

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

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

For the year ended 31 December 2011

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Independent auditor's report

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

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank"), which comprise the statement of financial position as of 31 December 2011 and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the National Bank as of 31 December 2011, and of its financial performance and its cash flows for the year than ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Revizija DOO
PricewaterhouseCoopers REVIZIJA DOO

Skopje,

2 March 2012

GENERAL INFORMATION

Members of the Council

Dimitar Bogov, Governor (from 21th May 2011)
Petar Gosev, Governor (until 20th May 2011)
Maja Kadievska Vojnovik, Vice Governor (from 13th July 2011)
Dimitar Bogov, Vice Governor (until 20th May 2011)
Fadil Bajrami, Vice Governor
Verica Hadzi-Vasileva - Markovska
Goran Petrevski
Liman Kurtisi
Drage Janev
Tihomir Petreski
Saso Arsov

Registered office

Kuzman Josifovski Pitu No.1
1000, Skopje

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***INCOME STATEMENT**

		Year ended 31 December	
	Note	2011	2010
Interest income	5	531,687	300,126
Interest expense	6	(1,503,296)	(1,768,054)
Net interest income		(971,609)	(1,467,928)
Fee income	7	235,870	207,326
Fee expense	8	(5,904)	(14,166)
Net fee income		229,966	193,160
Net unrealized exchange rate and fair value differences	9	2,412,687	4,795,377
Net income from trading securities	10	541,354	435,495
Dividend income	11	8,650	21,521
Other operating income	12	368,230	151,572
Personnel expenses	13	(353,526)	(346,494)
Depreciation and amortization charge	27,28	(77,192)	(77,814)
Other expenses	14	(211,281)	(222,137)
Provisions and write offs	15	3,667	217,717
Profit for the year		1,950,946	3,700,469

STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2011	2010
Profit for the year from the income statement		1,950,946	3,700,469
Other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,950,946	3,700,469

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

ASSETS	Note	At 31 December	
		2011	2010
Foreign currencies	16	363,003	88,813
Foreign currency deposits	17	24,668,079	21,320,909
Foreign securities	18	85,795,222	69,772,893
Gold	19	16,424,613	14,256,019
Special Drawing Rights	20	35,967	57,728
Foreign assets		127,286,884	105,496,362
Receivables from foreign currency repo transactions	21	14,337,310	-
Receivable from Government related to IMF	22	19,289,504	4,697,709
Government securities	23	805,895	781,426
Receivable from Government		20,095,399	5,479,135
IMF Membership	24	4,643,057	4,835,434
Loans to banks	25	15,912	15,912
Other receivables	26	-	-
Receivables from banks		15,912	15,912
Property and equipment	27	887,586	906,427
Intangible assets	28	39,609	25,683
Jubilee coins	29	144,424	101,109
Receivables	30	32,143	27,958
Other assets	31	137,228	155,875
Total assets		167,619,552	117,043,895

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF FINANCIAL POSITION (continued)**

LIABILITIES AND EQUITY	Note	At 31 December	
		2011	2010
Currency in circulation	32	22,767,435	20,173,010
Bank deposits	33	16,735,731	16,569,637
Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD	34	14,149,158	13,187,616
National Bank bills issued	35	32,229,886	25,943,719
Liabilities based on foreign currency repo transactions	36	14,304,267	-
Government MKD deposits	37	9,231,166	8,322,635
Government foreign currency deposits	38	12,063,953	3,068,062
Government deposits		21,295,119	11,390,697
Restricted deposits	39	137,267	480,663
Payables based on Special Drawing Rights Allocation – on the behalf and for the account of Government	40a	4,812,499	4,697,709
Borrowing from IMF- on the behalf and for the account of Government	40b	14,477,005	-
Payables based on membership and deposits	40c	4,643,057	4,835,434
Payables to IMF	40	23,932,561	9,533,143
Other deposits	41	2,898,739	2,412,792
Other payables	42	199,308	169,192
Provisions	43	907	6,084
Other liabilities	44	592,648	729,329
Other liabilities		792,863	904,605
Total liabilities		149,243,026	100,595,882
Capital		1,289,789	1,289,789
General reserves		1,070,010	1,017,666
Other reserves		16,016,727	14,140,558
Total equity	45	18,376,526	16,448,013
Total liabilities and equity		167,619,552	117,043,895

The notes on pages 9 to 60 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF CHANGES IN EQUITY**

	Note	Capital	General reserves	Special Reserves*	Art works revaluation	Accumulated gain/(loss)	Total capital and reserves
At 1 January 2010		1,289,789	1,780,039	9,675,939	1,777	-	12,747,544
Profit for the year		-	-	-	-	3,700,469	3,700,469
Total comprehensive income for 2010		-	-	-	-	3,700,469	3,700,469
Net unrealized positive price and exchange rate changes of gold		-	-	3,975,497	-	(3,975,497)	-
Net unrealized positive foreign exchange gains		-	-	819,880	-	(819,880)	-
Net unrealized negative price changes of securities		-	-	(82,570)	-	82,570	-
Realized price changes of securities		-	-	(249,965)	-	249,965	-
Covering of negative distributable earnings		-	(762,373)	-	-	762,373	-
At 31 December 2010 / 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 changes of gold	45	-	-	2,022,245	-	(2,022,245)	-
Net unrealized positive foreign exchange gains	45	-	-	390,442	-	(390,442)	-
Net unrealized positive price changes of securities	45	-	-	88,295	-	(88,295)	-
Realized price and exchange rate changes of gold	45	-	-	(527,192)	-	527,192	-
Realized price changes of securities	45	-	-	(97,621)	-	97,621	-
Appropriation to general reserves		-	52,344	-	-	(52,344)	-
Appropriation to budget		-	-	-	-	(22,433)	(22,433)
At 31 December 2011		1,289,789	1,070,010	16,014,950	1,777	-	18,376,526

