

**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 2014**

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Grant Thornton

## 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 the Statement of financial position as at 31 December 2014, and the Income statement, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, included on pages 4 to 61.

### 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 about 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Skopje,

27 February 2015

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 Kadievska-Vojnovik, Vice Governor  
Fadil Bajrami, Vice Governor  
Anita Angelovska-Bezoska, Vice Governor  
Liman Kurtisi  
Saso Arsov  
Aleksandar Stojkov  
Metodij Hadzi Vaskov  
Mihail Petkovski

### **Registered office**

Bld. Kuzman Josifovski Pitu 1  
1000, Skopje

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***INCOME STATEMENT**

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
Interest income	5	202,914	220,371
Interest expense	6	(1,181,506)	(1,345,224)
<b>Net interest expense</b>		<b>(978,592)</b>	<b>(1,124,853)</b>
Fee income	7	239,770	237,777
Fee expense	8	(20,789)	(10,663)
<b>Net fee income</b>		<b>218,981</b>	<b>227,114</b>
<b>Net unrealized price and exchange rate differences</b>	<b>9</b>	<b>3,890,067</b>	<b>(7,350,977)</b>
Net trading income	10	614,400	349,243
Dividend income	11	6,451	9,656
Other operating income	12	506,149	196,071
Personnel expenses	13	(393,840)	(383,070)
Depreciation and amortization charge	27,28	(75,490)	(76,086)
Other expenses	14	(175,733)	(172,533)
<b>Provisions and write offs</b>	<b>15</b>	<b>(7,615)</b>	<b>279</b>
<b>Gain/Loss for the year, net</b>		<b>3,604,778</b>	<b>(8,325,156)</b>

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>Year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
<b>Gain/Loss for the year from the Income statement, net</b>	<b>3,604,778</b>	<b>(8,325,156)</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>3,604,778</b>	<b>(8,325,156)</b>

The notes on pages 9 to 61 are an integral part of these financial statements

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2014***(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>2014</b>	<b>2013</b>
Foreign currencies	16	97,502	85,949
Foreign currency deposits	17	16,679,824	10,472,874
Foreign securities	18	119,543,775	100,157,657
Gold	19	13,274,716	11,722,686
Special Drawing Rights	20	261,457	204,253
<b>Foreign assets</b>		<b>149,857,274</b>	<b>122,643,419</b>
Receivables from Government related to IMF	21	13,844,700	18,042,791
Government securities	22	883,994	857,155
<b>Receivables from Government</b>		<b>14,728,694</b>	<b>18,899,946</b>
<b>IMF Membership</b>	<b>23</b>	<b>4,763,329</b>	<b>4,888,021</b>
Loans to banks	24	15,912	15,912
Other receivables	25	-	-
<b>Receivables from banks</b>		<b>15,912</b>	<b>15,912</b>
<b>Non - current assets or disposal groups held for sale</b>	<b>26</b>	<b>113,431</b>	<b>-</b>
<b>Property and equipment</b>	<b>27</b>	<b>690,468</b>	<b>848,049</b>
<b>Intangible assets</b>	<b>28</b>	<b>39,340</b>	<b>22,697</b>
<b>Coins from precious metals</b>	<b>29</b>	<b>112,952</b>	<b>106,446</b>
<b>Operating receivables</b>	<b>30</b>	<b>32,206</b>	<b>27,754</b>
<b>Other assets</b>	<b>31</b>	<b>129,569</b>	<b>133,368</b>
<b>Total assets</b>		<b>170,483,175</b>	<b>147,585,612</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2014***(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>2014</b>	<b>2013</b>
<b>Currency in circulation</b>	<b>32</b>	<b>28,081,269</b>	<b>25,045,404</b>
<b>Bank deposits</b>	<b>33</b>	<b>30,867,892</b>	<b>19,455,577</b>
<b>Reserve requirement of banks in foreign currency and reserve requirements of savings houses in MKD</b>	<b>34</b>	<b>12,603,486</b>	<b>12,254,203</b>
<b>National Bank bills issued</b>	<b>35</b>	<b>25,467,840</b>	<b>25,465,544</b>
Government MKD deposits	36	10,165,072	17,859,215
Government foreign currency deposits	37	28,883,207	13,212,283
<b>Government deposits</b>		<b>39,048,279</b>	<b>31,071,498</b>
<b>Restricted deposits</b>	<b>38</b>	<b>932,544</b>	<b>181,893</b>
Payables based on Special Drawing Rights Allocation - on behalf and for the account of the Government	39a	4,806,581	4,501,902
Borrowing from IMF - on behalf and for the account of the Government	39b	9,038,119	13,540,889
Payables based on membership and deposits	39c	4,763,329	4,888,021
<b>Payables to IMF</b>	<b>39</b>	<b>18,608,029</b>	<b>22,930,812</b>
<b>Other deposits</b>	<b>40</b>	<b>641,093</b>	<b>560,081</b>
Other payables	41	231,368	194,884
Provisions	42	1,730	-
Other liabilities	43	645,823	623,452
<b>Other liabilities</b>		<b>878,921</b>	<b>818,336</b>
<b>Total liabilities</b>		<b>157,129,353</b>	<b>137,783,348</b>
Capital		1,289,789	1,289,789
General reserves		1,247,079	1,122,898
Other reserves		10,816,954	7,389,577
<b>Total equity</b>	<b>44</b>	<b>13,353,822</b>	<b>9,802,264</b>
<b>Total liabilities and equity</b>		<b>170,483,175</b>	<b>147,585,612</b>



