

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

**Independent auditor's report and  
Financial Statements prepared in accordance with  
International Financial Reporting Standards**

**For the year ended 31 December 2013**

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the National Bank of the Republic of Macedonia (the "National Bank") which comprise of the Statement of financial position as at 31 December 2013, and the Income statement, the Statement of comprehensive income, the Statement of changes in equity and the Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 4 to 62.

### Management's responsibility for the financial statements

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

### Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the National Banks's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Banks's internal control.

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

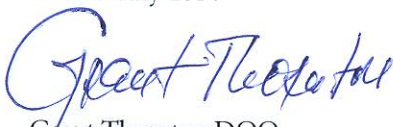
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion


In our opinion the financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2013, and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Skopje,

27 February 2014



Grant Thornton DOO

  
Director  
Ruza Filipceva  
Certified auditor  
Marjan Andonov

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## **GENERAL INFORMATION**

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### **Members of the National Bank of the Republic of Macedonia Council**

Dimitar Bogov, Governor  
Maja Kadiavska Vojnovik, Vice Governor  
Fadil Bajrami, Vice Governor  
Anita Angelovska-Bezoska, Vice Governor  
Verica Hadzi Vasileva - Markovska (until 28 April 2013)  
Goran Petreski (until 28 April 2013)  
Tihomir Petreski (until 28 April 2013)  
Liman Kurtisi  
Saso Arsov  
Aleksandar Stojkov (from 29 April 2013)  
Metodij Hadzi Vaskov (from 29 April 2013)  
Mihail Petkovski (from 29 April 2013)

### **Registered office**

Blvd. Kuzman Josifovski Pitu No.1  
1000, Skopje

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2013</b>	<b>2012</b>
Interest income	5	220,371	553,657
Interest expense	6	(1,345,224)	(1,590,321)
<b>Net interest expense</b>		<b>(1,124,853)</b>	<b>(1,036,664)</b>
Fee income	7	237,777	239,754
Fee expense	8	(10,663)	(10,701)
<b>Net fee income</b>		<b>227,114</b>	<b>229,053</b>
<b>Net unrealized price and exchange rate differences</b>	<b>9</b>	<b>(7,350,977)</b>	<b>438,397</b>
Net trading income	10	349,243	538,206
Dividend income	11	9,656	9,809
Other operating income	12	196,071	224,366
Personnel expenses	13	(383,070)	(371,270)
Depreciation and amortization charge	27,28	(76,086)	(78,948)
Other expenses	14	(172,533)	(173,757)
<b>Provisions and write offs</b>	<b>15</b>	<b>279</b>	<b>(5,630)</b>
<b>Loss for the year, net</b>		<b>(8,325,156)</b>	<b>(226,438)</b>

**STATEMENT OF COMPREHENSIVE INCOME**

		<b>Year ended 31 December</b>	
		<b>2013</b>	<b>2012</b>
<b>Loss for the year from the Income statement, net</b>		<b>(8,325,156)</b>	<b>(226,438)</b>
Other comprehensive income			
- Items that will be reclassified subsequently to Income statement		-	-
- Items that will not be reclassified subsequently to Income statement		-	-
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>(8,325,156)</b>	<b>(226,438)</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>Note</b>	<b>At 31 December</b>	
		<b>2013</b>	<b>2012</b>
Foreign currencies	16	85,949	182,714
Foreign currency deposits	17	10,472,874	25,913,801
Foreign securities	18	100,157,657	91,809,082
Gold	19	11,722,686	16,974,141
Special Drawing Rights	20	204,253	75,050
<b>Foreign assets</b>		<b>122,643,419</b>	<b>134,954,788</b>
<b>Receivables based on foreign currency repo transactions</b>	<b>21</b>	<b>-</b>	<b>8,367,713</b>
Receivables from Government related to IMF	22	18,042,791	18,894,805
Government securities	23	857,155	831,129
<b>Receivables from Government</b>		<b>18,899,946</b>	<b>19,725,934</b>
<b>IMF Membership</b>	<b>24</b>	<b>4,888,021</b>	<b>4,969,099</b>
Loans to banks	25	15,912	2,717,031
Other receivables	26	-	-
<b>Receivables from banks</b>		<b>15,912</b>	<b>2,717,031</b>
Property and equipment	27	848,049	845,680
Intangible assets	28	22,697	28,319
Jubilee coins	29	106,446	144,657
Operating receivables	30	27,754	28,096
Other assets	31	133,368	111,482
<b>Total assets</b>		<b>147,585,612</b>	<b>171,892,799</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**  
**Financial Statements for the year ended 31 December 2013**  
*(Amounts expressed in thousands of MKD unless otherwise stated)*

**STATEMENT OF FINANCIAL POSITION (continued)**

<b>LIABILITIES AND EQUITY</b>	<b>Note</b>	<b>At 31 December</b>	
		<b>2013</b>	<b>2012</b>
<b>Currency in circulation</b>	<b>32</b>	<b>25,045,404</b>	<b>23,979,250</b>
<b>Bank deposits</b>	<b>33</b>	<b>19,455,577</b>	<b>22,243,693</b>
<b>Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD</b>	<b>34</b>	<b>12,254,203</b>	<b>13,053,966</b>
<b>National Bank bills issued</b>	<b>35</b>	<b>25,465,544</b>	<b>25,975,784</b>
<b>Liabilities based on foreign currency repo transactions</b>	<b>36</b>	<b>-</b>	<b>9,690,392</b>
Government MKD deposits	37	17,859,215	21,166,638
Government foreign currency deposits	38	13,212,283	10,978,792
<b>Government deposits</b>		<b>31,071,498</b>	<b>32,145,430</b>
<b>Restricted deposits</b>	<b>39</b>	<b>181,893</b>	<b>71,133</b>
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	40a	4,501,902	4,714,717
Borrowing from IMF - on behalf and for the account of the Government	40b	13,540,889	14,180,088
Payables based on membership and deposits	40c	4,888,021	4,969,099
<b>Payables to IMF</b>	<b>40</b>	<b>22,930,812</b>	<b>23,863,904</b>
<b>Other deposits</b>	<b>41</b>	<b>560,081</b>	<b>1,920,551</b>
Other payables	42	194,884	172,143
Provisions	43	-	3,543
Other liabilities	44	623,452	623,215
<b>Other liabilities</b>		<b>818,336</b>	<b>798,901</b>
<b>Total liabilities</b>		<b>137,783,348</b>	<b>153,743,004</b>
Capital		1,289,789	1,289,789
General reserves		1,122,898	1,070,691
Other reserves		7,389,577	15,789,315
<b>Total equity</b>	<b>45</b>	<b>9,802,264</b>	<b>18,149,795</b>
<b>Total liabilities and equity</b>		<b>147,585,612</b>	<b>171,892,799</b>



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**
**Financial Statements for the year ended 31 December 2013**
*(Amounts expressed in thousands of MKD unless otherwise stated)*
**STATEMENT OF CHANGES IN EQUITY**

	Not e	Capital	General reserves	Special Reserves*	Art works revaluation	Accumulated gain/(loss)	Total capital and reserves
<b>As at 1 January 2012</b>		<b>1,289,789</b>	<b>1,070,010</b>	<b>16,014,950</b>	<b>1,777</b>	<b>-</b>	<b>18,376,526</b>
Loss for the year		-	-	-	-	(226,438)	(226,438)
<b>Total comprehensive income for 2012</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(226,438)</b>	<b>(226,438)</b>
Net unrealized positive price and exchange rate differences of gold	45	-	-	583,338	-	(583,338)	-
Net unrealized negative foreign exchange differences	45	-	-	(144,941)	-	144,941	-
Net unrealized positive price differences of securities	45	-	-	16,596	-	(16,596)	-
Realized price and exchange rate differences of gold	45	-	-	(594,110)	-	594,110	-
Realized price differences of securities	45	-	-	(88,295)	-	88,295	-
Transfer to general reserves		-	681	-	-	(681)	-
Transfer to the Budget of the Republic of Macedonia		-	-	-	-	(293)	(293)
<b>As at 31 December 2012</b>		<b>1,289,789</b>	<b>1,070,691</b>	<b>15,787,538</b>	<b>1,777</b>	<b>-</b>	<b>18,149,795</b>
Loss for the year		-	-	-	-	(8,325,156)	(8,325,156)
<b>Total comprehensive income for 2013</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,325,156)</b>	<b>(8,325,156)</b>
Net unrealized negative price and exchange rate differences of gold	45	-	-	(4,898,602)	-	4,898,602	-
Net unrealized negative foreign exchange differences	45	-	-	(2,452,375)	-	2,452,375	-
Net unrealized positive price differences of securities	45	-	-	4,705	-	(4,705)	-
Realized price and exchange rate differences of gold	45	-	-	(1,041,002)	-	1,041,002	-
Realized price differences of securities	45	-	-	(12,464)	-	12,464	-
Transfer to general reserves		-	52,207	-	-	(52,207)	-
Transfer to the Budget of the Republic of Macedonia		-	-	-	-	(22,375)	(22,375)
<b>As at 31 December 2013</b>		<b>1,289,789</b>	<b>1,122,898</b>	<b>7,387,800</b>	<b>1,777</b>	<b>-</b>	<b>9,802,264</b>