* 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 2011***(All amounts in MKD thousands unless otherwise stated)***STATEMENT OF CASH FLOWS**

	Note	Year ended 31 December	
		2011	2010
Cash flow from operating activities			
Profit for the year		1,950,946	3,700,469
Adjusted for:			
Interest income	5	(531,687)	(300,126)
Interest expense	6	1,503,296	1,768,054
Unrealized gold price changes	9	(2,022,245)	(3,975,497)
Net income from trading securities		(428,542)	(590,766)
Impairment		1,437	1,721
Release of provisions		(5,104)	(203,288)
Depreciation and amortization charge	27,28	77,192	77,814
Cash flows from operating profits before changes in operating assets and liabilities		545,293	478,381
Gold		(146,349)	10,812
Foreign securities		(15,593,787)	(14,018,452)
Restricted deposits		6,116	13,211
Receivable from foreign currency repo transactions		(14,334,531)	-
Receivable from government		(14,448,453)	(3,828,415)
Other assets		(29,086)	50,065
Currency in circulation		2,594,425	691,010
Bank deposits		164,629	1,523,115
Reserve requirement and deposit requirement of banks and savings houses		961,450	778,389
Liabilities from foreign currency repo transactions		14,301,961	-
Government deposits including restricted and other deposits		10,047,754	(4,735,408)
Borrowing from IMF- on the behalf and for the account of Government		14,448,453	-
Provisions for court cases		(73)	-
Other liabilities		(127,497)	(383,510)
Interest received		503,235	276,400
Interest paid		(1,495,511)	(1,764,231)
Net cash flows used in operating activities		(2,601,971)	(20,908,633)
Acquisition of property, equipment and intangible assets		(72,295)	(30,913)
Proceeds from the sale of property and equipment		18	63
Net cash flows used in investing activities		(72,277)	(30,850)
National Bank bills withdrawn		6,279,963	10,079,688
Net cash flows from financing activities		6,279,963	10,079,688
Net increase/(decrease) in cash and cash equivalents		3,605,715	(10,859,795)
Cash and cash equivalents at the beginning of the year		21,461,334	32,321,129
Cash and cash equivalents at the end of the year	46	25,067,049	21,461,334

The notes on pages 9 to 60 are an integral part of these financial statements

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(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 December 9, 2010. 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. The National Bank is supporting 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 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 capital

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

1 General information (Continued)

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

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

The total number of employees as of 31 December 2011 is 434 (as of 31 December 2010: 443).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 28 February 2012 and signed by the chairman of the National Bank Council on its behalf:



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 Bank in 2011. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Bank's operations and the nature of their impact on the Bank's accounting policies.

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

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011), relevant to the National bank operations: IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was adopted previously by the National Bank in its prior year's financial statements); and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

2 Summary of significant accounting policies

A Basis of preparation of financial statements

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

The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralized assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralized assets").

2 Summary of significant accounting policies
A Basis of preparation of financial statements
b) New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Bank's accounting periods beginning on or after 1 January 2012. The National Bank has not early adopted these new standards and interpretations.

IFRS 9, Financial Instruments Part 1: Classification and Measurement.

IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 and December 2011. The change in October address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

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

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The National Bank is considering the implications of the standard, the impact on the National Bank and the timing of its adoption by the National Bank.

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

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

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

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two parts, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The National Bank expects the amended standard to change presentation of its financial statements, but has no impact on measurement of transactions and balances.

Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This amendment includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the National Bank financial statements.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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 differentials are recognized in the income statement.

Exchange rate:	31 December 2011 MKD	31 December 2010 MKD
USD	47.53	46.31
EUR	61.50	61.50
SDR	73.34	71.59

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 set off the recognized amounts and when there is an intention to settle on a net basis.

D Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability is included in the amounts of liabilities based on foreign currency repo transactions. Securities purchased under agreements to resell ('reverse repos') are recorded as receivables from foreign currency repo transactions. 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 2011

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

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

G Cash and cash equivalents

For the 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 changes are recognized in the profit and loss.

Loans and receivables

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

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

Held to maturity

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

Were the National Bank to sell or 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 can not be reliably determined are carried at cost, less impairment. Unrealized gains and losses are reported as a separate component of other comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is included in the statement of income for the period.

I Fair value

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

J Impairment of financial assets

Assets carried at amortised cost

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

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

K Trade and settlement date accounting

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

L Property and equipment

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

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

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 2011
Buildings	5 to 50 years
Equipment	3 to 10 years
Vehicles	5 to 6 years
Furniture	5 to 10 years

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

M Intangible assets

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

N Impairment of non-financial assets

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

O Jubilee coins

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(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 in the name of the Government. The income arising thereon is excluded from these financial statements, and the assets are presented on a net basis.