**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Financial Statements for the year ended 31 December 2014***(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 2013</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>(8,325,156)</b>	<b>(8,325,156)</b>
Net unrealized negative price and exchange rate differences of gold	44	-	-	(4,898,602)	-	4,898,602	-
Net unrealized negative foreign exchange differences	44	-	-	(2,452,375)	-	2,452,375	-
Net unrealized positive price differences of securities	44	-	-	4,705	-	(4,705)	-
Realized price and exchange rate differences of gold	44	-	-	(1,041,002)	-	1,041,002	-
Realized price differences of securities	44	-	-	(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>
Gain for the year		-	-	-	-	3,604,778	<b>3,604,778</b>
<b>Total comprehensive income for 2014</b>		-	-	-	-	<b>3,604,778</b>	<b>3,604,778</b>
Net unrealized positive price and exchange rate differences of gold	44	-	-	1,454,500	-	(1,454,500)	-
Net unrealized positive foreign exchange differences	44	-	-	2,435,567	-	(2,435,567)	-
Net unrealized positive price differences of securities	44	-	-	65,012	-	(65,012)	-
Realized price and exchange rate differences of gold	44	-	-	(520,770)	-	520,770	-
Realized price differences of securities	44	-	-	(6,932)	-	6,932	-
Transfer to general reserves		-	124,181	-	-	(124,181)	-
Transfer to the Budget of the Republic of Macedonia		-	-	-	-	(53,220)	(53,220)
<b>As at 31 December 2014</b>		<b>1,289,789</b>	<b>1,247,079</b>	<b>10,815,177</b>	<b>1,777</b>	<b>-</b>	<b>13,353,822</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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***STATEMENT OF CASH FLOWS**

		<b>Year ended 31 December</b>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Cash flow from operating activities</b>			
<b>Gain/Loss for the year</b>		<b>3,604,778</b>	<b>(8,325,156)</b>
Adjusted for:			
Interest income	5	(202,914)	(220,371)
Interest expense	6	1,181,506	1,345,224
Net unrealized price and exchange rate differences of gold		(1,523,220)	5,241,433
Net trading income		(998,946)	(506,378)
Impairment, net		5,885	514
Charge/(Release) of provisions		1,730	(793)
Depreciation and amortization charge	27,28	75,490	76,086
<b>Cash flows used from operating gain, before changes in operating assets and liabilities</b>		<b>2,144,309</b>	<b>(2,389,441)</b>
Term deposits over 90 days		(10,076,886)	-
Gold		(27,121)	(675)
Foreign securities		(18,387,172)	(7,842,197)
Receivables based on foreign currency repo transactions		-	8,367,713
Receivables from Government		5,300,125	-
Receivables from banks		-	2,701,119
Other assets		(7,875)	16,153
Currency in circulation		3,035,865	1,066,154
Bank deposits		11,421,686	(2,787,678)
Reserve requirement of banks in foreign currency and reserve requirement of savings houses in MKD		350,009	(799,754)
Liabilities based on foreign currency repo transactions		-	(9,690,392)
Government deposits, including restricted and other deposits		8,815,817	(2,323,277)
Provisions for court cases		-	(2,750)
Borrowing from IMF- on behalf and for the account of Government		(5,300,125)	-
Other liabilities		5,700	603
Interest received		171,467	205,042
Interest paid		(1,201,272)	(1,351,216)
<b>Net cash flows used in operating activities</b>		<b>(3,755,473)</b>	<b>(14,830,596)</b>
Acquisition of property, equipment and intangible assets		(53,217)	(72,833)
<b>Net cash flows used in investing activities</b>		<b>(53,217)</b>	<b>(72,833)</b>
National Bank bills, net		4,592	(505,060)
<b>Net cash flows used in financing activities</b>		<b>4,592</b>	<b>(505,060)</b>
Net decrease in cash and cash equivalents		(3,804,098)	(15,408,489)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>10,763,076</b>	<b>26,171,565</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>45</b>	<b>6,958,978</b>	<b>10,763,076</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, No. 123/12 dated 2 October 2012 and No. 43/14 dated 4 March 2014. 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 informs the Assembly of the Republic of Macedonia and the public on the monetary policy at least twice a year. 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 realized revaluation gains during the current period for which special reserves were recognized 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 which these losses shall be covered by the current year's profit, than 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 on the National Bank, i.e. 15% to general reserves after reaching the level of the capital prescribed in the Law on the National Bank. 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 first charged to the general reserve account, and then covered by 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 2014 is 436 (as of 31 December 2013: 438).