\* Defined as Revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF CASH FLOWS**

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2013</b>	<b>2012</b>
<b>Cash flow from operating activities</b>			
<b>Loss for the year</b>		<b>(8,325,156)</b>	<b>(226,438)</b>
Adjusted for:			
Interest income	5	(220,371)	(553,657)
Interest expense	6	1,345,224	1,590,321
Net unrealized price and exchange rate differences of gold		5,241,433	(583,338)
Net trading income		(506,378)	(1,029,750)
Impairment, net		514	2,828
(Release) / Charge of provisions		(793)	2,802
Depreciation and amortization charge	27,28	76,086	78,948
<b>Cash flows used for operating activities before changes in operating assets and liabilities</b>		<b>(2,389,441)</b>	<b>(718,284)</b>
Gold		(675)	59,429
Foreign securities		(7,842,197)	(4,984,110)
Receivables based on foreign currency repo transactions		8,367,713	5,972,376
Receivables from banks		2,701,119	(2,700,001)
Other assets		16,153	26,269
Currency in circulation		1,066,154	1,211,815
Bank deposits		(2,787,678)	5,517,218
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		(799,754)	(1,095,121)
Liabilities based on foreign currency repo transactions		(9,690,392)	(4,616,179)
Government deposits, including restricted and other deposits		(2,323,277)	9,797,862
Provisions for court cases		(2,750)	(166)
Other liabilities		603	4,039
Interest received		205,042	499,370
Interest paid		(1,351,216)	(1,584,100)
<b>Net cash flows used in operating activities</b>		<b>(14,830,596)</b>	<b>7,390,417</b>
Acquisition of property, equipment and intangible assets		(72,833)	(25,752)
<b>Net cash flows used in investing activities</b>		<b>(72,833)</b>	<b>(25,752)</b>
National Bank bills withdrawn, net		(505,060)	(6,260,149)
<b>Net cash flows used in financing activities</b>		<b>(505,060)</b>	<b>(6,260,149)</b>
Net decrease/increase in cash and cash equivalents		(15,408,489)	1,104,516
<b>Cash and cash equivalents at the beginning of the year</b>		<b>26,171,565</b>	<b>25,067,049</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>46</b>	<b>10,763,076</b>	<b>26,171,565</b>

## **1 General information**

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

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

The National Bank, at least twice a year, informs the Assembly of the Republic of Macedonia and the public on the monetary policy. Within four months after the year end, the National Bank submits to the Assembly of the Republic of Macedonia and to the Minister of Finance and publishes one or several reports approved by the National Bank Council on the economic situation in the fiscal year ended, as well as on the perspectives in the economy for the following year, with special review on the objectives of the National Bank policies and the condition of the banking system of the Republic of Macedonia. The National Bank submits the annual financial statements approved by the National Bank Council and audited by an independent external auditor to the Minister of Finance, to the Assembly of the Republic of Macedonia, to the President of the Republic of Macedonia, and to the Prime Minister of the Republic of Macedonia. The capital of the National Bank is owned by the Republic of Macedonia and it cannot be transferred, nor be a subject of any encumbrance. The net profits or losses of the National Bank are determined in conformity with the International Financial Reporting Standards. The distributable earnings are determined by deducting from the net profits the total amount of unrealized revaluation gains (this amount is completely transferred to the revaluation reserve accounts) and by adding the amount of realised revaluation gains during the current period for which there is already accrued income in prior periods (this amount is deducted from the revaluation reserve accounts). Unrealized revaluation losses will be transferred to the respective revaluation reserve accounts until such time as these revaluation reserve accounts have a zero balance, after that these losses shall be covered by the current year's profit, then by the general reserve account and subsequently by the capital.

**1 General information (Continued)**

The distributable earnings are allocated to the general reserve account and to the Budget of the Republic of Macedonia as follows: 70% to the general reserve account until reaching the level of the capital determined by the Law, i.e. 15% to general reserves after reaching the level of the capital prescribed in the Law. The residue is regarded as revenue of the Budget of the Republic of Macedonia. If the National Bank realizes negative distributable earnings, these earnings are charged first to the general reserve account, and then it is covered from the capital. If the value of the 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 2013 is 438 (as of 31 December 2012: 437).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 27 February 2014 and signed by the chairperson of the National Bank Council on its behalf:



Dimitar Bogov,



Chairperson 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 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, except for certain assets and liabilities which are measured at fair value.

#### ***a) Adoption of new or revised standards and interpretations***

Certain new IFRSs became effective for the financial statements of the National Bank in 2013. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the National Bank's operations and the nature of their impact on the Bank's accounting policies.

The National Bank has adopted '**Presentation of Items of Other Comprehensive Income' (Amendments to IAS 1)** in the financial statements for the year ending 31 December 2012. The Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012 and require to present items in other comprehensive income (OCI) into those that, in accordance with other IFRSs, will not be reclassified subsequently to Income statement and those that will be reclassified subsequently to Income statement when specific conditions are met.

#### **IFRS 13 'Fair Value Measurement' (IFRS 13)**

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. National Bank has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

National Bank has applied IFRS 13 for the first time in the current year.

**2 Summary of significant accounting policies (continued)**

**A Basis of preparation of financial statements (continued)**

**a) *Adoption of new or revised standards and interpretations (continued)***

The **Amendment to IFRS 7 „ Financial instruments: Disclosures’, on asset and liability offsetting "** were added qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are (a) offset in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not offset in the statement of financial position. The Amendments are effective for annual reporting periods beginning on or after 1 January 2013. There is no material impact on the National Bank's financial statements from this Amendment.

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

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

These Amendments do not have material impact on the National Bank's financial statements.

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

As at the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective and have not been adopted early by the National Bank.

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

**2 Summary of significant accounting policies (continued)**

**A Basis of preparation of financial statements (*continued*)**

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

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

**IFRS 9 'Financial Instruments' (IFRS 9)** -The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities and part of the chapter for hedging accounting (hedging) have been issued. Chapters dealing with impairment methodology are still being developed. The IASB decided to postpone the first time adoption of IFRS 9 again until the other chapters have been completed. National Bank has yet to assess the impact of this new standard on the financial statements. National Bank does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

**2 Summary of significant accounting policies (Continued)****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 thousands of denars.

*Transactions and balances*

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

Middle exchange rate:	31 December 2013 MKD	31 December 2012 MKD
USD	44.6284	46.6510
EUR	61.5113	61.5000
SDR	68.6089	71.8522

**C Offsetting**

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

**D Sale and repurchase agreements**

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

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



**2 Summary of significant accounting policies (Continued)****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 part of the foreign reserves. Monetary gold is recorded in physical weight in troy ounces.

Monetary gold is classified as financial assets at fair value through profit or loss designated as such at the initial recognition and is measured at fair value. The fair value of the monetary gold is linked with the price of the gold and is calculated based on the morning market price of one ounce of gold on the London Bullion Market in US Dollars, converted to MKD at the spot MKD/USD exchange rate at the date of the financial statements.

Realized and unrealized gains and losses from the valuation of gold at the end of the accounting period arising as a result of the changes in the market price and exchange rate differences of the MKD against the USD are credited or charged directly to the income statement. Interest from monetary gold is included in the interest income.

**G Cash and cash equivalents**

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

**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, plus the transaction costs. The financial assets at fair value through profit and loss, are recognized at their fair value, while the transaction costs are recorded in Income statement at their inception.

**2 Summary of significant accounting policies (Continued)**  
**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 pattern of short-term profit-taking. Only the foreign debt securities are trading financial assets. Trading foreign debt securities are carried at fair value and the fair value differences are recognized in the Income statement.

*Loans and receivables*

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

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 and 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 has the 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 (Continued)**  
**H Financial assets (Continued)**

*Available for sale*

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

Available-for-sale financial assets are subsequently carried at fair value. The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for debt instruments, the National Bank establishes fair value using valuation techniques. Unquoted equity instruments whose fair value cannot be reliably determined are carried at cost, less impairment. Unrealized gains and losses are reported as a separate component of other comprehensive income until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is included in the income statement for the period.

**I Fair value**

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

**J Impairment and uncollectability 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 future cash flows should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assessment of future cash flows are reviewed regularly by the National Bank to reduce any differences between loss estimates and actual loss experience.

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 standing), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

**2 Summary of significant accounting policies (Continued)**  
**J Impairment of financial assets (Continued)**

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.

*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. In such case, the cumulative loss – measured as the difference between the current fair value and the cost, less any impairment loss on that financial asset recognised in previous periods – is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement, and subsequently each increase of fair value is recognized in other comprehensive income.