Q Currency in circulation

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

R National Bank bills issued

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

S Deposits

Deposits are recognized initially at fair value. Subsequently deposits are stated at amortized cost. Deposits include bank deposits, reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD, deposit requirements of banks and saving houses, government deposits, restricted deposits and other deposits.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

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

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

U Borrowings

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

V Revenue recognition

Interest income and expense

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

Dividend income

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

Fee and other income

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

Net income from trading securities

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

W Net unrealized exchange rate and fair value differences

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

2 Summary of significant accounting policies

X Employment benefits

Pension insurance contribution - defined contributions plan

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

Other long-term employment benefits

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

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its current value by applying weighted interest rate prevalent on the securities market for the 5-year (2010: 3.5-year) bonds issued by the Republic of Macedonia.

Y Taxation

Under the provisions of Article 36c of the amended Corporate Income Tax Law, as published on 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.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

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

A Credit risk

The credit risk is the risk of reduction in the value of the foreign reserves due to insolvency or due to downgrade of the credit rating of financial institutions or issuers of securities and instruments in which the foreign reserves are placed. In the foreign reserves management, the 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 countries, 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 of credit risk by type of assets:

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

ASSETS	2011	2010
Foreign currency deposits		
- Current accounts	21,285,282	19,475,705
- Term deposits	3,382,797	1,845,204
Foreign securities		
- Debt Securities	85,755,801	69,734,412
Gold Deposits	16,394,414	14,229,665
Special Drawing Rights	35,967	57,728
Foreign assets	126,854,261	105,342,714
Receivable from foreign currency repo transactions	14,337,310	-
Receivable from Government related to IMF	19,289,504	4,697,709
Government securities	805,895	781,426
Receivable from Government	20,095,399	5,479,135
Loans to banks	15,912	15,912
Receivables	32,143	27,958
At 31 December	161,335,025	110,865,719

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 table above are not collateralized.

The table below presents an analysis of National Bank neither past due nor impaired financial assets, by rating agency designation at 31 December 2011, 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 2011

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management

A Credit risk (Continued)

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Foreign currency repo transactions	Receivables from Government	Loans to banks	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 ¹	10,199,594	21,200,643	3,382,797	-	-	-	-	-	-	34,783,034
II ²	6,194,820	21,347	-	-	35,967	-	-	-	-	6,252,134
BB ³	-	-	-	-	-	-	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	85,755,801	35,967	14,337,310	20,095,399	15,912	32,143	161,335,025

The table below presents an analysis of National Bank neither past due nor impaired financial assets, by rating agency designation at 31 December 2010, based on Standard & Poor's ratings or their equivalent:

Credit rating	Gold deposits	Current accounts	Term deposits	Foreign securities	SDR - holdings	Foreign currency repo transactions	Receivables from Government	Loans to banks	Receivables	Total
AAA	-	641	-	68,861,610	-	-	-	-	-	68,862,251
AA+	-	-	-	872,802	-	-	-	-	-	872,802
AA	-	9,132	-	-	-	-	-	-	-	9,132
AA-	-	6,045	-	-	-	-	-	-	-	6,045
A	-	13,544	-	-	-	-	-	-	-	13,544
A+	172,975	134,205	-	-	-	-	-	-	-	307,180
BBB-	-	1,136	-	-	-	-	-	-	-	1,136
CB ⁴	8,650,584	19,274,388	1,845,204	-	-	-	-	-	-	29,770,176
II ⁵	5,406,106	36,614	-	-	57,728	-	-	-	-	5,500,448
BB ⁶	-	-	-	-	-	-	5,479,135	-	-	5,479,135
Unrated	-	-	-	-	-	-	-	15,912	27,958	43,870
Total	14,229,665	19,475,705	1,845,204	69,734,412	57,728	-	5,479,135	15,912	27,958	110,865,719

Financial assets which are individually impaired are presented in Other receivables (Note 26) and 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 2011***(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 2011. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	EU Countries	Non-EU Countries	Republic of Macedonia	Other countries	Total
Gold deposits	10,199,594	6,194,820	-	-	16,394,414
Current accounts	20,229,400	40,004	-	1,015,878	21,285,282
Term deposits	3,382,797	-	-	-	3,382,797
Debt securities	77,950,730	-	-	7,805,071	85,755,801
Special Drawing Rights	-	-	-	35,967	35,967
FX repo transactions	12,864,285	-	-	1,473,025	14,337,310
Receivable from					
Government	-	-	20,095,399	-	20,095,399
Receivable from Banks	-	-	15,912	-	15,912
Receivables	-	-	32,143	-	32,143
31 December 2011	124,626,806	6,234,824	20,143,454	10,329,941	161,335,025
31 December 2010	95,189,276	5,447,861	5,523,005	4,705,577	110,865,719

3 Financial risk management**B Market risk**

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

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

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from changes in the financial instruments prices and 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 2011, 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 2,072,103,000 (Euro 33,690,000), or 1.63% 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 2,054,882,000 (Euro 33,410,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 17,221,000 (Euro 280,000).

	31 December 2011	31 December 2010
Currency risk	2,054,882	1,433,681
Interest rate risk	17,221	60,275
Total VAR	2,072,103	1,493,956

⁷ As recommended in the Basel Agreement from 1999

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****C Foreign exchange risk**

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

The currency structure of the foreign reserves is determined by the currency structure of the interventions to support the foreign exchange rate of Denar per Euro and by the liabilities of the central bank and government abroad. Consequently, the Euro dominates in the currency structure of the foreign reserves. The share of the US Dollar in the currency structure of the foreign reserves is determined on the basis of the amount necessary for servicing the liabilities abroad and according to the currency structure of foreign trade, denominated in US Dollars. Having in mind de facto fixed foreign exchange rate of the Denar against the Euro, the exposure to the currency risk of the National Bank to the Euro is minimal, compared to the US Dollar, where there is exposure as a result of its volatility against the Euro, and thus, to the Denar.

