	18,376,526
Total liabilities and equity		171,892,799	167,619,552

The notes on pages 9 to 62 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Financial statements for the year ended 31 December 2012

(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
As at 1 January 2011		1,289,789	1,017,666	14,138,781	1,777	-	16,448,013
Profit for the year		-	-	-	-	1,950,946	1,950,946
Total comprehensive income for 2011		-	-	-	-	1,950,946	1,950,946
Net unrealized positive price and exchange rate differences of gold	45	-	-	2,022,245	-	(2,022,245)	-
Net unrealized positive foreign exchange gains	45	-	-	390,442	-	(390,442)	-
Net unrealized positive price differences of securities	45	-	-	88,295	-	(88,295)	-
Realized price and exchange rate differences of gold	45	-	-	(527,192)	-	527,192	-
Realized price differences of securities	45	-	-	(97,621)	-	97,621	-
Transfer to general reserves		-	52,344	-	-	(52,344)	-
Transfer to the Budget of the Republic of Macedonia		-	-	-	-	(22,433)	(22,433)
As at 31 December 2011		1,289,789	1,070,010	16,014,950	1,777	-	18,376,526
Loss for the year		-	-	-	-	(226,438)	(226,438)
Total comprehensive income for 2012		-	-	-	-	(226,438)	(226,438)
Net unrealized positive price and exchange rate differences of gold	45	-	-	583,338	-	(583,338)	-
Net unrealized negative foreign exchange gains	45	-	-	(144,941)	-	144,941	-
Net unrealized positive price differences of securities	45	-	-	16,596	-	(16,596)	-
Realized price and exchange rate differences of gold	45	-	-	(594,110)	-	594,110	-
Realized price differences of securities	45	-	-	(88,295)	-	88,295	-
Transfer to general reserves		-	681	-	-	(681)	-
Transfer to the Budget of the Republic of Macedonia		-	-	-	-	(293)	(293)
As at 31 December 2012		1,289,789	1,070,691	15,787,538	1,777	-	18,149,795

* 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 2012***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF CASH FLOWS**

	Note	Year ended 31 December	
		2012	2011
Cash flow from operating activities			
Loss/Profit for the year		(226,438)	1,950,946
Adjusted for:			
Interest income	5	(553,657)	(531,687)
Interest expense	6	1,590,321	1,503,296
Net unrealized price and exchange rate differences of gold	9	(583,338)	(2,022,245)
Net income from trading securities		(1,029,750)	(428,542)
Impairment, net		2,828	1,437
Release / Charge of provisions		2,802	(5,104)
Depreciation and amortization charge	27,28	78,948	77,192
Cash flows from operating profits before changes in operating assets and liabilities		(718,284)	545,293
Gold		59,429	(146,349)
Foreign securities		(4,984,110)	(15,593,787)
Restricted deposits		-	6,116
Receivables from foreign currency repo transactions		5,972,376	(14,334,531)
Receivables from Government		-	(14,448,453)
Receivables from banks		(2,700,001)	-
Other assets		26,269	(29,086)
Currency in circulation		1,211,815	2,594,425
Bank deposits		5,517,218	164,629
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		(1,095,121)	961,450
Liabilities from foreign currency repo transactions		(4,616,179)	14,301,961
Government deposits, including restricted and other deposits		9,797,862	10,047,754
Borrowing from IMF- on behalf and for the account of the Government		-	14,448,453
Provisions for court cases		(166)	(73)
Other liabilities		4,039	(127,497)
Interest received		499,370	503,235
Interest paid		(1,584,100)	(1,495,511)
Net cash flows used in operating activities		7,390,417	(2,601,971)
Acquisition of property, equipment and intangible assets		(25,752)	(72,295)
Proceeds from the sale of property and equipment		-	18
Net cash flows used in investing activities		(25,752)	(72,277)
National Bank bills withdrawn/issued		(6,260,149)	6,279,963
Net cash flows from financing activities		(6,260,149)	6,279,963
Net increase in cash and cash equivalents		1,104,516	3,605,715
Cash and cash equivalents at the beginning of the year		25,067,049	21,461,334
Cash and cash equivalents at the end of the year	46	26,171,565	25,067,049

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(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 National Bank as a central bank of issue was constituted in 1992. The organization and the operating of the National Bank are regulated by the Law on the National Bank of the Republic of Macedonia, published in the "Official Gazette of the Republic of Macedonia" no. 158/10, dated 9 December 2010 and no. 123/12 from 2 October 2012. The National Bank is a legal entity with administrative, financial and governing independence, being authorized for attaining the goals and performing the tasks stipulated in a law.

Pursuant to the Law on the National Bank, the main objective of the National Bank is to attain and maintain the price stability. Another objective, subordinated to the main objective, is to contribute towards maintenance of stable, competitive and market-oriented financial system. Third objective of the National Bank is to support the general economic policy of the country, observing the financial stability, without jeopardizing the accomplishment of its main objective, though adhering to the principle of open market economy with free competitiveness.

The National Bank, at least twice a year, informs the Assembly of the Republic of Macedonia and the public on the monetary policy. Within four months after the year end, the National Bank submits to the Assembly of the Republic of Macedonia and to the Minister of Finance and publishes one or several reports approved by the National Bank Council on the economic situation in the fiscal year ended, as well as on the perspectives in the economy for the following year, with special review on the objectives of the National Bank policies and the condition of the banking system of the Republic of Macedonia. The National Bank submits the annual financial statements approved by the National Bank Council and audited by an independent external auditor to the Minister of Finance, to the Assembly of the Republic of Macedonia, to the President of the Republic of Macedonia, and to the Prime Minister of the Republic of Macedonia.

The capital of the National Bank is owned by the Republic of Macedonia and it cannot be transferred, nor be a subject of any encumbrance. 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 the capital.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(All amounts in MKD thousands unless otherwise stated)

1 General information (Continued)

The distributable earnings are allocated to the general reserve account and to the Budget of the Republic of Macedonia as follows: 70% to the general reserve account after reaching the level of the capital determined by the Law, i.e. 15% to general reserves after reaching the level of the capital prescribed in the Law. 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 first to the general reserve account, and then it is covered from the capital. 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.

The management body of the National Bank is the National Bank Council.

The total number of employees as of 31 December 2012 is 437 (as of 31 December 2011: 434).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 22 February 2013 and signed by the chairman of the National Bank Council on its behalf:



[Signature]
Dimitar Bogov,

Chairman 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 National Bank in 2012. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the National Bank's operations and the nature of their impact on the Bank's accounting policies.

Adoption of 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1) -National Bank has adopted 'Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1). The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require entities to present items in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met.

b) New accounting pronouncements, amendments and interpretations of the existing standards which are not yet in use and are not yet implemented by the National Bank

As at the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the National Bank (except for the Amendments to IAS 1 noted above).