**K Trade and settlement date accounting**

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

**L Property and equipment**

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

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

**2 Summary of significant accounting policies (Continued)****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:

	Useful life 2013
Buildings	5 to 50 years
Equipment	3 to 10 years
Transport vehicles	5 to 6 years
Office furniture	5 to 10 years

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

**M Intangible assets**

Intangible assets consist of computer software and licenses. 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 losses of non-financial assets**

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

**O Jubilee coins**

Jubilee coins are not a legal tender and they typically have an artistic or collector's premium such that they are sold at prices which are higher than the intrinsic value of the metal from which they are formed. The National Bank mints jubilee coins for commemorative anniversaries, based on Decisions of the Government of the Republic of Macedonia. Jubilee coins are valued at a sale price as set by the National Bank Council. Revenue from sale of jubilee coins is recognized when it is probable that future economic benefits will flow to the National Bank and these benefits can be measured reliably.

**2 Summary of significant accounting policies (Continued)**

**P Fiduciary activities**

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

**Q Currency in circulation**

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

**R Short-term securities**

The short-term securities (National Bank bills) are issued only in domestic currency and are with maturity of twenty eight and thirty five days. The short-term securities (National Bank bills), issued by the National Bank for monetary policy purposes, 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, bank deposits facilities, reserve requirement of banks in foreign currency and reserve requirements of saving houses in MKD, other deposits of banks and savings houses, government deposits, restricted deposits and other deposits.

**2 Summary of significant accounting policies (Continued)**  
**T Provisions**

Provisions are recognized when the National Bank has a present legal or constructive obligation as a result of past events, and 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 Recognition of income and expense***Interest income and expense*

Interest income and expense for all interest-bearing financial instruments, except interest on trading securities, are recognized within 'interest income' and 'interest expense' in the income statement on an accrual basis using the effective interest method.

*Dividend income*

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

*Fee and other income and expense*

Fees and other income are recognized when incurred.

Fees and other expenses are recognised on an accrual basis.

*Net trading income*

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

**W Net unrealized price and exchange rate differences**

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

**2 Summary of significant accounting policies (Continued)**

**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, 30 and 40 years with the employer. These benefits are specified in the Employment Law and the National Bank Labor Agreement.

The liability for long-term employment benefits, other than pension insurance contributions, is equal to the amount of the future benefits exercised by the employees on the basis of their labor over the current and past periods, discounted to its carrying amount by applying weighted interest rate prevalent on the securities market for the 5-year (2012: 5-year) bonds issued by the Republic of Macedonia.

**Y Taxation**

In accordance with applicable regulations for Income Tax, the National Bank is exempted from income tax.

In accordance with applicable regulations for Property tax, the National Bank is exempted from property tax.

The National Bank is required to calculate withholding tax for services provided by foreign legal entities as specified by the amendments to the Corporate Income Tax Law dated 31 December 2005.

**Z Segment reporting**

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



### **3 Financial risk management**

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

#### **A Credit risk**

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

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

The exposure of the foreign reserves to credit risk is monitored on a daily basis. The counterparties of the National 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.

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****A Credit risk (Continued)**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Foreign currency deposits		
- Current accounts	10,472,874	25,913,801
Foreign securities	100,157,657	91,809,082
Gold deposits	11,701,050	16,942,819
Special Drawing Rights	204,253	75,050
<b>Foreign assets</b>	<b>122,535,834</b>	<b>134,740,752</b>
<b>Receivables based on foreign currency repo transactions</b>	<b>-</b>	<b>8,367,713</b>
Receivables from Government related to IMF	18,042,791	18,894,805
Government securities	857,155	831,129
<b>Receivables from Government</b>	<b>18,899,946</b>	<b>19,725,934</b>
Receivables from banks	15,912	2,717,031
Operating receivables	27,754	28,096
<b>As at 31 December</b>	<b>141,479,446</b>	<b>165,579,526</b>

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 based on foreign currency repo transaction are fully collateralized. Other financial assets presented in the table above are not collateralized.

The table below presents an analysis of the financial assets that are neither due, nor impaired, by rating agency designation as at 31 December 2013, 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 2013

(Amounts expressed in thousands of MKD unless otherwise stated)

### 3 Financial risk management (Continued)

#### A Credit risk (Continued)

Credit rating	Gold deposits	Foreign currency deposits	Foreign securities	Special Drawing Rights	Receivables from Government	Receivables from banks	Operating receivables	Total
AAA	272,436	6,489,192	48,678,734	-	-	-	-	55,440,362
AA+	-	2,949,545	16,223,177	-	-	-	-	19,172,722
AA	-	868,532	26,664,149	-	-	-	-	27,532,681
AA-	2,150,293	36,698	8,554,720	-	-	-	-	10,741,711
A	5,911,546	85,408	-	-	-	-	-	5,996,954
A+	2,682,002	3,763	-	-	-	-	-	2,685,765
A-	-	39,040	-	-	-	-	-	39,040
II <sup>1</sup>	684,773	696	36,877	204,253	-	-	-	926,599
BB- <sup>2</sup>	-	-	-	-	18,899,946	-	-	18,899,946
Unrated	-	-	-	-	-	15,912	27,754	43,666
<b>Total</b>	<b>11,701,050</b>	<b>10,472,874</b>	<b>100,157,657</b>	<b>204,253</b>	<b>18,899,946</b>	<b>15,912</b>	<b>27,754</b>	<b>141,479,446</b>

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

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

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

<sup>1</sup> International Institutions

<sup>2</sup> Rating of the Republic of Macedonia

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****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 2013. For this table, the National Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	<b>EU Countries</b>	<b>European countries not EU members</b>	<b>Republic of Macedonia</b>	<b>Other OECD countries</b>	<b>Total</b>
Gold deposits	10,479,442	684,773	-	536,835	<b>11,701,050</b>
Foreign currency deposits	9,048,811	99,976	-	1,324,087	<b>10,472,874</b>
Foreign securities	89,110,988	1,496,258	-	9,550,411	<b>100,157,657</b>
Special Drawing Rights	-	-	-	204,253	<b>204,253</b>
Receivables from Government	-	-	18,899,946	-	<b>18,899,946</b>
Receivables from banks	-	-	15,912	-	<b>15,912</b>
Operating receivables	-	-	27,754	-	<b>27,754</b>
<b>31 December 2013</b>	<b>108,639,241</b>	<b>2,281,007</b>	<b>18,943,612</b>	<b>11,615,586</b>	<b>141,479,446</b>
<b>31 December 2012</b>	<b>124,481,053</b>	<b>1,145,765</b>	<b>22,471,061</b>	<b>17,481,647</b>	<b>165,579,526</b>

**3 Financial risk management (Continued)****B Market risk**

The National Bank monitors and manages both currency and interest rate risks as the basic market risk factors. The main objective of the National Bank in managing the market risk is explained in Note 1. Currency risk is a risk arising from a decline of the value of the financial instruments denominated in foreign currency due to the change in the exchange rates.

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

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

For the purpose of quantifying the market risks effect on the foreign reserves value, the National Bank applies the Value at Risk (VAR) concept. VAR represents a statistical methodology for assessing the maximum change in the foreign reserves value arising from differences in the financial instruments prices and the foreign exchange rates given a certain level of confidence and a particular time horizon. The National Bank applies a level of confidence of 99% and a 10-day horizon when calculating VAR<sup>3</sup>. 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 2013, the exposure of the foreign reserves managed by the National Bank (value at risk) regarding the fluctuations of the prices of the instruments and the foreign exchange rates against the Euro equals MKD 1,279,641 thousands (Euro 20,803,000), or 1.04% of the foreign reserves. The VAR originating from the change in the foreign exchange rate (includes change in the price of gold) amounts to MKD 1,267,052 thousands (Euro 20,598,000), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 12,589 thousands (Euro 205,000).

	<b>31 December 2013</b>	<b>31 December 2012</b>
Currency risk	1,267,052	1,280,732
Interest rate risk	12,589	67,107
Total VAR	1,279,641	1,347,839

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<sup>3</sup> As recommended in the Basel Agreement from 1999

**3 Financial risk management (Continued)**

**C Foreign exchange risk**

The exchange rate risk denotes a risk of financial assets and liabilities 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 the Denar against the 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. For the purpose of maintaining the purchase power of the foreign reserves and providing suitable profitability in a long run, the allocation of the foreign reserves in other currencies is a strategic goal of the National Bank.

Having in mind the de facto fixed foreign exchange rate of the Denar against the Euro, the exposure to the currency risk of the National Bank to the Euro is minimal, compared to other currencies, where there is exposure as a result of their volatility against the Euro, and thus, to the Denar.