The table below presents the exposure of the National Bank to the foreign exchange risk. The table includes the foreign reserves and liabilities of the National Bank according to their current value as of December 31, 2011, analyzed by currency.

ASSETS

	EUR	USD	SDR	Other	MKD	Total
Foreign assets	98,143,028	28,980,355	75,389	88,112	-	127,286,884
Receivables from 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	1,228,451	1,240,990
Total assets	112,481,143	28,980,379	19,366,360	98,355	6,693,315	167,619,552

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	-	-	19,289,504	-	4,643,057	23,932,561
Other deposits	-	-	-	-	2,898,739	2,898,739
Other liabilities	363,426	19,513	1,468	44,692	363,764	792,863
Total liabilities	39,770,613	1,217,865	19,290,972	75,686	88,887,890	149,243,026

Net on-balance sheet financial position

72,710,530	27,762,514	75,388	22,669	(82,194,575)	18,376,526
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NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)*
3 Financial risk management
C Foreign exchange risk (Continued)

The table below summarizes the National Bank's exposure to the currency risk. Included in the table are the National Bank's foreign currency-denominated assets and liabilities at carrying amounts, categorized by currency, as at 31 December 2010:

ASSETS

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

LIABILITIES

Currency in circulation	-	-	-	-	20,173,010	20,173,010
Deposits of banks	922,616	-	-	-	15,647,021	16,569,637
Reserve requirements	13,170,995	-	-	-	16,621	13,187,616
National Bank Bills	-	-	-	-	25,943,719	25,943,719
Deposits of the government	2,995,225	70,818	-	2,019	8,322,635	11,390,697
Restricted deposits	479,664	-	-	999	-	480,663
Borrowings from IMF	-	-	4,697,709	-	4,835,434	9,533,143
Other deposits	-	-	-	-	2,412,792	2,412,792
Other liabilities	544,841	16,435	-	36,667	306,662	904,605
Total liabilities	18,113,341	87,253	4,697,709	39,685	77,657,894	100,595,882
Net on-balance sheet financial position	65,930,332	21,111,836	99,082	118,320	(70,811,557)	16,448,013

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

3 Financial risk management**D Interest rate risk**

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

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

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 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 2011***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****D Interest rate risk (Continued)**

	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	-	-	-	-	-	1,240,990	1,240,990
Total assets	39,038,555	-	72,434,190	-	821,807	55,325,000	167,619,552
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	-	-	-	-	2,048,903	21,295,119
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	-	-	-	-	-	792,863	792,863
Total liabilities	99,328,556	-	-	-	-	49,914,470	149,243,026
Total interest repricing gap	(60,290,001)	-	72,434,190	-	821,807	5,410,530	18,376,526

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

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as at 31 December 2010 was as follows:

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

3 Financial risk management

E Liquidity risk

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

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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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
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**Assets held for
managing liquidity
risk** (expected
maturity dates)

111,708,670	-	530,534	53,383,547	861,228	166,483,979
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31 December 2010	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
LIABILITIES						
Currency in circulation	20,173,010	-	-	-	-	20,173,010
Deposits of banks	1,285,680	-	15,283,957	-	-	16,569,637
Reserve requirements	715	-	13,186,901	-	-	13,187,616
National Bank Bills	25,943,719	-	-	-	-	25,943,719
Deposits of the government	11,390,697	-	-	-	-	11,390,697
Restricted deposits	350,212	28,935	101,516	-	-	480,663
Borrowings from IMF	9,533,143	-	-	-	-	9,533,143
Other deposits	2,412,792	-	-	-	-	2,412,792
Other liabilities	890,771	-	13,834	-	-	904,605

Total liabilities

(contractual maturity dates)

71,980,739	28,935	28,586,208	-	-	100,595,882
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**Assets held for
managing liquidity
risk** (expected
maturity dates)

98,065,912	922,616	432,638	15,745,734	835,819	116,002,719
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NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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.

	Carrying value		Fair value	
	2011	2010	2011	2010
Financial assets				
Foreign currencies	363,003	88,813	363,003	88,813
Foreign currencies deposits	24,668,079	21,320,909	24,668,079	21,320,909
Special Drawing Rights	35,967	57,728	35,967	57,728
Foreign debt securities held to maturity, carried at amortized cost	39,465,629	16,005,396	39,772,635	16,130,997
Foreign equity securities, carried at cost	39,421	38,481	39,421	38,481
Receivables from foreign currency repo transactions	14,337,310	-	14,337,310	-
Government securities	805,895	781,426	805,895	781,426
Loans to banks	15,912	15,912	15,912	15,912
Financial liabilities				
Currency in circulation	22,767,435	20,173,010	22,767,435	20,173,010
Bank deposits	16,735,731	16,569,637	16,735,731	16,569,637
Reserve requirement of banks and saving houses	14,149,158	13,187,616	14,149,158	13,187,616
National Bank bills issued	32,229,886	25,943,719	32,229,886	25,943,719
Liabilities based on foreign currency repo transactions	14,304,267	-	14,304,267	-
Government MKD deposit	9,231,166	8,322,635	9,231,166	8,322,635
Government foreign currency deposits	12,063,953	3,068,062	12,063,953	3,068,062
Payables to IMF	23,932,561	9,533,143	23,932,561	9,533,143
Other and restricted deposits	3,036,006	2,893,455	3,036,006	2,893,455

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 BIS shares with a value of MKD 39,421,000 (2010: MKD 38,481,000), for which fair value cannot be reliably determined and therefore they are carried at cost. However, due to the specific role of BIS, fair value of these shares is considered to approximate their carrying value.