The financial statements were adopted by the National Bank of the Republic of Macedonia Council on 26 February 2015 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, as a measurement base, except for certain assets 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 2014. Listed below are those new or amended standards or interpretations which are or could be relevant to the National Bank's operations and the nature of their impact on the Bank's accounting policies.

**IFRIC 21 "Levies"** provides guidance on the accounting records of the liabilities to pay the levy, as identified by the legislation, except for income tax (as regulated in IAS 12). IFRIC 21 clarifies that the liability to pay a levy is recognized at the time of occurrence of the event/activity that gives rise to the liability to pay the levy, as identified in the legislation. This activity could arise on a specific date within an accounting period (then the entire obligation is recognized on that date) or progressively during the period (than the obligation is recognized progressively during the period). The same recognition principles apply in the annual and interim financial statements. IFRIC 21 has no material effect on the annual financial statements for the presented periods.

The amendments to IAS 32 - **Offsetting Financial Assets and Financial Liabilities** clarify the application of certain offsetting criteria in IAS 32, including:

- the right of set-off should be able to be applied by any entity in the normal course of business, as well as in the case of illiquidity, bankruptcy or liquidation; and the right of set-off should not depend on a future event,
- features that gross settlement mechanisms should have so as to meet the criteria for net settlement according to IAS 32.

These amendments do not have material impact on the annual financial statements for the presented periods.

The **Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets** clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognized or reversed in the period. In addition, they introduce several new

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

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

disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal.

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

***b) New accounting standards, 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. The 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.

**IFRS 9 "Financial Instruments" (IFRS 9) (2014)** -The IASB recently released IFRS 9 "Financial Instruments" (2014), representing the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The new standard is required to be applied for annual reporting periods beginning on or after 1 January 2018. National Bank has yet to assess the impact of this new standard on the financial statements.

**IFRS 15 "Revenue from Contracts with Customers"**. IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. National Bank has yet to assess the impact of this new standard on the financial statements.

**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 2014	31 December 2013
	MKD	MKD
USD	50.5604	44.6284
EUR	61.4814	61.5113
SDR	73.2522	68.6089

**C Offsetting**

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

**D Sale and repurchase agreements**

Securities sold subject to repurchase agreements ("repos") during the year 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, during the year, 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 it is accrued over the life of the agreements using the effective interest method. If there are any securities lent to counterparties, as at the year end they are presented 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 on the basis of 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 revaluation 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 recognized 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 the income statement at their inception.



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

*Financial assets at fair value through profit and 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 short term selling or repurchasing and for which there is pattern of short-term profit-taking. Only the foreign debt securities are classified as 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 Other Receivables are classified as loans and receivables.

*Held to maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payment periods 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 gains or losses previously reported in other comprehensive income are 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 uncollectibility of financial assets**

*Assets carried at amortized 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 realised actual loss.

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 recognized (such as an improvement in the debtor's credit standing), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized 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 recognized 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 recognized in previous periods – is removed from other comprehensive income and recognized 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 recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement, and each subsequent 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 Non - current assets or disposal groups held for sale**

Non-current assets held for sale and disposal group are classified as such if it is expected that their carrying amount will be recovered through sale rather than through continuing use.

Non-current assets (or disposal group) held for sale are measured at their carrying amount or the fair value less estimated costs for sale, whichever is lower. Immediately before the initial classification of assets (or disposal group) as assets held for sale, the carrying amount of the asset is measured in accordance with the requirements for the position for non-current assets where they were previously classified. The National Bank does not depreciate the non-current assets held for sale or while being part of a disposal group.

**2 Summary of significant accounting policies (Continued)****L Non - current assets or disposal groups held for sale (Continued)**

An impairment loss is recognized in the profit and loss for any initial or subsequent write-down of the asset (or disposal group) to the fair value less costs to sell. In the event of a subsequent increase in the fair value less costs to sell (release of impairment losses), income is recognized in the profit and loss up to the amount of the cumulative previously recognized impairment losses.

**M Property and equipment**

All property and equipment, other than art works, are stated at cost less accumulated depreciation and impairment losses. Assets under 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 rate. 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.