The tables below include the financial assets and liabilities of the National Bank according to their carrying amount as of 31 December 2013 and 31 December 2012, analyzed by currency.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)*

**3 Financial risk management (Continued)**  
**C Foreign exchange risk (Continued)**

As at 31 December 2013:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	85,066,507	24,388,623	241,130	12,947,159	-	<b>122,643,419</b>
Receivables from Government	-	-	18,042,792	-	857,154	<b>18,899,946</b>
IMF Membership	-	-	4,888,021	-	-	<b>4,888,021</b>
Receivables from banks	-	-	-	-	15,912	<b>15,912</b>
Other assets	13,227	12	782	10,081	31,475	<b>55,577</b>
<b>Total assets</b>	<b>85,079,734</b>	<b>24,388,635</b>	<b>23,172,725</b>	<b>12,957,240</b>	<b>904,541</b>	<b>146,502,875</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	25,045,404	<b>25,045,404</b>
Bank deposits	-	-	-	-	19,455,577	<b>19,455,577</b>
Reserve requirements	12,231,548	-	-	-	22,655	<b>12,254,203</b>
National Bank Bills issued	-	-	-	-	25,465,544	<b>25,465,544</b>
Government deposits	13,147,020	18,628	-	46,635	17,859,215	<b>31,071,498</b>
Restricted deposits	146,636	35,257	-	-	-	<b>181,893</b>
Payables to IMF	-	-	22,930,812	-	-	<b>22,930,812</b>
Other deposits	-	-	-	-	560,081	<b>560,081</b>
Other liabilities	380,575	19,906	782	39,469	274,645	<b>715,377</b>
<b>Total liabilities</b>	<b>25,905,779</b>	<b>73,791</b>	<b>22,931,594</b>	<b>86,104</b>	<b>88,683,121</b>	<b>137,680,389</b>
<b>Net financial position</b>	<b>59,173,955</b>	<b>24,314,844</b>	<b>241,131</b>	<b>12,871,136</b>	<b>(87,778,580)</b>	<b>8,822,486</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2012:

**ASSETS**

	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	92,004,272	30,156,658	113,670	12,680,188	-	<b>134,954,788</b>
Receivables based on foreign currency repo transactions	8,270,726	96,987	-	-	-	<b>8,367,713</b>
Receivables from Government	-	-	18,894,805	-	831,129	<b>19,725,934</b>
IMF Membership	-	-	4,969,099	-	-	<b>4,969,099</b>
Receivables from banks	-	-	-	-	2,717,031	<b>2,717,031</b>
Other assets	361	92	537	10,225	32,550	<b>43,765</b>
<b>Total assets</b>	<b>100,275,359</b>	<b>30,253,737</b>	<b>23,978,111</b>	<b>12,690,413</b>	<b>3,580,710</b>	<b>170,778,330</b>

**LIABILITIES**

Currency in circulation	-	-	-	-	23,979,250	<b>23,979,250</b>
Bank deposits	1,660,500	-	-	-	20,583,193	<b>22,243,693</b>
Reserve requirements	13,032,944	-	-	-	21,022	<b>13,053,966</b>
National Bank Bills issued	-	-	-	-	25,975,784	<b>25,975,784</b>
Liabilities based on foreign currency repo transactions	9,593,405	96,987	-	-	-	<b>9,690,392</b>
Government deposits	10,594,576	322,448	-	61,768	21,166,638	<b>32,145,430</b>
Restricted deposits	39,684	31,449	-	-	-	<b>71,133</b>
Payables to IMF	-	-	23,863,904	-	-	<b>23,863,904</b>
Other deposits	-	-	-	-	1,920,551	<b>1,920,551</b>
Other liabilities	348,171	19,840	537	38,807	251,833	<b>659,188</b>
<b>Total liabilities</b>	<b>35,269,280</b>	<b>470,724</b>	<b>23,864,441</b>	<b>100,575</b>	<b>93,898,271</b>	<b>153,603,291</b>
<b>Net financial position</b>	<b>65,006,079</b>	<b>29,783,013</b>	<b>113,670</b>	<b>12,589,838</b>	<b>(90,317,561)</b>	<b>17,175,039</b>



**3 Financial risk management (Continued)**

**D Interest rate risk**

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

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

The National Bank's interest sensitivity position based on contractual re-pricing arrangements as of 31 December 2013 and 31 December 2012 is presented in the tables below. Tables include 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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****D Interest rate risk (Continued)**

As at 31 December 2013:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
<b>ASSETS</b>							
Foreign assets	13,362,799	2,144,856	101,750,075	-	-	5,385,689	<b>122,643,419</b>
Receivables from Government	-	-	-	-	857,155	18,042,791	<b>18,899,946</b>
IMF Membership	-	-	-	-	-	4,888,021	<b>4,888,021</b>
Receivables from banks	-	-	-	-	15,912	-	<b>15,912</b>
Other assets	-	-	-	-	-	55,577	<b>55,577</b>
<b>Total assets</b>	<b>13,362,799</b>	<b>2,144,856</b>	<b>101,750,075</b>	<b>-</b>	<b>873,067</b>	<b>28,372,078</b>	<b>146,502,875</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	25,045,404	<b>25,045,404</b>
Bank deposits	18,963,343	-	-	-	-	492,234	<b>19,455,577</b>
Reserve requirements	12,253,476	-	-	-	-	727	<b>12,254,203</b>
National Bank Bills issued	25,419,675	-	-	-	-	45,869	<b>25,465,544</b>
Government deposits	29,476,225	-	-	-	-	1,595,273	<b>31,071,498</b>
Restricted deposits	-	-	-	-	-	181,893	<b>181,893</b>
Payables to IMF	-	-	-	-	-	22,930,812	<b>22,930,812</b>
Other deposits	526,373	-	-	-	-	33,708	<b>560,081</b>
Other liabilities	-	-	-	-	-	715,377	<b>715,377</b>
<b>Total liabilities</b>	<b>86,639,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,041,297</b>	<b>137,680,389</b>
<b>Total interest re-pricing gap</b>	<b>(73,276,293)</b>	<b>2,144,856</b>	<b>101,750,075</b>	<b>-</b>	<b>873,067</b>	<b>(22,669,219)</b>	<b>8,822,486</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)*

**3 Financial risk management (Continued)**  
**D Interest rate risk (Continued)**

As at 31 December 2012:

	Interest-bearing items					Non-interest bearing items	Total
	Up to 1 month or at variable rate	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years		
ASSETS							
Foreign assets	25,988,851	-	3,105,112	96,678,513	-	9,182,312	134,954,788
Receivables from foreign currency repo transactions	8,367,713	-	-	-	-	-	8,367,713
Receivables from Government	-	-	-	-	831,129	18,894,805	19,725,934
IMF Membership	-	-	-	-	-	4,969,099	4,969,099
Receivables from banks	2,700,000	-	-	-	15,912	1,119	2,717,031
Other assets	-	-	-	-	-	43,765	43,765
Total assets	37,056,564	-	3,105,112	96,678,513	847,041	33,091,100	170,778,330
LIABILITIES							
Currency in circulation	-	-	-	-	-	23,979,250	23,979,250
Bank deposits	20,303,554	-	-	-	-	1,940,139	22,243,693
Reserve requirements	13,053,230	-	-	-	-	736	13,053,966
National Bank Bills issued	25,924,735	-	-	-	-	51,049	25,975,784
Liabilities based on foreign currency repo transactions	9,690,390	-	-	-	-	2	9,690,392
Government deposits	29,290,701	-	-	-	-	2,854,729	32,145,430
Restricted deposits	-	-	-	-	-	71,133	71,133
Payables to IMF	-	-	-	-	-	23,863,904	23,863,904
Other deposits	487,856	-	-	-	-	1,432,695	1,920,551
Other liabilities	-	-	-	-	-	659,188	659,188
Total liabilities	98,750,466	-	-	-	-	54,852,825	153,603,291
Total interest re-pricing gap	(61,693,902)	-	3,105,112	96,678,513	847,041	(21,761,725)	17,175,039

**3 Financial risk management (Continued)**

**E Liquidity risk**

Liquidity risk is the risk that insufficient liquid 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.

Liquidity is maintained by placing foreign assets in short-term deposits and investing in debt securities on a deep and liquid secondary market. The National Bank manages the liquidity risk by determining and maintaining the size and deviation bands of the liquidity portfolio at levels sufficient for conducting monetary and foreign exchange policies, as well as for timely and regular payments on behalf of the Government of the Republic of Macedonia. The size and the deviation bands of the liquidity portfolio in Euros and US Dollars are determined once a year by anticipating the monthly and annual needs for liquid instruments in each currency. The maximum maturity of the instruments in the liquidity portfolio is two weeks. Availability of foreign exchange liquidity is not confined to the liquidity portfolio, when the investments in debt securities are of sufficient liquidity.