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

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

Financial liabilities

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

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

The fair value of liabilities based on foreign currency repo transactions carried at amortized cost, are 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 2011***(All amounts in MKD thousands unless otherwise stated)***3 Financial risk management****F Fair value of financial assets and liabilities (Continued)****Fair value hierarchy**

Fair values are determined according to the following hierarchy:

a) Level 1- Quoted Market Price

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

b) Level 2 - Valuations Techniques Using Observable Inputs

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

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

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

Assets and liabilities measured at fair value

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

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

4 Critical accounting estimates, and judgments in applying accounting policies

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

(a) Held-to-maturity investments

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***5 Interest income**

	Loans granted	Deposits	Monetary gold	HTM Securities	Others	Total December 31, 2011	Total December 31, 2010
Government	-	-	-	24,468	1,284	25,752	23,926
Domestic banks	3,128	-	-	-	8	3,136	239
Foreign entities	58,592	102,977	233	340,833	-	502,635	275,773
Other	-	-	-	-	164	164	188
Total for 2011	61,720	102,977	233	365,301	1,456	531,687	300,126
Total for 2010	627	76,816	18,302	204,381	-	300,126	-

6 Interest expense

	Loans received	Deposits received	Securities issued	Total December 31, 2011	Total December 31, 2010
Government	-	111,201	-	111,201	80,557
Domestic banks	-	447,715	891,758	1,339,473	1,687,497
Foreign entities	52,622	-	-	52,622	-
Total for 2011	52,622	558,916	891,758	1,503,296	1,768,054
Total for 2010	-	403,872	1,364,182	1,768,054	-

7 Fee income

	2011	2010
Fees from providing cash to banks	71,186	59,910
Fees from domestic banks for maintaining account based on debt turnover on an account	81,846	57,752
Fees based on settlement of payments (RTGS)	44,864	48,965
Fees from foreign exchange operations	14,586	14,534
Fees from sale of administrative and court government stamps	4,258	12,187
Other fees	19,130	13,978
Total	235,870	207,326

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***7 Fee income (Continued)**

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

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

The amount of the fees that National Bank charges are regulated in the Decision on the single tariff 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

	2011	2010
Fees to foreign banks	5,904	14,166
Total	5,904	14,166

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

9 Net unrealized exchange and fair value differences

	2011	2010
Unrealized positive exchange rate differences	7,353,550	3,743,536
Unrealized negative exchange rate differences	(6,963,108)	(2,923,656)
Unrealized positive exchange rate and price differences from gold	23,586,130	8,920,145
Unrealized negative exchange rate and price differences from gold	(21,563,885)	(4,944,648)
Total	2,412,687	4,795,377

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***10 Net income from trading securities**

	2011	2010
Realized profit from trading securities	54,589	36,956
Realized losses from trading securities	(323,828)	(358,674)
Interest income on trading securities	1,236,010	1,393,063
Unrealized positive price changes from trading securities	88,295	23,672
Unrealized negative price changes from trading securities	(513,712)	(659,522)
Total	541,354	435,495

11 Dividend income

	2011	2010
Dividend income on investments in BIS	8,650	21,521
Total	8,650	21,521

12 Other operating income

	2011	2010
Realized positive exchange rate differences, net	344,602	125,943
Income based on sale of jubilee coins	2,629	4,611
Other income	20,999	21,018
Total	368,230	151,572

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

13 Personnel expenses

	2011	2010
Wages and personal income tax	255,642	249,602
Pension cost – defined contribution plans	61,492	60,058
Required contributions	30,746	30,029
Other staff expenses	5,646	6,805
Total	353,526	346,494

In 2011, the remuneration of the key management of the National Bank was MKD 13,161,000 (2010: MKD 12,709,000), included in 'Personnel expenses' above.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***14 Other expenses**

	2011	2010
Costs of production of banknotes and coins	96,683	111,214
Services	55,928	62,943
Material expenses	34,060	31,937
Other administrative expenses	15,322	13,572
Other expenses	9,288	2,471
Total	211,281	222,137

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

15 Provisions and write offs

	Note	2011	2010
(Release)/Charge provisions related to lawsuits with banks	26,43	-	(218,532)
Charge/(Release) provisions for other assets	30	259	1,637
(Release)/Charge provisions related to lawsuits with individuals /other entities	43	(5,104)	(906)
Provision for interest income	30	1,204	-
Other provisions	30	(26)	84
Total		(3,667)	(217,717)

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 2011***(All amounts in MKD thousands unless otherwise stated)***17 Foreign currency deposits**

	2011	2010
Foreign currency sight deposits	21,285,282	19,469,589
Foreign currency term deposits	3,382,797	1,845,204
Included in the cash and cash equivalents (Note 46)	24,668,079	21,314,793
Restricted accounts	-	6,116
Total	24,668,079	21,320,909

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 2011	31 December 2010
- overnight deposits in USD	0.06%	0.16%
- Euro overnight deposits	0.76%	0.33%
- time deposits in EUR	0.60%	0.35%

Foreign currency deposits include accrued interest of MKD 22,000 (2010: MKD 54,000).