National Bank expects that all of the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the National Bank's financial statements is provided below.

2 Summary of significant accounting policies

A Basis of preparation of financial statements

New accounting pronouncements amendments and interpretations of the existing standards which are not yet in use and are not yet implemented by the National Bank (Continued)

b)

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 and Amendments to IFRS 7) - The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas: the meaning of 'currently has a legally enforceable right of offset' and that some gross settlement systems may be considered equivalent to net settlement. The Amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

The ***Amendments to IFRS 7*** add qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are (a) offset in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not offset in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively.

The National Bank does not expect a material impact on the Bank's financial statements from these Amendments.

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The Annual Improvements are effective for annual periods beginning on or after 1 January 2013.

The amendments relevant to the National Bank are: clarification of the requirements for the opening statement of financial position and clarification of the requirements for the comparative information provided beyond minimum requirements.

The National Bank does not expect a material impact on the Bank's financial statements from these Amendments.

2 Summary of significant accounting policies

A Basis of preparation of financial statements

b) New accounting pronouncements *amendments and interpretations of the existing standards which are not yet in use and are not yet implemented by the National Bank* (Continued)

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning on or after 1 January 2015. Chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The National Bank's management has yet to assess the impact of this new standard on the National Bank's financial statements.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect the selection of items that are required to be fair-valued. IFRS 13 applies prospectively to annual periods beginning on or after 1 January 2013.

The National Bank's management has yet to assess the impact of this new standard on the National Bank's financial statements.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***2 Summary of significant accounting policies****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 differences are recognized in the income statement.

Exchange rate:	31 December 2012 MKD	31 December 2011 MKD
USD	46.6510	47.5346
EUR	61.5000	61.5050
SDR	71.8522	73.3424

C Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position, only when, there is a legally enforceable right to offset 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 liabilities based on foreign currency repo transactions. Securities purchased under agreements to resell ('reverse repos') are recorded as receivables from foreign currency repo transactions and loans to 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

D Sale and repurchase agreements (continued)

Sale and repurchase agreements 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).

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 correspondent banks 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 financial assets 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 price and exchange rate differences of the MKD against the USD are credited or charged directly to the income statement. Interest from monetary gold is included in the interest income.

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.

2 Summary of significant accounting policies
H Financial assets (Continued)

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. Trading foreign debt securities are carried at fair value and the fair value differences are recognized in the profit and loss.

Loans and receivables

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

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

Held to maturity

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

Were the National Bank to sell or reclassify 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.

2 Summary of significant accounting policies

H Financial assets (Continued)

Available for sale

Available-for-sale investments are those financial assets that 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 cannot 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 income statement 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 it 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.

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.

2 Summary of significant accounting policies

J Impairment of financial assets (Continued)

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 current fair value and the cost, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

K Trade and settlement date accounting

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

L Property and equipment

All property and equipment, other than art works, are stated at cost less accumulated depreciation and impairment losses. 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 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 differences in the fair value are recognized in other comprehensive income in the revaluation reserves for art works.

2 Summary of significant accounting policies**L Property and equipment (Continued)**

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 2012
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/amortization and are tested annually for impairment. Assets that are subject to depreciation/amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be appropriate. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

O Jubilee coins

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

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 for the account 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 thirty five days at the most. 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 savings houses, government deposits, restricted deposits and other deposits.

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.

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 differences in the fair value of trading securities (security-by-security principle).

W Net unrealized price and exchange rate differences

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

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 carrying amount by applying weighted interest rate prevalent on the securities market for the 5-year (2011: 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 31 July 2003 and effective as of 1 January 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 31 December 2005.

Z Segment reporting

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

3 Financial risk management

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

A Credit risk

The credit risk is the risk of reduction in the value of the financial assets 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 and other financial assets are placed. In the foreign reserves management, the guidelines for credit risk management are in line with the Foreign reserves management policy of the National Bank of the Republic of Macedonia. Hence, the foreign reserves were invested in instruments issued by governments and central banks of the OECD and EU member states, the international financial institutions and commercial banks residents of the OECD and EU member states with long-term credit rating of minimum A-/A3 or equivalent, assigned by several internationally recognized rating agencies. A minimum investment credit rating is set for financial institutions in transactions settled on a "delivery versus payment basis" and for certain transactions related to payment transactions.

The National Bank manages the credit risk through diversification of investments. In that regard, quantitative limits for credit exposure to individual countries and financial institutions are determined. Additionally, quantitative limits are set on the exposure to the various types of securities and the size of the series issued.

The exposure of the foreign reserves to credit risk is monitored on a daily basis. The counterparties of the Bank are segmented into a credit 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 to credit risk by type of assets:

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****A Credit risk (Continued)**

ASSETS	2012	2011
Foreign currency deposits		
- Current accounts	25,913,801	21,285,282
- Term deposits	-	3,382,797
Foreign securities	91,809,082	85,795,222
Gold deposits	16,942,819	16,394,414
Special Drawing Rights	75,050	35,967
Foreign assets	134,740,752	126,893,682
Receivables from foreign currency repo transactions	8,367,713	14,337,310
Receivables from the Government related to IMF	18,894,805	19,289,504
Government securities	831,129	805,895
Receivables from the Government	19,725,934	20,095,399
Loans to banks	2,717,031	15,912
Operating receivables	28,096	32,143
As at 31 December	165,579,526	161,374,446

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.

Financial assets presented as Receivables from foreign currency repo transaction are fully collateralized, and the financial effect of this collateral is presented in Note 21. Other financial assets presented in the table above are not collateralized.

The table below presents an analysis of the National Bank's financial assets that are neither due and collected nor impaired, by rating agency designation as at 31 December 2012, based on Standard & Poor's ratings or their equivalent:

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

A Credit risk (Continued)

Credit rating	Gold deposits	Current accounts	Foreign securities	SDR - holdings	Foreign currency repo transactions	Receivables from Government	Loans to banks	Operating receivables	Total
	1,170,706	22,935,600	56,743,780	-	-	-	-	-	80,850,086
AA+	-	2,603,083	34,077,008	-	-	-	-	-	36,680,091
AA	-	22,942	-	-	-	-	-	-	22,942
AA-	3,112,296	273,138	949,673	-	-	-	-	-	4,335,107
A	-	30,263	-	-	5,447,084	-	-	-	5,477,347
A+	11,668,470	41,153	-	-	2,920,629	-	-	-	14,630,252
A-	-	6,133	-	-	-	-	-	-	6,133
CB ¹	-	-	-	-	-	-	-	-	-
II ²	991,347	1,489	38,621	75,050	-	-	-	-	1,106,507
BB ³	-	-	-	-	-	19,725,934	-	-	19,725,934
Unrated	-	-	-	-	-	-	2,717,031	28,096	2,745,127
Total	16,942,819	25,913,801	91,809,082	75,050	8,367,713	19,725,934	2,717,031	28,096	165,579,526