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****E Liquidity risk (Continued)**

<b>31 December 2013</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	25,045,404	-	-	-	-	<b>25,045,404</b>
Bank deposits	3,287,234	-	16,168,343	-	-	<b>19,455,577</b>
Reserve requirements	727	-	12,253,476	-	-	<b>12,254,203</b>
National Bank Bills issued	25,465,544	-	-	-	-	<b>25,465,544</b>
Government deposits	31,071,498	-	-	-	-	<b>31,071,498</b>
Restricted deposits	176,561	3,506	1,826	-	-	<b>181,893</b>
Payables to IMF	9,414,858	-	5,068,483	8,447,471	-	<b>22,930,812</b>
Other deposits	560,081	-	-	-	-	<b>560,081</b>
Other liabilities	670,425	22,375	22,577	-	-	<b>715,377</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>95,692,332</b>	<b>25,881</b>	<b>33,514,705</b>	<b>8,447,471</b>	<b>-</b>	<b>137,680,389</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>93,114,240</b>	<b>2,145,167</b>	<b>21,253,990</b>	<b>29,079,534</b>	<b>909,944</b>	<b>146,502,875</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****E Liquidity risk (Continued)**

<b>31 December 2012</b>	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
<b>LIABILITIES</b>						
Currency in circulation	23,979,250	-	-	-	-	<b>23,979,250</b>
Bank deposits	4,758,639	-	17,485,054	-	-	<b>22,243,693</b>
Reserve requirements	736	-	13,053,230	-	-	<b>13,053,966</b>
National Bank Bills issued	25,975,784	-	-	-	-	<b>25,975,784</b>
Liabilities based on foreign currency repo transactions	9,690,392	-	-	-	-	<b>9,690,392</b>
Government deposits	32,145,430	-	-	-	-	<b>32,145,430</b>
Restricted deposits	71,133	-	-	-	-	<b>71,133</b>
Payables to IMF	9,709,021	40,673	120,693	14,402,955	-	<b>24,273,342</b>
Other deposits	1,920,551	-	-	-	-	<b>1,920,551</b>
Other liabilities	639,465	293	19,431	-	-	<b>659,189</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>108,890,401</b>	<b>40,966</b>	<b>30,678,408</b>	<b>14,402,955</b>	<b>-</b>	<b>154,012,730</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>109,860,324</b>	<b>3,106,656</b>	<b>24,368,035</b>	<b>32,557,654</b>	<b>885,662</b>	<b>170,778,330</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)*
**3 Financial risk management (Continued)**  
**F Fair value of financial assets and liabilities**

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values have been based on management assumptions according to the profile of the asset and liability base.

The following table summarizes the differences between the carrying amounts and fair values of those financial assets and liabilities not carried at fair value according to classes of financial instruments:

	Carrying value		Fair value	
	2013	2012	2013	2012
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Foreign currencies	85,949	182,714	85,949	182,714
Foreign currencies deposits	10,472,874	25,913,801	10,472,874	25,913,801
Special Drawing Rights	204,253	75,050	204,253	75,050
Receivables based on foreign currency repo transactions	-	8,367,713	-	8,367,713
Receivables from banks	15,912	2,717,031	15,912	2,717,031
Receivable from Government related to IMF	18,042,791	18,894,805	18,042,791	18,894,805
Other assets	55,577	43,765	55,577	43,765
	<i>28,877,356</i>	<i>56,194,879</i>	<i>28,877,356</i>	<i>56,194,879</i>
<i>Securities held to maturity</i>				
Foreign debt securities	33,367,289	36,143,550	33,391,305	36,225,479
Government securities	857,155	831,129	857,155	831,129
	<i>34,224,444</i>	<i>36,974,679</i>	<i>34,248,460</i>	<i>37,056,608</i>
<i>Securities available for sale</i>				
Foreign equity securities	36,877	38,621	36,877	38,621
	<i>36,877</i>	<i>38,621</i>	<i>36,877</i>	<i>38,621</i>
<b>Financial liabilities</b>				
<i>Carried at amortized cost</i>				
Currency in circulation	25,045,404	23,979,250	25,045,404	23,979,250
Bank deposits	19,455,577	22,243,693	19,455,577	22,243,693
Reserve requirement of banks and saving houses	12,254,203	13,053,966	12,254,203	13,053,966
National Bank bills issued	25,465,544	25,975,784	25,465,544	25,975,784
Liabilities based on foreign currency repo transactions	-	9,690,392	-	9,690,392
Government MKD deposit	17,859,215	21,166,638	17,859,215	21,166,638
Government foreign currency deposits	13,212,283	10,978,792	13,212,283	10,978,792
Payables to IMF	22,930,812	23,863,904	22,930,812	23,863,904
Other and restricted deposits	741,974	1,991,684	741,974	1,991,684
Other liabilities	715,377	659,188	715,377	659,188
	<i>137,680,389</i>	<i>153,603,291</i>	<i>137,680,389</i>	<i>153,603,291</i>

**3 Financial risk management (Continued)**

**F Fair value of financial assets and liabilities (Continued)**

**Financial assets**

The fair value of cash foreign currencies, foreign currency deposits, Special Drawing Rights, receivables based on 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 of foreign debt securities held to maturity is based on their quoted market prices, at the date of the Statement of financial position.

As explained in Note 18, included in available-for-sale securities are Bank for International Settlement (BIS) shares with a value of MKD 36,877 thousand (2012: MKD 38,621 thousand), 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 – compensation for the claims of the National Bank for approved selective loans. 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 corresponds to its face value.

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

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

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

Due to the specific role of IMF holdings, SDR allocation and borrowings, their 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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****F Fair value of financial assets and liabilities (Continued)****Fair value hierarchy**

Fair values are determined according to the following hierarchy:

*a) Level 1- Quoted Market Price*

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

*b) Level 2 - Valuation Techniques Using Observable Inputs*

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

*c) Level 3- Valuation Techniques with Significant Non-observable inputs*

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

**Assets and liabilities measured at fair value through income statement**

<b>31 December 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	66,753,491	-	-	66,753,491
Gold	11,722,686	-	-	11,722,686
<b>Total financial assets</b>	<b>78,476,177</b>	<b>-</b>	<b>-</b>	<b>78,476,177</b>

<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	55,626,911	-	-	55,626,911
Gold	16,974,141	-	-	16,974,141
<b>Total financial assets</b>	<b>72,601,052</b>	<b>-</b>	<b>-</b>	<b>72,601,052</b>

**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 for the next financial year. Estimates and judgments are continually re-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 has applied the guidance of IAS 39 in connection with classifying non-derivative financial assets with fixed or determined payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the National Bank evaluates its own 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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***5 Interest income**

	Loans granted	Deposits	Gold deposits	Held to maturity securities	Other income	Total 2013	Total 2012
Government	-	-	-	26,025	1,803	<b>27,828</b>	<b>25,421</b>
Domestic banks	3,313	-	-	-	2	<b>3,315</b>	<b>11,296</b>
Foreign entities	16,357	1,082	33,444	138,335	-	<b>189,218</b>	<b>516,402</b>
Other	-	-	-	-	10	<b>10</b>	<b>538</b>
<b>Total for 2013</b>	<b>19,670</b>	<b>1,082</b>	<b>33,444</b>	<b>164,360</b>	<b>1,815</b>	<b>220,371</b>	<b>553,657</b>
<b>Total for 2012</b>	<b>50,052</b>	<b>22,257</b>	<b>33,658</b>	<b>446,966</b>	<b>724</b>	<b>553,657</b>	

**6 Interest expense**

	Loans received	Deposits received	National Bank bills issued	Total 2013	Total 2012
Government	-	242,765	-	<b>242,765</b>	<b>177,005</b>
Domestic banks	-	264,254	834,641	<b>1,098,895</b>	<b>1,390,028</b>
Foreign entities	3,564	-	-	<b>3,564</b>	<b>23,288</b>
<b>Total for 2013</b>	<b>3,564</b>	<b>507,019</b>	<b>834,641</b>	<b>1,345,224</b>	<b>1,590,321</b>
<b>Total for 2012</b>	<b>23,288</b>	<b>407,455</b>	<b>1,159,578</b>	<b>1,590,321</b>	

**7 Fee income**

	2013	2012
Fees from providing cash to banks	65,337	68,151
Fees from domestic banks for maintaining account based on debt turnover on an account	98,001	95,118
Fees based on settlement of payments (RTGS) <sup>4</sup>	38,664	41,154
Fees from foreign exchange operations	17,487	15,104
Fees from sale of bills of exchange	1,096	1,109
Other fees	17,192	19,118
<b>Total</b>	<b>237,777</b>	<b>239,754</b>

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

Fees from foreign exchange operations are related to the income from sale of foreign currency for public entities, as well as from payment operations on behalf of the Government with foreign countries.

<sup>4</sup> Real time gross settlement

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***7 Fee income (Continued)**

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

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**

	<b>2013</b>	<b>2012</b>
Fees to foreign banks	10,663	10,701
<b>Total</b>	<b>10,663</b>	<b>10,701</b>

The fees paid to foreign banks refer to maintenance services for the National Bank's account's, transactions performed with the National Bank deposits and other foreign exchange transactions and depend on the tariffs charged by the foreign banks and the types of services used.

The main part of the fee expenses is related to the expenses paid by the National Bank to the foreign banks and depositaries for securities maintenance.