Foreign currency deposits by type of entity

	2011	2010
Central banks	24,583,440	21,119,592
Foreign commercial banks	63,292	164,703
International financial institutions	21,347	36,614
Total	24,668,079	21,320,909

Foreign currency deposits by geographic location

	2011	2010
Europe	23,652,201	20,544,291
the Americas	1,001,406	657,595
Other	14,472	119,023
Total	24,668,079	21,320,909

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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.

	2011	2010
Trading securities	46,290,172	53,729,016
Foreign debt securities	46,290,172	53,729,016
Securities held to maturity	39,465,629	16,005,396
Foreign debt securities	39,465,629	16,005,396
Securities available for sale	39,421	38,481
Foreign equity securities	39,421	38,481
Total	85,795,222	69,772,893
Current	69,686,317	57,713,460
Non-current	16,108,905	12,059,433

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 0.375% and 5.375% p.a. (2010: from 0.875% to 5.375%). Foreign trading securities include accrued interest of MKD 627,302,000 (2010: MKD 720,792,000).

Securities intended to be held to maturity bear fixed income with interest at a rate ranging between 0.50% and 5.375% p.a. (2010: from 0.75% to 5 %). Foreign securities held to maturity include accrued interest of MKD 530,534,000 (2010: MKD 259,663,000).

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

19 Gold

	2011	2010
Sight gold deposits	16,394,414	14,056,690
Term gold deposits	-	172,975
Gold in the NBRM vault	30,199	26,354
Total	16,424,613	14,256,019
Current	16,424,613	14,083,044
Non-current	-	172,975

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***19 Gold (Continued)**

As of 31 December 2011, the National Bank total gold reserves stood at 219,453.557 ounces (2010: 218,253.31 ounces) at a market value of US Dollar 1,574.50 (MKD 74,843) per ounce (2010: US Dollar 1,410.25 or MKD 65,314 per ounce). Interest rates on term gold deposits in 2010 was at rate of 0.535% and 0.57% p.a. on gold deposits based on the price of gold in EUR and 0.31% on gold deposits based on the price of gold in US Dollar. As of 31 December 2010, term gold deposits include accrued interest of MKD 952,000.

20 Special Drawing Rights (SDR)

The National Bank maintains an SDR-denominated current account with the IMF used for processing and settling all transactions with the IMF. This current account bears interest in the amount of the so-called IMF basic rate. In 2011, the basic rate ranged from 0.27% to 0.59% p.a. (2010: from 0.22% to 0.40% 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 2011, the receivables from foreign currency repo transactions equal MKD 14,337,310,000 and include accrued interest amounting to MKD 2,779,000.

The financial effect of collateral received at 31 December 2011:

	Over-collateralized assets	
	Carrying value of the assets	Fair value of collateral
Reverse repo transaction with foreign banks	14,337,310	14,349,257
Total	14,337,310	14,349,257

22 Receivables from Government related to IMF

	2011	2010
Receivable related to general and special net cumulative allocation	4,197,986	4,097,853
Receivable related to SDR allocation	614,513	599,856
Receivables from the Government – PCL	14,477,005	-
Total	19,289,504	4,697,709
Current	4,841,051	4,697,709
Non-current	14,448,453	-

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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, approved with the resolution of the Board of Governors of IMF (see Note 40a), 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 the 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

	2011	2010
Securities held to maturity		
Bond for selective credits	805,895	781,426
Total	805,895	781,426
Non-current	805,895	781,426

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 1,039,318,000 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 4,631,313,000 at the end of 2011, the account no. 1 amounts to MKD 11,607,000 and account no. 2 is valued at MKD 137,000. (2010: MKD 4,823,203,000, MKD 12,088,000 and MKD 143,000 respectively for the three positions, see Note 40c). The changes are due to the evaluation of these positions by the SDR exchange rate as of April 30, according to the IMF financial year.

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***25 Loans to banks**

	2011	2010
Long-term loans from the conversion of the selective credits:		
- 1996	15,912	15,912
Total	15,912	15,912
Non-current	15,912	15,912

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

26 Other receivables

	2011	2010
Receivable 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 1,018,258,000 to foreign banks on the basis of guarantees given for borrowings of one Macedonian bank from foreign banks, in accordance with the Decision on the criteria and the conditions for the use of a portion of the foreign reserves based on guarantees for borrowings of Macedonian banks from foreign banks, which ceased being valid in March 2003. The National Bank reflected a receivable from the domestic bank. Bankruptcy proceeding was initiated against the bank in March 2004. The National Bank has receivables on the basis of guarantees granted by the bank under bankruptcy worth MKD 1,034,569,000. The National Bank fully provisioned the receivables from the bank under bankruptcy during the preceding years.

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

The movements in provision for other receivables are as follows:

	2011	2010
Balance as at 1 January	1,027,687	1,043,837
Decrease of provisions for receivables from bank under bankruptcy (Note 15)	-	(16,150)
Balance as at 31 December	1,027,687	1,027,687

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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 2010							
Cost	896,351	469,456	62,834	59,495	1,488,136	34,442	1,522,578
Accumulated depreciation	(198,537)	(363,697)	-	-	(562,234)	(14,844)	(577,078)
Net book amount	697,814	105,759	62,834	59,495	925,902	19,598	945,500
On 1 January 2010, net of accumulated depreciation	697,814	105,759	62,834	59,495	925,902	19,598	945,500
Additions	3,252	14,979	188	4,968	23,387	-	23,387
Write offs	-	(63)	-	-	(63)	-	(63)
Transfers	15,428	27,681	-	(43,109)	-	-	-
Depreciation for the year	(26,809)	(34,815)	-	-	(61,624)	(773)	(62,397)
On 31 December 2010	689,685	113,541	63,022	21,354	887,602	18,825	906,427
On 31 December 2010							
Cost	915,031	479,837	63,022	21,354	1,479,244	34,442	1,513,686
Accumulated depreciation	(225,346)	(366,296)	-	-	(591,642)	(15,617)	(607,259)
Net book amount	689,685	113,541	63,022	21,354	887,602	18,825	906,427