The table below presents an analysis of the National Bank's financial assets that are neither past due nor and collected, nor impaired, by rating agency designation as at 31 December 2011, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Foreign currency repo transactions	Receivables from Government	Loans to banks	Operating receivables	Total
AAA	-	439	-	70,349,925	-	-	-	-	-	70,350,364
AA+	-	-	-	9,651,918	-	-	-	-	-	9,651,918
AA	-	451	-	-	-	-	-	-	-	451
AA-	-	11,928	-	5,753,958	-	4,776,655	-	-	-	10,542,541
A	-	26,774	-	-	-	9,560,655	-	-	-	9,587,429
A+	-	22,580	-	-	-	-	-	-	-	22,580
CB ⁴	10,199,594	21,200,643	3,382,797	-	-	-	-	-	-	34,783,034
II ⁵	6,194,820	21,347	-	39,421	35,967	-	-	-	-	6,291,555
BB ⁶	-	-	-	-	-	-	20,095,399	-	-	20,095,399
Unrated	-	1,120	-	-	-	-	-	15,912	32,143	49,175
Total	16,394,414	21,285,282	3,382,797	85,795,222	35,967	14,337,310	20,095,399	15,912	32,143	161,374,446

Financial assets which are individually impaired are presented in Other receivables (Note 26) and Operating receivables (Note 30).

¹ Central Banks

² International Institutions

³ Rating of the Republic of Macedonia

⁴ Central Banks

⁵ International Institutions

⁶ Rating of the Republic of Macedonia

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****A Credit risk (Continued)****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 2012. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	European countries not EU members	Republic of Macedonia	Other OECD countries	Total
Gold deposits	15,951,472	991,347	-	-	16,942,819
Deposits in foreign currency	24,336,567	18,810	-	1,558,424	25,913,801
Debt securities	75,922,288	38,621	-	15,848,173	91,809,082
Special Drawing Rights	-	-	-	75,050	75,050
FX repo transactions	8,270,726	96,987	-	-	8,367,713
Receivables from the Government	-	-	19,725,934	-	19,725,934
Receivables from banks	-	-	2,717,031	-	2,717,031
Operating receivables	-	-	28,096	-	28,096
31 December 2012	124,481,053	1,145,765	22,471,061	17,481,647	165,579,526
31 December 2011	124,626,806	6,274,245	20,143,454	10,329,941	161,374,446

3 Financial risk management**B Market risk**

The National Bank monitors and manages both currency and interest rate risks 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 value of the financial instruments denominated in foreign currency due to the change in the exchange rates.

The interest rate risk denotes a risk from reducing the value of the financial instruments due to the change in the market prices of the instruments.

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 differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence and a particular time horizon. The National Bank applies a level of confidence of 99% and a 10-day horizon when calculating VAR⁷. 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 2012, the exposure of the foreign reserves managed by the National Bank (value at risk) regarding the fluctuations of the prices of the instruments and the foreign exchange rates against the Euro equals MKD 1,347,839 thousands (Euro 21,916,000), or 1.01% 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 1,280,732 thousands (Euro 20,825,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 67,107 thousands (Euro 1,091,000).

	31 December 2012	31 December 2011
Currency risk	1,280,732	2,054,882
Interest rate risk	67,107	17,221
Total VAR	1,347,839	2,072,103

⁷ As recommended in the Basel Agreement from 1999

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. In 2012, for the purpose of maintaining the purchase power of the foreign reserves and sustaining of the suitable profitability on long term, part of the foreign reserves were invested in four other currencies: Norwegian Crowns, Swedish Crowns, Canadian Dollars and Australian Dollars.

Having in mind the 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 other currencies, where there is exposure as a result of their volatility against the Euro, and thus, to the Denar.

The tables below include the foreign assets and liabilities of the National Bank according to their carrying amount as of 31 December 2012 and 31 December 2011, analyzed by currency.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****C Foreign exchange risk (Continued)****As at 31 December 2012**

ASSETS	EUR	USD	SDR	Other	MKD	Total
Foreign assets	92,004,272	30,156,658	113,670	12,680,188	-	134,954,788
Receivables from foreign currency repo transactions	8,270,726	96,987	-	-	-	8,367,713
Receivables from the Government	-	-	18,894,805	-	831,129	19,725,934
Membership with the IMF	-	-	4,969,099	-	-	4,969,099
Receivables from banks	-	-	-	-	2,717,031	2,717,031
Other assets	361	92	537	10,225	32,550	43,765
Total assets	100,275,359	30,253,737	23,978,111	12,690,413	3,580,710	170,778,330
LIABILITIES						
Currency in circulation	-	-	-	-	23,979,250	23,979,250
Deposits of banks	1,660,500	-	-	-	20,583,193	22,243,693
Reserve requirements	13,032,944	-	-	-	21,022	13,053,966
National Bank Bills	-	-	-	-	25,975,784	25,975,784
Liabilities based on foreign currency repo transactions	9,593,405	96,987	-	-	-	9,690,392
Deposits of the Government	10,594,576	322,448	-	61,768	21,166,638	32,145,430
Restricted deposits	39,684	31,449	-	-	-	71,133
Borrowings from IMF	-	-	23,863,904	-	-	23,863,904
Other deposits	-	-	-	-	1,920,551	1,920,551
Other liabilities	348,171	19,840	537	38,807	251,833	659,188
Total liabilities	35,269,280	470,724	23,864,441	100,575	93,898,271	153,603,291
Net financial position	65,006,079	29,783,013	113,670	12,589,838	(90,317,561)	17,175,039

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)*

3 Financial risk management
C Foreign exchange risk (Continued)

As at 31 December 2011**ASSETS**

	EUR	USD	SDR	Other	MKD	Total
Foreign assets	98,143,028	28,980,355	75,389	88,112	-	127,286,884
Receivables based on foreign currency repo transactions	14,337,310	-	-	-	-	14,337,310
Receivables from the Government	-	-	19,289,504	-	805,895	20,095,399
Membership with the IMF	-	-	4,643,057	-	-	4,643,057
Receivables from banks	-	-	-	-	15,912	15,912
Other assets	805	24	1,467	10,243	34,842	47,381
Total assets	112,481,143	28,980,379	24,009,417	98,355	856,649	166,425,943

LIABILITIES

Currency in circulation	-	-	-	-	22,767,435	22,767,435
Deposits of banks	-	-	-	-	16,735,731	16,735,731
Reserve requirements	14,131,046	-	-	-	18,112	14,149,158
National Bank Bills	-	-	-	-	32,229,886	32,229,886
Liabilities based on foreign currency repo transactions	14,304,267	-	-	-	-	14,304,267
Deposits of the Government	10,881,648	1,164,636	-	17,669	9,231,166	21,295,119
Restricted deposits	90,226	33,716	-	13,325	-	137,267
Borrowings from IMF	-	-	23,932,561	-	-	23,932,561
Other deposits	-	-	-	-	2,898,739	2,898,739
Other liabilities	363,426	19,513	1,468	44,692	222,081	651,180
Total liabilities	39,770,613	1,217,865	23,934,029	75,686	84,103,150	149,101,343
Net financial position	72,710,530	27,762,514	75,388	22,669	(83,246,501)	17,324,600

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.