**9 Net unrealized price and exchange rate differences**

	<b>2013</b>	<b>2012</b>
Unrealized positive exchange rate differences	5,235,325	6,307,093
Unrealized negative exchange rate differences	(7,687,700)	(6,452,034)
Unrealized positive price and exchange rate differences from gold	15,108,412	18,004,268
Unrealized negative price and exchange rate differences from gold	(20,007,014)	(17,420,930)
<b>Total</b>	<b>(7,350,977)</b>	<b>438,397</b>

**10 Net trading income**

	<b>2013</b>	<b>2012</b>
Realized profits from trading securities	21,158	31,426
Realized losses from trading securities	(351,924)	(272,410)
Interest income on trading securities	1,940,994	1,482,025
Unrealized positive price differences from trading securities	7,925	16,596
Unrealized negative price differences from trading securities	(1,268,910)	(719,431)
<b>Total</b>	<b>349,243</b>	<b>538,206</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***11 Dividend income**

	<b>2013</b>	<b>2012</b>
Dividend income on investments in BIS	9,656	9,809
<b>Total</b>	<b>9,656</b>	<b>9,809</b>

**12 Other operating income**

	<b>2013</b>	<b>2012</b>
Realized positive exchange rate and price differences, net	173,065	204,059
Income based on sale of jubilee coins	2,576	2,541
Other income	20,430	17,766
<b>Total</b>	<b>196,071</b>	<b>224,366</b>

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

**13 Personnel expenses**

	<b>2013</b>	<b>2012</b>
Wages and personal income tax	272,570	266,616
Pension cost – defined contribution plans	66,981	65,483
Mandatory contributions	33,491	32,741
Other staff expenses	10,028	6,430
<b>Total</b>	<b>383,070</b>	<b>371,270</b>

In 2013, the remuneration of the key management of the National Bank was MKD 12,744 thousands (2012: MKD 13,761 thousands), included in 'Personnel expenses' above.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***14 Other expenses**

	<b>2013</b>	<b>2012</b>
Costs of production of banknotes and coins	48,834	64,196
Services	59,623	51,196
Material expenses	41,546	42,537
Other administrative expenses	18,450	14,428
Other expenses	4,080	1,400
<b>Total</b>	<b>172,533</b>	<b>173,757</b>

The costs of banknote and coin manufacture mainly relate to imported banknotes and materials purchased for minting coins. The banknote printing is made by 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 depending the period of their use.

**15 Provisions and write offs**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
Released impairment from loans and placements	26	(9,459)	-
Impairment loss for other assets	30	8,483	3,282
(Release) /Charge of provisions related to lawsuits with individuals	43	(793)	2,802
Charged /(Released) impairment for interest income	30	1,490	(463)
Other impairment	30	-	9
<b>Total</b>		<b>(279)</b>	<b>5,630</b>

**16 Foreign currencies**

Foreign currencies include cash and checks in foreign currency, 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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***17 Foreign currency deposits**

	<b>2013</b>	<b>2012</b>
Foreign currency sight deposits	10,472,874	25,913,801
<b>Included in the cash and cash equivalents (Note 46)</b>	<b>10,472,874</b>	<b>25,913,801</b>

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 2013	31 December 2012
- overnight deposits in USD	0.06%	0.12%
- Euro overnight deposits	0.01%	0.14%
- time deposits in EUR	-	0.06%

**Foreign currency deposits by type of entity**

	<b>2013</b>	<b>2012</b>
Central banks	10,299,731	25,538,275
Foreign commercial banks	172,447	374,037
International financial institutions	696	1,489
<b>Total</b>	<b>10,472,874</b>	<b>25,913,801</b>

**Foreign currency deposits by geographic location**

	<b>2013</b>	<b>2012</b>
Europe	9,150,259	24,355,377
the Americas	1,314,919	1,258,614
Other	7,696	299,810
<b>Total</b>	<b>10,472,874</b>	<b>25,913,801</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD 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.

	<b>2013</b>	<b>2012</b>
<b>Trading securities</b>	<b>66,753,491</b>	<b>55,626,911</b>
Foreign debt securities	66,753,491	55,626,911
<b>Securities held to maturity</b>	<b>33,367,289</b>	<b>36,143,550</b>
Foreign debt securities held to maturity	33,367,289	36,143,550
<b>Securities available for sale</b>	<b>36,877</b>	<b>38,621</b>
Foreign unquoted equity securities	36,877	38,621
<b>Total</b>	<b>100,157,657</b>	<b>91,809,082</b>
Current	82,969,313	73,437,351
Non-current	17,188,344	18,371,731

The trading securities portfolio contains high quality debt securities. The investments in trading securities are marked to market value daily and bear fixed annual and semiannual coupon interest at a rate ranging between 0.25% and 6.25% p.a. (2012: from 0.25% to 6.75%). Foreign trading securities include accrued interest of MKD 960,006 thousand (2012: MKD 786,374 thousand).

Securities intended to be held to maturity bear fixed income with interest at a rate ranging between 0.25% and 4.0% p.a. (2012: from 0.25% to 4.3%). Foreign securities held to maturity include accrued interest of MKD 383,306 thousand (2012: MKD 558,342 thousand).

The equity securities are composed of ordinary Bank for International Settlements (here and after 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**

	<b>2013</b>	<b>2012</b>
Sight gold deposits	957,208	2,162,053
Term gold deposits	10,743,842	14,780,766
Gold in the NBRM vault	21,636	31,322
<b>Total</b>	<b>11,722,686</b>	<b>16,974,141</b>
Current	11,722,686	16,974,141



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***19 Gold (Continued)**

As of 31 December 2013, the National Bank total gold reserves stood at 218,342.795 ounces (2012: 218,332.084 ounces) at a fair value of US Dollar 1,201.50 (MKD 53,621) per ounce (2012: US Dollar 1,664.00 or MKD 77,627 per ounce). Interest rates on term gold deposits in 2013 ranged between 0.10% and 0.31% p.a. for gold deposits based on the price of gold in US Dollar (2012: interest rate between 0.19% and 0.4% p.a.). As of 31 December 2013, term gold deposits include accrued interest of MKD 14,922 thousand (2012: MKD 25,619 thousand).

**20 Special Drawing Rights**

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 2013, the basic rate ranged from 0.03% to 0.13% p.a. (2012: from 0.03% to 0.15% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 46).

**21 Receivables based on foreign currency repo transactions**

Receivables 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 received as collateral. As of 31 December 2013, the receivables based on foreign currency repo transactions equal nil MKD (2012: MKD 8,367,713 thousand)

**22 Receivables from Government related to IMF**

	<b>2013</b>	<b>2012</b>
Receivable related to general and special net cumulative allocation	3,927,049	4,112,689
Receivable related to SDR allocation	574,853	602,028
Receivables from the Government – Precautionary Credit Line	13,540,889	14,180,088
<b>Total</b>	<b>18,042,791</b>	<b>18,894,805</b>
Current	4,526,838	4,739,922
Non-current	13,515,953	14,154,883

The claim related to the general and special net cumulative allocation pertains to the assets which, according to the Law on regulating the liabilities of the Republic of Macedonia to IMF based on using assets from the general and special net cumulative SDR allocation, are approved with the resolution of the Board of Governors of IMF (see Note 40a), and are given for use to the Republic of Macedonia. The receivable is 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).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***22 Receivables from Government related to IMF (continued)**

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

**23 Government securities**

	<b>2013</b>	<b>2012</b>
<b>Securities held to maturity</b>		
Bond for selective credits	857,155	831,129
<b>Total</b>	<b>857,155</b>	<b>831,129</b>
Non-current	857,155	831,129

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 thousand 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's Articles of Agreement, 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 4,875,657 thousand at the end of 2013, the account no. 1 amounts to MKD 12,220 thousand and account no. 2 is valued at MKD 144 thousand. (2012: MKD 4,956,531 thousand, MKD 12,422 thousand and MKD 146 thousand respectively for the three positions, see Note 40c). The differences are due to the evaluation of these positions by the SDR exchange rate as of 30 April, according to the IMF financial year.

**25 Loans to banks**

	<b>2013</b>	<b>2012</b>
Short term bank loans based on a auction repo transactions	-	2,701,119
Long-term loans from the conversion of the selective credits from 1996	15,912	15,912
<b>Total</b>	<b>15,912</b>	<b>2,717,031</b>
Current	-	2,701,119
Non-current	15,912	15,912

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***25 Loans to banks (Continued)**

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

The receivables based on long term loans originate from the restructuring of the so-called selective credits of the National Bank used for refinancing of mainly agricultural loans of the banks in the former SFRY. The loans converted in 1996 mature on 31 March 2020. All selective loans bear annual interest of 1.5%, payable semiannually.