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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 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
Write offs	-	(120)	-	(282)	(402)	-	(402)
Transfers	6,776	-	-	(6,776)	-	-	-
Transfer 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

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***28 Intangible assets**

	2011	2010
At 1 January		
Cost	144,511	142,551
Investment in progress	6,701	6,611
Accumulated amortization	(125,529)	(115,588)
Net book amount	25,683	33,574
Year ended December		
Opening net book amount	25,683	33,574
Additions	32,730	7,437
Amortization charge	(13,331)	(15,417)
Transfers to property and equipment	(5,350)	-
Investments in progress	(123)	89
Closing net book amount	39,609	25,683
At 31 December		
Cost	169,830	144,511
Investments in progress	6,578	6,701
Accumulated amortization	(136,799)	(125,529)
Net book amount	39,609	25,683

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 2011, the National Bank held a total of 7,162 gold coins and 104 silver coins (2010: 7,288 gold coins and 137 silver coins). The jubilee coins in the National Bank vault are intended for sale.

30 Receivables

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

	2011	2010
Fees	28,134	22,087
Receivables for maintenance of premises	4,009	5,871
Other receivables	409,482	408,548
Impairment for other receivables	(409,482)	(408,548)
Total	32,143	27,958

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***30 Receivables (Continued)**

The movements in provision for receivables are as follows:

	2011	2010
Balance as at 1 January	408,548	421,822
Increase of provisions (Note 15)	259	1,637
Increase of provisions for interest income (Note 15)	1,204	-
(Release) /Increase of other provisions (Note 15)	(26)	84
Write offs of doubtful and contested receivables	(503)	(14,995)

Balance as at 31 December	409,482	408,548
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Impaired other receivables mainly represent receivables from individuals and legal entities for which legal process was started in previous years. The National Bank fully provisioned these receivables.

31 Other assets

	2011	2010
Office and other materials	63,952	7,957
Prepaid expenses of printing banknotes	51,639	142,847
Other prepaid expenses	6,399	4,601
Other assets	15,238	470
Total	137,228	155,875
Current	73,276	147,918
Non-current	63,952	7,957

32 Currency in circulation

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

Currency in circulation			2011		2010
MKD	Nominal value	Number	Value in MKD thousands	Number	Value in MKD thousands
Coins	0.5	3,305,541	1,653	3,284,875	1,642
Coins	1	74,836,896	74,837	71,289,709	71,290
Coins	2	47,234,283	94,469	45,348,618	90,697
Coins	5	28,886,596	144,433	28,630,293	143,151
Coins	10	14,391,133	143,911	5,595,002	55,950
Coins	50	1,465,321	73,266	897,612	44,881
Banknotes	10	22,325,799	223,258	25,733,452	257,335
Banknotes	50	5,246,289	262,314	5,599,018	279,951
Banknotes	100	11,529,316	1,152,932	10,931,631	1,093,163
Banknotes	500	7,018,643	3,509,321	6,029,569	3,014,784
Banknotes	1000	16,791,516	16,791,516	14,788,731	14,788,731
Banknotes	5000	59,105	295,525	66,287	331,435
Total			22,767,435		20,173,010

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***33 Bank deposits**

	2011	2010
Bank deposits in MKD	16,735,731	15,647,021
Bank deposits in foreign currency	-	922,616
Total	16,735,731	16,569,637
Current	16,735,731	16,569,637

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 February 2009, in order to maintain foreign reserve liquidity and to decrease credit risk exposure of the domestic banks, banks can place foreign exchange deposit with the National Bank. The National Bank pays interest on these deposits at interest rates which depend on interest rates of funds placed in instruments issued by governments, central banks or international financial institutions of the member-countries in the euro-area. Bank deposits in foreign currency include the accrued interest of MKD 41,000 as at 31, December, 2010.

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

	2011	2010
Banks' foreign exchange reserve requirement	14,131,046	13,170,995
Savings houses' MKD reserve requirement	18,112	16,621
Total	14,149,158	13,187,616
Current	14,149,158	13,187,616

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

National Bank pays MKD reserve requirement remuneration of 2% to the average allocated funds on each bank's account in the period of fulfillment (2010: 2%). Since October 2009, the National Bank has paid remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a.

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

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***35 National Bank bills issued**

In 2011, the National Bank bills maturity was 28 days. At the National Bank bills auctions, volume tender was applied with predefined interest rate. The interest rates on the CB bills auctions registered stable trend and weighted average interest rate was 4.00%. (2010: maturity of 28 days; type of tender: volume tender with predefined interest rate, interest rates ranging from 8.00% to 4.00%).

The National Bank bills issued include accrued interest of MKD 45,002,000 (2010: MKD 38,798,000).

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 2011, the liabilities based on foreign currency repo transactions equal MKD 14,304,267,000 and include accrued interest amounting to MKD 2,306,000.

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.

	2011	2010
Single Treasury account	7,699,969	7,446,150
Other MKD deposits	1,531,197	876,485
Total	9,231,166	8,322,635
Current	9,231,166	8,322,635

In 2011, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1.0 % p.a. (2010: 1.0% p.a.). Government deposits include the accrued undue interest in the amount of MKD 5,462,000 (2010: MKD 6,459,000).