The primary objective of the National Bank is achieving and maintaining price stability, which bestows it a discretionary right to determine the interest rates on the monetary policy instruments in the monetary policy conduct. On the other hand, the National Bank is exposed to interest rate risk in the course of management of the foreign reserves, mainly due to the influence of the external changes on the financial markets.

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2012 and 31 December 2011 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management**
D Interest rate risk (Continued)**As at 31 December 2012**

	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	25,988,851	-	3,105,112	96,678,513	-	9,182,312	134,954,788
Receivables from foreign currency repo transactions	8,367,713	-	-	-	-	-	8,367,713
Receivables from the Government	-	-	-	-	831,129	18,894,805	19,725,934
Membership with the IMF	-	-	-	-	-	4,969,099	4,969,099
Receivables from banks	2,700,000	-	-	-	15,912	1,119	2,717,031
Other assets	-	-	-	-	-	43,765	43,765
Total assets	37,056,564	-	3,105,112	96,678,513	847,041	33,091,100	170,778,330
LIABILITIES							
Currency in circulation	-	-	-	-	-	23,979,250	23,979,250
Deposits of banks	20,303,554	-	-	-	-	1,940,139	22,243,693
Reserve requirements	13,053,230	-	-	-	-	736	13,053,966
National Bank Bills	25,924,735	-	-	-	-	51,049	25,975,784
Liabilities based on foreign currency repo transactions	9,690,390	-	-	-	-	2	9,690,392
Deposits of the Government	29,290,701	-	-	-	-	2,854,729	32,145,430
Restricted deposits	-	-	-	-	-	71,133	71,133
Borrowings from IMF	-	-	-	-	-	23,863,904	23,863,904
Other deposits	487,856	-	-	-	-	1,432,695	1,920,551
Other liabilities	-	-	-	-	-	659,188	659,188
Total liabilities	98,750,466	-	-	-	-	54,852,825	153,603,291
Total interest re- pricing gap	(61,693,902)	-	3,105,112	96,678,513	847,041	(21,761,725)	17,175,039

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management**
D Interest rate risk (Continued)**As at 31 December 2011**

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	24,704,024	-	72,434,190	-	-	30,148,670	127,286,884
Receivables from foreign currency repo transactions	14,334,531	-	-	-	-	2,779	14,337,310
Receivables from the Government	-	-	-	-	805,895	19,289,504	20,095,399
Membership with the IMF	-	-	-	-	-	4,643,057	4,643,057
Receivables from banks	-	-	-	-	15,912	-	15,912
Other assets	-	-	-	-	-	47,381	47,381
Total assets	39,038,555	-	72,434,190	-	821,807	54,131,391	166,425,943
LIABILITIES							
Currency in circulation	-	-	-	-	-	22,767,435	22,767,435
Deposits of banks	16,574,858	-	-	-	-	160,873	16,735,731
Reserve requirements	14,148,352	-	-	-	-	806	14,149,158
National Bank Bills	32,184,884	-	-	-	-	45,002	32,229,886
Liabilities based on foreign currency repo transactions	14,301,961	-	-	-	-	2,306	14,304,267
Deposits of the Government	19,246,216	-	-	-	-	2,048,902	21,295,118
Restricted deposits	-	-	-	-	-	137,267	137,267
Borrowings from IMF	-	-	-	-	-	23,932,561	23,932,561
Other deposits	2,872,285	-	-	-	-	26,454	2,898,739
Other liabilities	-	-	-	-	-	651,179	651,179
Total liabilities	99,328,556	-	-	-	-	49,772,785	149,101,341
Total interest re-pricing gap	(60,290,001)	-	72,434,190	-	821,807	4,358,606	17,324,602

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 a deep and liquid secondary market. 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 policies, 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, when the 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 on the date of the statement of financial position. The amounts disclosed in the tables below are the contractual undiscounted cash flows for financial liabilities, and expected maturity dates of financial assets.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****E Liquidity risk (Continued)**

31 December 2012	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	23,979,250	-	-	-	-	23,979,250
Deposits of banks	4,758,639	-	17,485,054	-	-	22,243,693
Reserve requirements	736	-	13,053,230	-	-	13,053,966
National Bank Bills	25,975,784	-	-	-	-	25,975,784
Liabilities based on foreign currency repo transactions	9,690,392	-	-	-	-	9,690,392
Deposits of the Government	32,145,430	-	-	-	-	32,145,430
Restricted deposits	71,133	-	-	-	-	71,133
Borrowings from IMF	9,709,021	40,673	120,693	14,402,955	-	24,273,342
Other deposits	1,920,551	-	-	-	-	1,920,551
Other liabilities	639,465	293	19,431	-	-	659,189
Total liabilities (contractual maturity dates)	108,890,401	40,966	30,678,408	14,402,955	-	154,012,730
Assets held for managing liquidity risk (expected maturity dates)	109,860,324	3,106,656	24,368,035	32,557,654	885,662	170,778,330

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****E Liquidity risk (Continued)**

31 December 2011	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	22,767,435	-	-	-	-	22,767,435
Deposits of banks	160,873	-	16,574,858	-	-	16,735,731
Reserve requirements	806	-	14,148,352	-	-	14,149,158
National Bank Bills	32,229,886	-	-	-	-	32,229,886
Liabilities based on foreign currency repo transactions	14,304,267	-	-	-	-	14,304,267
Deposits of the government	21,295,119	-	-	-	-	21,295,119
Restricted deposits	114,736	7,601	14,930	-	-	137,267
Borrowings from IMF	9,484,108	41,517	123,647	14,866,382	-	24,515,654
Other deposits	2,898,739	-	-	-	-	2,898,739
Other liabilities	750,603	22,433	19,827	-	-	792,863
Total liabilities (contractual maturity dates)	104,006,572	71,551	30,881,614	14,866,382	-	149,826,119
Assets held for managing liquidity risk (expected maturity dates)	111,708,670	-	530,534	53,383,547	861,228	166,483,979

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(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 arm's 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 according to classes of financial instruments:

	Carrying value		Fair value	
	2012	2011	2012	2011
Financial assets				
<i>Loans and receivables</i>				
Foreign currencies	182,714	363,003	182,714	363,003
Foreign currencies deposits	25,913,801	24,668,079	25,913,801	24,668,079
Special Drawing Rights	75,050	35,967	75,050	35,967
Receivables from foreign currency repo transactions	8,367,713	14,337,310	8,367,713	14,337,310
Loans to banks	2,717,031	15,912	2,717,031	15,912
Receivable from Government related to IMF	18,894,805	19,289,504	18,894,805	19,289,504
Other assets	43,765	47,381	43,765	47,381
	<u>56,194,879</u>	<u>58,757,156</u>	<u>56,194,879</u>	<u>58,757,156</u>
<i>Securities held to maturity</i>				
Foreign debt securities	36,143,550	39,465,629	36,225,479	39,772,635
Government securities	831,129	805,895	831,129	805,895
	<u>36,974,679</u>	<u>40,271,524</u>	<u>37,056,608</u>	<u>40,578,530</u>
<i>Securities available for sale</i>				
Foreign equity securities	38,621	39,421	38,621	39,421
	<u>38,621</u>	<u>39,421</u>	<u>38,621</u>	<u>39,421</u>
Financial liabilities				
<i>Carried at amortized cost</i>				
Currency in circulation	23,979,250	22,767,435	23,979,250	22,767,435
Bank deposits	22,243,693	16,735,731	22,243,693	16,735,731
Reserve requirement of banks and saving houses	13,053,966	14,149,158	13,053,966	14,149,158
National Bank bills issued	25,975,784	32,229,886	25,975,784	32,229,886
Liabilities based on foreign currency repo transactions	9,690,392	14,304,267	9,690,392	14,304,267
Government MKD deposit	21,166,638	9,231,166	21,166,638	9,231,166
Government foreign currency deposits	10,978,792	12,063,953	10,978,792	12,063,953
Payables to IMF	23,863,904	23,932,561	23,863,904	23,932,561
Other and restricted deposits	1,991,684	3,036,006	1,991,684	3,036,006
Other liabilities	659,188	651,179	659,188	651,179
	<u>153,603,291</u>	<u>149,101,342</u>	<u>153,603,291</u>	<u>149,101,342</u>

3 Financial risk management

F Fair value of financial assets and liabilities (Continued)

Financial assets

The fair value of foreign currencies, foreign currency deposits, Special Drawing Rights, receivables from foreign currency repo transactions 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 Bank for International Settlement (BIS) shares with a value of MKD 38,621 thousands (2011: MKD 39,421 thousands), 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 value of deposits carried at amortized cost, is considered to approximate their carrying values due to the fact that there are no other similar instruments with similar characteristics.

The fair value of liabilities based on foreign currency repo transactions carried at amortized cost, is considered to approximate their carrying values due to their short-term nature.

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 2012***(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 - Valuation Techniques Using Observable Inputs

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

c) Level 3- Valuation 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 through income statement

31 December 2012	Level 1	Level 2	Level 3	Total
Foreign debt securities	55,626,911	-	-	55,626,911
Gold	16,974,141	-	-	16,974,141
Total	72,601,052	-	-	72,601,052

31 December 2011	Level 1	Level 2	Level 3	Total
Foreign debt securities	46,290,172	-	-	46,290,172
Gold	16,424,613	-	-	16,424,613
Total	62,714,785	-	-	62,714,785

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 determined 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 2012***(All amounts in MKD thousands unless otherwise stated)***5 Interest income**

	Loans granted	Deposits	Monetary gold	HTM Securities	Other income	Total 31 December 2012	Total 31 December 2011
Government	-	-	-	25,235	186	25,421	25,752
Domestic banks	11,296	-	-	-	-	11,296	3,136
Foreign entities	38,756	22,257	33,658	421,731	-	516,402	502,635
Other	-	-	-	-	538	538	164
Total for 2012	50,052	22,257	33,658	446,966	724	553,657	531,687
Total for 2011	61,720	102,977	233	365,301	1,456	531,687	-

6 Interest expense

	Loans received	Deposits received	Securities issued	Total 31 December 2012	Total 31 December 2011
Government	-	177,005	-	177,005	111,201
Domestic banks	-	230,450	1,159,578	1,390,028	1,339,473
Foreign entities	23,288	-	-	23,288	52,622
Total for 2012	23,288	407,455	1,159,578	1,590,321	1,503,296
Total for 2011	52,622	558,916	891,758	1,503,296	-

7 Fee income

	2012	2011
Fees from providing cash to banks	68,151	71,186
Fees from domestic banks for maintaining account based on debt turnover on an account	95,118	81,846
Fees based on settlement of payments (RTGS) ⁸	41,154	44,864
Fees from foreign exchange operations	15,104	14,586
Fees from sale of administrative and court government stamps	1,109	4,258
Other fees	19,118	19,130
Total	239,754	235,870

The revenues based on fees from providing cash to banks, settlement of payments through RTGS and fee for debt turnover on an account relate to services that the National Bank provides to domestic banks and other account holders in RTGS. Fees from foreign operations are related to the income from sale of foreign assets for public entities, as well as from payment operations in foreign countries.

⁸ Real time gross settlement

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***7 Fee income (Continued)**

The fees originating from sale of tax and duty stamps pertain to the registered income from sale of administrative and court duty stamps and bills of exchange belonging to the National Bank, in accordance with the concluded agreement with the Ministry of Finance regulating the activities for their printing and distribution. Pursuant to the amendments to the Law from January 2011 for administrative stamps and the amendments of the Law for court duty stamps from October 2011, the National Bank terminated the activities for printing and distribution of administrative and court government stamps.

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

8 Fee expense

	2012	2011
Fees to foreign banks	10,701	5,904
Total	10,701	5,904

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 price and exchange rate differences

	2012	2011
Unrealized positive exchange rate differences	6,307,093	7,353,550
Unrealized negative exchange rate differences	(6,452,034)	(6,963,108)
Unrealized positive price and exchange rate differences from gold	18,004,268	23,586,130
Unrealized negative price and exchange rate differences from gold	(17,420,930)	(21,563,885)
Total	438,397	2,412,687

10 Net income from trading securities

	2012	2011
Realized profit from trading securities	31,426	54,589
Realized losses from trading securities	(272,410)	(323,828)
Interest income on trading securities	1,482,025	1,236,010
Unrealized positive price differences from trading securities	16,596	88,295
Unrealized negative price differences from trading securities	(719,431)	(513,712)
Total	538,206	541,354

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***11 Dividend income**

	2012	2011
Dividend income on investments in BIS	9,809	8,650
Total	9,809	8,650

12 Other operating income

	2012	2011
Realized positive exchange rate differences, net	204,059	344,602
Income based on sale of jubilee coins	2,541	2,629
Other income	17,766	20,999
Total	224,366	368,230

The realized positive exchange rate differences, net arise from purchase and sale of foreign currency with domestic banks, purchase and sale of gold with foreign 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

	2012	2011
Wages and personal income tax	266,616	255,642
Pension cost – defined contribution plans	65,483	61,492
Mandatory contributions	32,741	30,746
Other staff expenses	6,430	13,372
Total	371,270	361,252

In 2012, the remuneration of the key management of the National Bank was MKD 13,761 thousands (2011: MKD 13,161 thousands), included in 'Personnel expenses' above.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***14 Other expenses**

	2012	2011
Costs of production of banknotes and coins	64,196	96,683
Services	51,196	55,928
Material expenses	42,537	34,060
Other administrative expenses	14,428	15,322
Other expenses	1,400	1,562
Total	173,757	203,555

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 deferring the costs of manufacture of banknotes and coins over the period of their use.