**26 Other receivables**

	<b>2013</b>	<b>2012</b>
Receivables from bank under bankruptcy	1,009,960	1,018,419
Due auction deposits	8,268	9,268
<b>Total</b>	<b>1,018,228</b>	<b>1,027,687</b>
Impairment	(1,018,228)	(1,027,687)
<b>Total</b>	<b>-</b>	<b>-</b>

In January 2004, the National Bank paid out MKD 1,018,258 thousand 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 had receivables on the basis of guarantees granted by the bank under bankruptcy worth MKD 1,034,569 thousand. The National Bank made full impairment of the receivables from the bank under bankruptcy.

During 2010, the National Bank collected part of the receivable in amount of MKD 16,150 thousand, from the bankruptcy estate of one debtor of the domestic bank in bankruptcy. In September 2013, The National Bank collected part of the receivable in amount of MKD 8,459 thousand, based on the decision for advance distribution of the bankruptcy estate of the domestic bank in bankruptcy.

Overdue receivables from banks also relate to auction deposits of one bank not repaid on time. In 1999, a bankruptcy proceeding was initiated against this bank which is still underway. The National Bank fully provisioned the receivables from the bank under bankruptcy. In February 2013, the National Bank collected part of the receivable in amount of MKD 1,000 from the bank in bankruptcy.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD 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
<b>On 1 January 2012</b>							
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)
<b>On 1 January 2012, net carrying amount</b>	<b>683,027</b>	<b>102,097</b>	<b>63,391</b>	<b>21,014</b>	<b>869,529</b>	<b>18,057</b>	<b>887,586</b>
Additions	2,551	18,214	52	1,990	22,807	-	22,807
Disposals or write-offs	-	(51)	-	-	(51)	-	(51)
Transfers	6,593	-	-	(6,593)	-	-	-
Depreciation for the year	(29,950)	(33,947)	-	-	(63,897)	(765)	(64,662)
<b>On 31 December 2012</b>	<b>662,221</b>	<b>86,313</b>	<b>63,443</b>	<b>16,411</b>	<b>828,388</b>	<b>17,292</b>	<b>845,680</b>
<b>On 31 December 2012</b>							
Cost	945,551	495,096	63,443	16,411	1,520,501	34,216	1,554,717
Accumulated depreciation	(283,330)	(408,783)	-	-	(692,113)	(16,924)	(709,037)
<b>Net carrying amount</b>	<b>662,221</b>	<b>86,313</b>	<b>63,443</b>	<b>16,411</b>	<b>828,388</b>	<b>17,292</b>	<b>845,680</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***27 Property and equipment (Continued)**

	<b>Land and buildings</b>	<b>Furniture, equipment and vehicles</b>	<b>Works of art</b>	<b>Investments in progress</b>	<b>Total assets for business purposes</b>	<b>Property and equipment for entertainment purposes</b>	<b>Total</b>
<b>On 1 January 2013</b>							
Cost	945,551	495,096	63,443	16,411	1,520,501	34,216	1,554,717
Accumulated depreciation	(283,330)	(408,783)	-	-	(692,113)	(16,924)	(709,037)
<b>On 1 January 2013, net carrying amount</b>	<b>662,221</b>	<b>86,313</b>	<b>63,443</b>	<b>16,411</b>	<b>828,388</b>	<b>17,292</b>	<b>845,680</b>
Additions	3,385	59,859	776	806	64,826	-	64,826
Disposals and write- offs:							
- Cost	(118)	(23,659)	-	(200)	(23,977)	-	(23,977)
- Accumulated depreciation	118	23,609	-	-	23,727	-	23,727
Transfers	2,723	97	-	(2,820)	-	-	-
Depreciation for the year	(30,893)	(30,665)	-	-	(61,558)	(649)	(62,207)
<b>On 31 December 2013</b>	<b>637,436</b>	<b>115,554</b>	<b>64,219</b>	<b>14,197</b>	<b>831,406</b>	<b>16,643</b>	<b>848,049</b>
<b>On 31 December 2013</b>							
Cost	951,541	531,393	64,219	14,197	1,561,350	34,216	1,595,566
Accumulated depreciation	(314,105)	(415,839)	-	-	(729,944)	(17,573)	(747,517)
<b>Net carrying amount</b>	<b>637,436</b>	<b>115,554</b>	<b>64,219</b>	<b>14,197</b>	<b>831,406</b>	<b>16,643</b>	<b>848,049</b>

Property and equipment for entertainment purposes consist of two buildings and fixtures and fittings within the buildings. As a part of the reforms of the payment system, in 2001, the National Bank took over the function for supplying cash from the former Payment Operations Bureau (POB), and a part of the buildings, equipment and the furniture of the POB related to such function in ten towns throughout Macedonia. These fixed assets were transferred under the 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 succession of the assets of the POB, 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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***28 Intangible assets**

	<b>2013</b>	<b>2012</b>
<b>At 1 January</b>		
Cost	172,807	169,830
Investment in progress	6,597	6,578
Accumulated amortization	(151,085)	(136,799)
<b>Net carrying amount</b>	<b>28,319</b>	<b>39,609</b>
Additions	8,257	2,977
Amortization charge	(13,879)	(14,286)
Transfers to property and equipment	19	-
Investments in progress	(19)	19
<b>At 31 December</b>	<b>22,697</b>	<b>28,319</b>
<b>At 31 December</b>		
Cost	181,083	172,807
Investments in progress	6,578	6,597
Accumulated amortization	(164,964)	(151,085)
<b>Net carrying amount</b>	<b>22,697</b>	<b>28,319</b>

**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 2013, the National Bank held a total of 6,887 gold coins and 30 silver coins (2012: 7,026 gold coins and 79 silver coins). The jubilee coins in the National Bank vault are intended for sale.

**30 Operating receivables**

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

	<b>2013</b>	<b>2012</b>
Fees	23,125	23,424
Receivables for maintenance of premises	4,629	4,672
Other receivables	418,006	412,362
Impairment for other receivables	(418,006)	(412,362)
<b>Total</b>	<b>27,754</b>	<b>28,096</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***30 Operating receivables (Continued)**

The movements in provision for receivables are as follows:

	<b>2013</b>	<b>2012</b>
<b>Balance as at 1 January</b>	<b>412,362</b>	<b>409,482</b>
Increase of impairment for other assets (Note 15)	8,483	3,282
Increase / (Release) of impairment for interest income (Note 15)	1,490	(463)
Increase of other impairment (Note 15)	-	9
Release of other impairment	(2,202)	-
(Write offs) / Increase of doubtful receivables	(2,127)	52
<b>Balance as at 31 December</b>	<b>418,006</b>	<b>412,362</b>

In May 2013, the National Bank made a write-off of a doubtful receivable based on the penalty interest from an exchange office in amount of MKD 2,006 thousand, based on the court decision for absence of property by the bankrupted debtor.

In October 2013, the National Bank released the impairment charges based on the collected expenses from one legal entity in amount of MKD 2,202 thousand, which related to the announcement in the public media for sale of ordinary shares, owned by legal entity.

**31 Other assets**

	<b>2013</b>	<b>2012</b>
Office and other materials	75,865	22,626
Prepaid expenses for printing banknotes	23,556	67,987
Other prepaid expenses	6,124	5,201
Other assets	27,823	15,668
<b>Total</b>	<b>133,368</b>	<b>111,482</b>
Current	57,503	88,856
Non-current	75,865	22,626

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***32 Currency in circulation**

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

**Currency in circulation**

MKD	Nominal value	2013		2012	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Coins	0.5	3,930,788	1,965	3,318,050	1,659
Coins	1	79,644,383	79,644	76,389,985	76,390
Coins	2	50,034,577	100,069	47,556,375	95,113
Coins	5	29,665,947	148,330	28,371,135	141,856
Coins	10	19,352,543	193,525	19,297,223	192,972
Coins	50	2,043,713	102,186	1,908,137	95,407
Banknotes	10	26,194,463	261,945	23,515,497	235,155
Banknotes	50	5,725,511	286,276	5,304,347	265,217
Banknotes	100	12,576,261	1,257,626	11,705,242	1,170,524
Banknotes	500	7,498,493	3,749,246	7,453,852	3,726,926
Banknotes	1000	18,561,342	18,561,342	17,677,636	17,677,636
Banknotes	5000	60,650	303,250	60,079	300,395
<b>Total</b>			<b>25,045,404</b>		<b>23,979,250</b>

**33 Bank deposits**

	2013	2012
Bank deposits in MKD	16,660,512	19,424,826
Bank deposits in foreign currency	-	1,660,500
Bank deposit facilities in MKD with the National Bank	2,795,065	1,158,367
<b>Total</b>	<b>19,455,577</b>	<b>22,243,693</b>
Current	19,455,577	22,243,693

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

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

The interest rate of the over night deposits was 1% p.a. in January 2013, while in period between February and December 2013 the interest rate was 0.75% p.a. (2012: 1% p.a.). The interest rate on the deposits with maturity of 7 days was 1.75% p.a. for the period between January and June 2013, while for the period between July and December 2013 it was 1.50% p.a. (2012: 2% p.a.)