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 2011, these deposits amounted to MKD 12,063,953,000 (2010: MKD 3,068,062,000). In 2011, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2010: 0.7% p.a.).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Notes to the Financial statements for the year ended 31 December 2011

(All amounts in MKD thousands unless otherwise stated)

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.

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

Total liability of Macedonia for the SDR allocation at the end of 2011 amounted to SDR 65,616,876 (2010: 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 of

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***40 Payables to IMF (Continued)**

Macedonia. In March, 2011, the Ministry of Finance drew down SDR 197,000,000 from the approved Precautionary Credit Line.

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

	2011	2010
Liabilities based on issued promissory note for membership in the IMF	4,631,313	4,823,203
Liabilities based on account 1	11,607	12,088
Liabilities based on account 2	137	143
Total	4,643,057	4,835,434
Current	4,643,057	4,835,434

41 Other deposits

	2011	2010
Liabilities on the basis from MKD deposits to other domestic entities	2,895,033	2,409,086
Liabilities on the basis from MKD deposits to international financial institutions	3,706	3,706
Total	2,898,739	2,412,792
Current	2,898,739	2,412,792

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 (2010: 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 2011***(All amounts in MKD thousands unless otherwise stated)***42 Other payables**

Payables are analyzed as follows:

	2011	2010
Liabilities from BNT bankruptcy	145,721	146,480
Payables from appropriation of net income	22,433	-
Payables arising from annuities received from sale of socially-owned flats	10,473	7,862
VAT	821	1,199
Other payables	19,860	13,651
Total	199,308	169,192

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

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

Payables arising from annuities received from the sale of socially-owned flats represent liabilities to the 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 National Bank and accumulated in a special account, with the MKD denomination being transferred to the government on a weekly basis.

43 Provisions

	2011	2010
Provisions for potential liabilities based on litigations with other entities	907	6,084
Total	907	6,084

Provisions for potential liabilities on the basis of litigations pertain to the amount of principal and interest the National Bank expects to be obliged to pay out to natural persons and legal entities which instituted proceedings against the National Bank (see Note 15).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(All amounts in MKD thousands unless otherwise stated)***43 Provisions (Continued)**

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

	2011	2010
Balance as at 1 January	6,084	209,372
Released provisions for potential liabilities based on litigations with banks (Note 15)	-	(202,382)
Released provisions for potential liabilities based on litigation with other entities (Note 15)	(5,104)	(906)
Write off provisions for potential liabilities based on litigation with other entities	(73)	-
Balance as at 31 December	907	6,084

The released provision of MKD 202,382,000 in 2010 (see Note 15), is based on the final decision of the relevant Court in favour of the National Bank.

44 Other liabilities

	2011	2010
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	439,578	423,623
Jubilee coins counterpart	135,144	91,568
Liabilities to suppliers and other liabilities	9,743	15,021
Deferred income	8,183	14,602
Equity payments pending operational license	-	184,515
Total	592,648	729,329

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

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

Jubilee coins counterpart arises as a result of the accounting policy for jubilee coins (see Note 20 and 29).

NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**Notes to the Financial statements for the year ended 31 December 2011***(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 2011, it amounted to MKD 1,289,789,000 (2010: MKD 1,289,789,000).

General reserves

As stipulated by the Law on the National Bank and following the allocation of unrealized gains to the special reserves*, 70% of the distributable earnings are transferred to the general reserves until the level of the capital of the National Bank is reached. After the capital is reached, 15% of the remaining income was transferred to the general reserves, while the remaining share is transferred to the Budget of the Republic of Macedonia. The general reserves are utilized to cover the general risks related to National Bank operations. As of 31 December 2011 these reserves were increased for the positive distributable earnings for 2011 in amount of MKD 52,344,000.

Special reserves

	2011	2010
Special reserves from unrealized exchange rate and price changes		
○ Special reserves from foreign exchange gains	4,114,749	3,724,307
○ Special reserves from price and exchange rate changes of gold	11,811,906	10,316,853
○ Special reserves from price changes of securities for trading	88,295	97,621
Total	16,014,950	14,138,781

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

Special reserves from foreign exchange gains from foreign exchange assets and liabilities for 2011 are increased by MKD 390,442,000 on the basis of allocation of the net positive unrealized foreign exchange gains (2010: MKD 819,880,000).

Special reserves from price and exchange rate changes of gold for 2011 are increased by MKD 2,022,245,000 on the basis of allocation of the net unrealized positive price and exchange rate changes of gold (2010: MKD 3,975,497,000). Special reserves on the basis of the realized price and exchange rate changes of gold in the amount of MKD 527,192,000 (2010: nil) 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 2011***(All amounts in MKD thousands unless otherwise stated)***45 Capital and reserves (Continued)**

Special reserves from price changes of securities for trading are increased by MKD 88,295,000 (2010: reduced by 82,570,000) on the basis of allocation of the net unrealized positive price changes of securities for trading according to the security-by-security principle. Special reserves on the basis of realized price changes from securities in the amount of MKD 97,621,000 (2010: 249,965,000) were added to the distributable earnings for the current year.

46 Cash and cash equivalents	2011	2010
Foreign currencies in vault (Note 16)	363,003	88,813
Foreign currency deposits (Note 17)	24,668,079	21,314,793
SDR holdings, net (Note 20)	35,967	57,728
Total	25,067,049	21,461,334

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.