15 Provisions and write offs

	Note	2012	2011
Charged provisions for other assets	30	3,282	259
Charge/(Release) of provisions related to lawsuits with individuals	43	2,802	(5,104)
(Released)/Charged provision for interest income	30	(463)	1,204
Other charge/ (release) of provisions	30	9	(26)
Total		5,630	(3,667)

16 Foreign currencies

Foreign currencies are cash in 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 46).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***17 Foreign currency deposits**

	2012	2011
Foreign currency sight deposits	25,913,801	21,285,282
Foreign currency term deposits	-	3,382,797
Included in the cash and cash equivalents (Note 46)	25,913,801	24,668,079

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 2012	31 December 2011
- overnight deposits in USD	0.12%	0.06%
- Euro overnight deposits	0.14%	0.76%
- time deposits in EUR	0.06%	0.60%

Term deposits include accrued interest of MKD 22 thousands as at 31 December 2011

Foreign currency deposits by type of entity

	2012	2011
Central banks	25,538,275	24,583,440
Foreign commercial banks	374,037	63,292
International financial institutions	1,489	21,347
Total	25,913,801	24,668,079

Foreign currency deposits by geographic location

	2012	2011
Europe	24,355,377	23,652,201
the Americas	1,258,614	1,001,406
Other	299,810	14,472
Total	25,913,801	24,668,079

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(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.

	2012	2011
Trading securities	55,626,911	46,290,172
Foreign debt securities	55,626,911	46,290,172
Securities held to maturity	36,143,550	39,465,629
Foreign debt securities held to maturity	36,143,550	39,465,629
Securities available for sale	38,621	39,421
Foreign equity securities	38,621	39,421
Total	91,809,082	85,795,222
Current	73,437,351	69,686,317
Non-current	18,371,731	16,108,905

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 0.25% and 6.75% p.a. (2011: from 0.375% to 5.375%). Foreign trading securities include accrued interest of MKD 786,374 thousands (2011: MKD 627,302 thousands).

Securities intended to be held to maturity bear fixed income with interest at a rate ranging between 0.25% and 4.3% p.a. (2011: from 0.50% to 5.375 %). Foreign securities held to maturity include accrued interest of MKD 558,342 thousands (2011: MKD 530.534 thousands).

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 cannot be reliably determined and therefore are carried at cost.

19 Gold

	2012	2011
Sight gold deposits	2,162,053	16,394,414
Term gold deposits	14,780,766	-
Gold in the NBRM vault	31,322	30,199
Total	16,974,141	16,424,613
Current	16,974,141	16,424,613

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***19 Gold (Continued)**

As of 31 December 2012, the National Bank total gold reserves stood at 218,332.084 ounces (2011: 219,453.557 ounces) at a fair value of US Dollar 1,664.00 (MKD 77,627) per ounce (2011: US Dollar 1,574.50 or MKD 74,843 per ounce). Interest rates on term gold deposits in 2012 ranged between 0.19% and 0.4% p.a. on gold deposits based on the price of gold in US Dollar. As of 31 December 2012, term gold deposits include accrued interest of MKD 25,619 thousands.

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 2012, the basic rate ranged from 0.03% to 0.15% p.a. (2011: from 0.27% to 0.59% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 46).

21 Receivables from foreign currency repo transactions

Receivables from foreign currency repo transactions pertain to concluded agreements on the basis of foreign currency repo transactions with foreign entities for which foreign securities were received as collateral. As of 31 December 2012, the receivables from foreign currency repo transactions equal MKD 8,367,713 thousands (2011: MKD 14,337,310 thousands) including the interest income of MKD zero (2011: MKD 2,779 thousands)

The financial effect of collateral received as at 31 December 2012:

	Under-collateralized assets	
	Carrying value of the assets	Fair value of collateral
Reverse repo transaction with foreign banks	8,367,713	8,360,847
Total	8,367,713	8,360,847

22 Receivables from Government related to IMF

	2012	2011
Receivable related to general and special net cumulative allocation	4,112,689	4,197,986
Receivable related to SDR allocation	602,028	614,513
Receivables from the Government – PCL	14,180,088	14,477,005
Total	18,894,805	19,289,504
Current	4,739,922	4,841,051
Non-current	14,154,883	14,448,453

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***22 Receivables from government related to IMF (continued)**

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, are approved with the resolution of the Board of Governors of IMF (see Note 40a), and 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 40a).

The receivable from government based on drawdowns from the IMF Precautionary Credit Line (PCL), are on behalf and for the account of IMF and relate to drawdowns from the Precautionary Credit Line in March, 2011 (see Note 40b).

23 Government securities

	2012	2011
Securities held to maturity		
Bond for selective credits	831,129	805,895
Total	831,129	805,895
Non-current	831,129	805,895

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 restructuring 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 thousands and is non-interest bearing. This bond is valued at fair value of the funds for which it was acquired and is amortized to the maturity of the bond.

24 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 4,956,531 thousands at the end of 2012, the account no. 1 amounts to MKD 12,422 thousands and account no. 2 is valued at MKD 146 thousands. (2011: MKD 4,631,313 thousands, MKD 11.607 thousands and MKD 137 thousands respectively for the three positions, see Note 40c). The differences are due to the evaluation of these positions by the SDR exchange rate as of 30 April, according to the IMF financial year.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***25 Loans to banks**

	2012	2011
Short term bank loans based on a auction repo transactions	2,701,119	-
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
Total	2,717,031	15,912
Current	2,701,119	-
Non-current	15,912	15,912

Short term bank loans relate to contracts based on auction repo-transactions with domestic banks for which a collateral of domestic securities is placed.

The receivables based on long term 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 31 March 2020. All selective loans bear annual interest of 1.5%, which becomes due semiannually.

26 Other receivables

	2012	2011
Receivables from bank under bankruptcy	1,018,419	1,018,419
Due auction deposits	9,268	9,268
Total	1,027,687	1,027,687
Provision	(1,027,687)	(1,027,687)
Total	-	-

In January 2004, the National Bank paid out MKD 1,018,258 thousands 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 thousands. The National Bank fully provisioned the receivables from the bank under bankruptcy during the preceding years.