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***34 Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD**

	<b>2013</b>	<b>2012</b>
Banks' foreign exchange reserve requirement	12,231,548	13,032,944
Savings houses' MKD reserve requirement	22,655	21,022
<b>Total</b>	<b>12,254,203</b>	<b>13,053,966</b>
Current	12,254,203	13,053,966

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 1% to the average allocated funds on each bank's account in the period of fulfillment (2012: 1%).

The National Bank pays remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a.

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

**35 National Bank bills issued**

In 2013, the National Bank bills maturity was 28 and 35 days. For the period between January and June 2013, the National Bank used a tender with limited volume and maximum determined interest rate. The weighted average interest rate on CB bills was 3.49% in January and ranged to 3.21% in June 2013. For the period between July and December 2013, the National Bank used a tender with limited volume and fixed interest rate of 3.25% (in 2012 the maturity was 7,14,28 and 35 days with two types of tenders: tender with unlimited volume and from April 2012 - tender with limited volume and maximum determined interest rate, weighted average interest rate was 4% in January and ranged to 3.73% in December 2012).

As of December 31, 2013, accrued interest on National Bank bills amounted to MKD 45,869 thousand (2012: MKD 51,049 thousand).

**36 Liabilities based on foreign currency repo transactions**

Liabilities based on foreign currency repo transactions pertain to concluded agreements on the basis of foreign currency repo transactions with foreign entities for which foreign securities were provided as collateral. As of 31 December 2013, the liabilities based on foreign currency repo transactions equal nil MKD (2012: MKD 9,690,392 thousand and include accrued interest amounting to MKD 2 thousand).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***37 Government MKD deposits**

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

	<b>2013</b>	<b>2012</b>
Single Treasury account	17,127,111	20,547,685
Other MKD deposits	732,104	618,953
<b>Total</b>	<b>17,859,215</b>	<b>21,166,638</b>
Current	17,859,215	21,166,638

In 2013, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1 % p.a. (2012: 1% p.a.). Government deposits include the accrued interest in amount of MKD 13,428 thousand (2012: MKD 13,793 thousand).

**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 2013, these deposits amounted to MKD 13,212,283 thousand (2012: MKD 10,978,792 thousand). In 2013, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2012: 0.7% p.a.).

**39 Restricted deposits**

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

## **NATIONAL BANK OF THE REPUBLIC OF MACEDONIA**

### **Notes to the Financial Statements for the year ended 31 December 2013**

*(Amounts expressed in thousands of MKD unless otherwise stated)*

#### **40 Payables to IMF**

Payables to IMF comprise the liabilities on the basis of net cumulative allocation, borrowings and liabilities on the basis of IMF membership and 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, the Republic of Macedonia took over 5.4% of the liability on the basis of the net SDR allocation from former Yugoslavia of SDR 8,378,694, in accordance with the Law on the Legal Inheritance of the Republic of Macedonia in the International Monetary Fund.

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

Total liability of the Republic of Macedonia for the SDR allocation at the end of 2013 amounted to SDR 65,616,876 (2012: 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. 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 also 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 amount of SDR 413,400,000 or 600% of the quota of the Republic of Macedonia for membership with the IMF, as a support for the budget of the Republic Macedonia. In March, 2011, the Ministry of Finance drew down SDR 197,000,000 from the approved Precautionary Credit Line.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***40 Payables to IMF (Continued)**

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

	<b>2013</b>	<b>2012</b>
Liabilities based on issued promissory note for membership in the IMF	4,875,657	4,956,531
Liabilities based on account 1	12,220	12,422
Liabilities based on account 2	144	146
<b>Total</b>	<b>4,888,021</b>	<b>4,969,099</b>
Current	4,888,021	4,969,099

**41 Other deposits**

	<b>2013</b>	<b>2012</b>
Liabilities on the basis from MKD deposits to other domestic entities	556,049	1,916,861
Liabilities on the basis from MKD deposits to international financial institutions	4,032	3,690
<b>Total</b>	<b>560,081</b>	<b>1,920,551</b>
Current	560,081	1,920,551

Liabilities based on MKD deposits to 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% p. a. (2012: 0.5% p. a.).

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 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***42 Other payables**

Payables are analyzed as follows:

	<b>2013</b>	<b>2012</b>
Liabilities from BNT bankruptcy	145,261	145,544
Payables from allocation of net income	22,375	292
Payables arising from annuities received from sale of socially-owned flats	3,480	5,821
VAT liabilities	1,191	1,055
Other payables	22,577	19,431
<b>Total</b>	<b>194,884</b>	<b>172,143</b>

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 amount of MKD 292,442 thousand. For the purpose of settlement of such liabilities, National Bank received certain property from the bankruptcy estate of the BNT that was immediately transferred to the Government of the Republic of Macedonia without any compensation.

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

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

**43 Provisions**

	<b>2013</b>	<b>2012</b>
Provisions for potential liabilities based on litigations with individuals	-	3,543
<b>Total</b>	<b>-</b>	<b>3,543</b>

Provisions for potential liabilities on the basis of litigations as of 31 December 2012 pertain to the amount of principal and interest the National Bank expects to be obliged to pay out to individuals which instituted proceedings against the National Bank (see Note 15).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***43 Provisions (Continued)**

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

	<b>2013</b>	<b>2012</b>
<b>Balance as at 1 January</b>	<b>3,543</b>	<b>907</b>
(Release)/ Charge of provisions related to lawsuits with individuals (Note 15)	(793)	2,802
Decrease/ Write off provisions for potential liabilities based on litigation with individuals	(2,750)	(166)
<b>Balance as at 31 December</b>	<b>-</b>	<b>3,543</b>

In July 2013, the National Bank released provisions for potential liabilities based on won court case with a natural person in amount of MKD 793 thousand.

In September and October 2013, the special reserves for potential liabilities were reduced by MKD 2,750 thousand, based on the court decisions relating to employment disputes, former employees of the National Bank.

**44 Other liabilities**

	<b>2013</b>	<b>2012</b>
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	504,651	470,721
Jubilee coins counterpart	97,499	135,495
Liabilities to suppliers and other liabilities	15,061	10,092
Deferred income	6,241	4,754
Equity payments pending operational license	-	2,153
<b>Total</b>	<b>623,452</b>	<b>623,215</b>

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

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

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

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD 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 2013, it amounted to MKD 1,289,789 thousand (2012: MKD 1,289,789 thousand).

*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 is 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 2013 these reserves were increased for the positive distributable earnings for 2013 in amount of MKD 52,207 thousand.

*Special reserves*

	<b>2013</b>	<b>2012</b>
Special reserves from unrealized price and exchange rate differences		
o Special reserves from foreign exchange gains	1,517,433	3,969,808
o Special reserves from price and exchange rate differences of gold	5,861,530	11,801,134
o Special reserves from price differences of securities held for trading	8,837	16,596
<b>Total</b>	<b><u>7,387,800</u></b>	<b><u>15,787,538</u></b>

Special reserves represent accumulated net unrealized positive foreign exchange gains and price differences from periodic exchange rate and pricing 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 2013 are decreased by MKD 2,452,375 thousand on the basis of allocation of the net negative unrealized foreign exchange differences for 2013 (2012: MKD 144,941 thousand decreased on the basis of net unrealized negative foreign exchange differences).

Special reserves from price and exchange rate differences of gold for 2013 are decreased by MKD 4,898,602 thousand on the basis of allocation of the net unrealized negative price and exchange rate differences of gold (2012: MKD 583,338 thousand increased on the basis of net unrealized positive price and exchange rate differences of gold). Special reserves on the basis of the realized price and exchange rate differences of gold in amount of MKD 1,041,002 thousand were added to the distributable earnings for the current year (2012: MKD 594,110 thousand).

\* Defined as Revaluation reserve accounts in the Law on the National Bank of the Republic of Macedonia.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2013***(Amounts expressed in thousands of MKD unless otherwise stated)***45 Capital and reserves (Continued)**

Special reserves from price differences of securities held for trading for 2013 are increased on the basis of allocation of the net unrealized positive price differences of securities held for trading according to the security-by-security principle in amount of MKD 4,705 thousand (2012: MKD 16,596 thousand increased on the basis of net unrealized positive price differences). Special reserves on the basis of realized price differences from securities in amount of MKD 12,464 thousand were added to the distributable earnings for the current year (2012: MKD 88,295 thousand).

Special reserve from art works as of 31 of December 2013 amounted to MKD 1,777 thousand (2012: MKD 1,777 thousand).

<b>46 Cash and cash equivalents</b>	<b>2013</b>	<b>2012</b>
Foreign currencies (Note 16)	85,949	182,714
Foreign currency deposits (Note 17)	10,472,874	25,913,801
Special Drawing Rights (Note 20)	204,253	75,050
<b>Total</b>	<b><u>10,763,076</u></b>	<b><u>26,171,565</u></b>

**47 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 significant material liabilities will be incurred.

**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 Notes 5, 6, 13, 22, 23, 37, 38 and 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.