During 2010, the National Bank collected part of the receivable in the amount of MKD 16,150 thousands, from the bankruptcy estate of one debtor of the domestic bank in bankruptcy. 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***27 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 1 January 2011							
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
On 1 January 2011, net of accumulated depreciation	689,685	113,541	63,022	21,354	887,602	18,825	906,427
Additions	14,600	18,385	369	6,718	40,072	-	40,072
Disposals	-	(120)	-	(282)	(402)	-	(402)
Transfers	6,776	-	-	(6,776)	-	-	-
Transfers from intangible assets	-	5,350	-	-	5,350	-	5,350
Depreciation for the year	(28,034)	(35,059)	-	-	(63,093)	(768)	(63,861)
On 31 December 2011	683,027	102,097	63,391	21,014	869,529	18,057	887,586
On 31 December 2011							
Cost	936,407	477,301	63,391	21,014	1,498,113	34,196	1,532,309
Accumulated depreciation	(253,380)	(375,204)	-	-	(628,584)	(16,139)	(644,723)
Net book amount	683,027	102,097	63,391	21,014	869,529	18,057	887,586

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***27 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 1 January 2012							
Cost	936,407	477,301	63,391	21,014	1,498,113	34,196	1,532,309
Accumulated depreciation	(253,380)	(375,204)	-	-	(628,584)	(16,139)	(644,723)
Net book amount	683,027	102,097	63,391	21,014	869,529	18,057	887,586
On 1 January 2012, net of accumulated depreciation	683,027	102,097	63,391	21,014	869,529	18,057	887,586
Additions	2,551	18,214	52	1,990	22,807	-	22,807
Disposals	-	(51)	-	-	(51)	-	(51)
Transfers	6,593	-	-	(6,593)	-	-	-
Depreciation for the year	(29,950)	(33,947)	-	-	(63,897)	(765)	(64,662)
On 31 December 2012	662,221	86,313	63,443	16,411	828,388	17,292	845,680
On 31 December 2012							
Cost	945,551	495,096	63,443	16,411	1,520,501	34,216	1,554,717
Accumulated depreciation	(283,330)	(408,783)	-	-	(692,113)	(16,924)	(709,037)
Net book amount	662,221	86,313	63,443	16,411	828,388	17,292	845,680

Property and equipment for entertainment purposes consist 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 2012***(All amounts in MKD thousands unless otherwise stated)***28 Intangible assets**

	2012	2011
At 1 January		
Cost	169,830	144,511
Investment in progress	6,578	6,701
Accumulated amortization	(136,799)	(125,529)
Net book amount	39,609	25,683
Opening net book amount	39,609	25,683
Additions	2,977	32,730
Amortization charge	(14,286)	(13,331)
Transfers to property and equipment	-	(5,350)
Investments in progress	19	(123)
Closing net book amount	28,319	39,609
At 31 December		
Cost	172,807	169,830
Investments in progress	6,597	6,578
Accumulated amortization	(151,085)	(136,799)
Net book amount	28,319	39,609

29 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. As at 31 December 2012, the National Bank held a total of 7,026 gold coins and 79 silver coins (2011: 7,162 gold coins and 104 silver coins). The jubilee coins in the National Bank vault are intended for sale.

30 Operating Receivables

The operating 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:

	2012	2011
Fees	23,424	28,134
Receivables for maintenance of premises	4,672	4,009
Other receivables	412,362	409,482
Impairment for other receivables	(412,362)	(409,482)
Total	28,096	32,143

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***30 Operating receivables (Continued)**

The movements in provision for receivables are as follows:

	2012	2011
Balance as at 1 January	409,482	408,548
Increase of provisions (Note 15)	3,282	259
(Release) /Increase of provisions for interest income (Note 15)	(463)	1,204
Increase/(Release) of other provisions (Note 15)	9	(26)
Increase/(Write offs) of doubtful receivables	52	(503)
Balance as at 31 December	412,362	409,482

31 Other assets

	2012	2011
Office and other materials	22,626	63,952
Prepaid expenses of printing banknotes	67,987	51,639
Other prepaid expenses	5,201	6,399
Other assets	15,668	15,238
Total	111,482	137,228
Current	88,856	73,276
Non-current	22,626	63,952

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***32 Currency in circulation**

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

Currency in circulation

MKD	Nominal value	2012		2011	
		Number	Value in MKD thousands	Number	Value in MKD thousands
Coins	0.5	3,318,050	1,659	3,305,541	1,653
Coins	1	76,389,985	76,390	74,836,896	74,837
Coins	2	47,556,375	95,113	47,234,283	94,469
Coins	5	28,371,135	141,856	28,886,596	144,433
Coins	10	19,297,223	192,972	14,391,133	143,911
Coins	50	1,908,137	95,407	1,465,321	73,266
Banknotes	10	23,515,497	235,155	22,325,799	223,258
Banknotes	50	5,304,347	265,217	5,246,289	262,314
Banknotes	100	11,705,242	1,170,524	11,529,316	1,152,932
Banknotes	500	7,453,852	3,726,926	7,018,643	3,509,321
Banknotes	1000	17,677,636	17,677,636	16,791,516	16,791,516
Banknotes	5000	60,079	300,395	59,105	295,525
Total			23,979,250		22,767,435

33 Bank deposits

	2012	2011
Bank deposits in MKD	19,424,826	16,735,731
Bank deposits in foreign currency	1,660,500	-
Bank deposit facilities in MKD with the National Bank	1,158,367	-
Total	22,243,693	16,735,731
Current	22,243,693	16,735,731

The liabilities based on deposits to banks reflect the balances on banks' accounts with the National Bank for settling payment transactions. The funds on the banks' accounts are included in the fulfillment of the banks' MKD reserve requirement, to which the National Bank pays remuneration in a specified percentage (see Note 34).

Since April 2012, domestic banks and foreign banks' branches have the right to place deposit facilities with the National Bank. The maturities of the deposits are: one working day (overnight deposits) and seven days, with no ability for early withdrawal, in part or in total amount. During 2012, the National Bank paid interest on the overnight deposits of 1% p.a. and interest on the deposits with maturity of seven days of 2% p.a.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***34 Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD**

	2012	2011
Banks' foreign exchange reserve requirement	13,032,944	14,131,046
Savings houses' MKD reserve requirement	21,022	18,112
Total	13,053,966	14,149,158
Current	13,053,966	14,149,158

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

As of January 2012, National Bank pays MKD reserve requirement remuneration of 1% to the average allocated funds on each bank's account in the period of fulfillment (2011: 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.

35 National Bank bills issued

In 2012, the National Bank bills maturity was 7, 14, 28 and 35 days. At the National Bank bills auctions, two types of tenders were used: tender with unlimited volume and from April 2012 - tender with limited volume and maximum determined interest rate. The interest rates on the CB bills auctions was 4% in January and ranged to 3.73% in December 2012. (2011: maturity of 28 days; type of tender: volume tender with predefined interest rate, interest rate was 4.00%).

The National Bank bills issued include accrued interest of MKD 51,049 thousands (2011: MKD 45,002 thousand).

36 Liabilities based on foreign currency repo transactions

Liabilities based on foreign currency repo transactions pertain to concluded agreements on the basis of foreign currency repo transactions with foreign entities for which foreign securities were provided as collateral. As of 31 December 2012, the liabilities based on foreign currency repo transactions equal MKD 9,690,392 thousands (2011: MKD 14,304,267 thousands) and include accrued interest amounting to MKD 2 thousands (2011: MKD 2,306 thousands)

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***37 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.

	2012	2011
Single Treasury account	20,547,685	7,699,969
Other MKD deposits	618,953	1,531,197
Total	21,166,638	9,231,166
Current	21,166,638	9,231,166

In 2012, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1 % p.a. (2011: 1% p.a.). Government deposits include the accrued undue interest in the amount of MKD 13,793 thousands (2011: MKD 5,462 thousands).

38 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 31 December 2012, these deposits amounted to MKD 10,978,792 thousands (2011: MKD 12,063,953 thousands). In 2012, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2011: 0.7% p.a.).

39 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2012

(All amounts in MKD thousands unless otherwise stated)

40 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 14 December 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 the Legal Inheritance of the Republic of Macedonia in the International Monetary Fund.

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

Total liability of Macedonia for the SDR allocation at the end of 2012 amounted to SDR 65,616,876 (2011: SDR 65,616,876). According to the IMF's 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 IMF's SDR Department.

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 IMF's basic interest rate. Since 2005, National Bank has been refunded the interest paid of the liability based on the SDR Allocation which it 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 22), 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) Borrowings from IMF – on the behalf and for the account of Government

In January 2011, IMF approved the Precautionary Credit Line in the amount of SDR 413,400,000 or 600% of the quota of the Republic of Macedonia for membership with the IMF, as a support for the budget of the Republic Macedonia. In March, 2011, the Ministry of Finance drew down SDR 197,000,000 from the approved Precautionary Credit Line.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***40 Payables to IMF (Continued)**

c) Payables based on membership and deposits (see Note 24):

	2012	2011
Liabilities based on issued promissory note for membership in the IMF	4,956,531	4,631,313
Liabilities based on account 1	12,422	11,607
Liabilities based on account 2	146	137
Total	4,969,099	4,643,057
Current	4,969,099	4,643,057

41 Other deposits

	2012	2011
Liabilities on the basis from MKD deposits to other domestic entities	1,916,861	2,895,033
Liabilities on the basis from MKD deposits to international financial institutions	3,690	3,706
Total	1,920,551	2,898,739
Current	1,920,551	2,898,739

Liabilities based on MKD deposits from other domestic entities comprise brokerage houses' client accounts, the Central Securities Depository 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 account of 0.5% per annum (2011: 0.5% 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 2012***(All amounts in MKD thousands unless otherwise stated)***42 Other payables**

Payables are analyzed as follows:

	2012	2011
Liabilities from BNT bankruptcy	145,544	145,721
Payables from allocation of net income	292	22,433
Payables arising from annuities received from sale of socially-owned flats	5,821	10,473
VAT liabilities	1,055	821
Other payables	19,431	19,860
Total	172,143	199,308

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 thousands. 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 from allocation of net income relate to allocation 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 of the Republic of Macedonia. Allocation of net income is approved by the National Bank Council (see Note 1).

Payables arising from annuities received from the sale of socially-owned flats represent liabilities to the 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 foreign currency account of the Budget of the Republic of Macedonia held at the National Bank. The foreign exchange collected this way is transferred to the National Bank and accumulated in a special account, with the MKD denomination being transferred to the government on a weekly basis.

43 Provisions

	2012	2011
Provisions for potential liabilities based on litigations with other entities	3,543	907
Total	3,543	907

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 individuals which instituted proceedings against the National Bank (see Note 15).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***43 Provisions (Continued)**

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

	2012	2011
Balance as at 1 January	907	6,084
Charge / Release of provisions related to lawsuits with individuals (Note 15)	2,802	(5,104)
Write off provisions for potential liabilities based on litigation with other entities	(166)	(73)
Balance as at 31 December	3,543	907

44 Other liabilities

	2012	2011
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	470,721	439,578
Jubilee coins counterpart	135,495	135,144
Liabilities to suppliers and other liabilities	10,092	9,743
Deferred income	4,754	8,183
Equity payments pending operational license	2,153	-
Total	623,215	592,648

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

Counter party of the jubilee coins is a result of the accounting policies related to the jubilee coins (as described in Notes 2 O and 29)

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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2012***(All amounts in MKD thousands unless otherwise stated)***45 Capital and reserves***Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2012, it amounted to MKD 1,289,789 thousands (2011: MKD 1,289,789 thousands).

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 2012 these reserves were increased for the positive distributable earnings for 2012 in the amount of MKD 681 thousands.

Special reserves

	2012	2011
Special reserves from unrealized price and exchange rate differences		
o Special reserves from foreign exchange gains	3,969,808	4,114,749
o Special reserves from price and exchange rate differences of gold	11,801,134	11,811,906
o Special reserves from price differences of securities held for trading	16,596	88,295
Total	15,787,538	16,014,950

Special reserves represent accumulated net unrealized positive foreign exchange gains and price differences 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 2012 are decreased by MKD 144,941 thousands on the basis of allocation of the net negative unrealized foreign exchange gains for 2012 (2011: MKD 390,442 thousands increased on the basis of net unrealized positive foreign exchange differences).

Special reserves from realized price and exchange rate differences of gold for 2012 are increased by MKD 583,338 thousands on the basis of allocation of the net unrealized positive price and exchange rate differences of gold (2011: increased for MKD 2,022,245 thousands). Special reserves on the basis of the realized price and exchange rate differences of gold in the amount of MKD 594,110 thousands (2011: 527,192 thousands) were added to the distributable earnings for the current year.

* 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 2012***(All amounts in MKD thousands unless otherwise stated)***45 Capital and reserves (Continued)**

Special reserves from price differences of securities held for trading are increased by MKD 16,596 thousands (2011: increased for 88,295 thousands) on the basis of allocation of the net unrealized positive price differences of securities held for trading according to the security-by-security principle. Special reserves on the basis of realized price differences from securities in the amount of MKD 88,295 thousands (2011: 97,621 thousands) were added to the distributable earnings for the current year.

46 Cash and cash equivalents	2012	2011
Foreign currencies (Note 16)	182,714	363,003
Foreign currency deposits (Note 17)	25,913,801	24,668,079
Special Drawing Rights (Note 20)	75,050	35,967
Total	26,171,565	25,067,049

47 Commitments and contingencies**a) Litigations**

The National Bank is a defendant in 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 43).

48 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 23, Note 37, Note 38 and Note 42.

49 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.