Depreciation on all assets, except assets under construction, is calculated using the straight-line method based on their estimated useful lives, as follows:

	Useful life 2014
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.

**N Intangible assets**

Intangible assets consist of computer software and licenses. These assets are stated at their cost and are amortized on a straight-line basis over the estimated useful life, not exceeding a period of 3 to 5 years.

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

**O 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.

**P Coins from precious metals**

Coins from precious metals include jubilee coins and collector 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.

Collector coins are legal tender in the Republic of Macedonia and usually have artistic and collector value. Collector coins are initially measured at their cost or net selling value, whichever is lower.

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

**Q Fiduciary activities**

The National Bank acts as trustee and in other fiduciary capacities that result in holding or placing of assets on behalf and for the account of the Government. Assets and liabilities from these activities are presented on a net basis.

**R 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 nominal 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 decreased.

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

**T 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.

**U 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.

**V 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.

**W 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 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.

**2 Summary of significant accounting policies (Continued)**  
**W Recognition of income and expense (Continued)**

*Fee and other income and expense*

Fees and other income are recognized when incurred.  
Fees and other expenses are recognized on an accrual basis.

*Net trading income*

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

**X 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.

**Y 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 on bonds issued by the Republic of Macedonia during 2014.

**Z 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.

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

**Segment reporting**

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



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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **3 Financial risk management**

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

##### **A Credit risk**

The credit risk is the risk of reduction in the value of the financial assets due to downgrade of the credit rating of the financial institutions or a commercial banks that hold 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.

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

The size and 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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****A Credit risk (Continued)**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Foreign currency deposits		
- Current accounts	4,249,966	10,472,874
- Term deposits	12,429,858	-
Foreign securities	119,543,775	100,157,657
Gold deposits	13,250,250	11,701,050
Special Drawing Rights	261,457	204,253
<b>Foreign assets</b>	<b>149,735,306</b>	<b>122,535,834</b>
Receivables from Government related to IMF	13,844,700	18,042,791
Government securities	883,994	857,155
<b>Receivables from Government</b>	<b>14,728,694</b>	<b>18,899,946</b>
Receivables from banks	15,912	15,912
Operating receivables	32,206	27,754
<b>As at 31 December</b>	<b>164,512,118</b>	<b>141,479,446</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.

The table below presents an analysis of the financial assets that are neither due, nor impaired, by rating agency designation as at 31 December 2014, 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 2014

(Amounts expressed in thousands of MKD unless otherwise stated)

#### 3 Financial risk management (Continued) A Credit risk (Continued)

Credit rating	Gold deposits	Current accounts	Foreign currency deposits	Foreign securities	Special Drawing Rights	Receivables from Government	Receivables from banks	Operating receivables	Total
AAA	1,064,826	1,722,334	-	40,349,673	-	-	-	-	43,136,833
AA+	-	2,216,734	-	29,851,344	-	-	-	-	32,068,078
AA	-	230,003	-	29,206,402	-	-	-	-	29,436,405
AA-	4,256,461	25,081	-	7,110,180	-	-	-	-	11,391,722
A	2,426,780	23,951	12,429,858	1,946,644	-	-	-	-	16,827,233
A+	5,491,838	6,189	-	568,014	-	-	-	-	6,066,041
A-	-	24,987	-	-	-	-	-	-	24,987
II <sup>1</sup>	10,345	687	-	39,373	261,457	-	-	-	311,862
BB <sup>-2</sup>	-	-	-	-	-	14,728,694	-	-	14,728,694
BBB	-	-	-	9,857,565	-	-	-	-	9,857,565
BBB-	-	-	-	614,580	-	-	-	-	614,580
Unrated	-	-	-	-	-	-	15,912	32,206	48,118
<b>Total</b>	<b>13,250,250</b>	<b>4,249,966</b>	<b>12,429,858</b>	<b>119,543,775</b>	<b>261,457</b>	<b>14,728,694</b>	<b>15,912</b>	<b>32,206</b>	<b>164,512,118</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 2013, based on Standard & Poor's ratings or their equivalent:

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>

Financial assets which are individually impaired are presented in Other receivables (Note 25) 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 2014***(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 2014. 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	13,239,905	10,345	-	-	<b>13,250,250</b>
Current accounts	3,061,364	20,604	-	1,167,998	<b>4,249,966</b>
Term deposits	8,473,314	3,034,197	-	922,347	<b>12,429,858</b>
Foreign securities	98,745,960	1,494,281	-	19,303,534	<b>119,543,775</b>
Special Drawing Rights	-	-	-	261,457	<b>261,457</b>
Receivables from Government	-	-	14,728,694	-	<b>14,728,694</b>
Receivables from banks	-	-	15,912	-	<b>15,912</b>
Operating receivables	-	-	32,206	-	<b>32,206</b>
<b>31 December 2014</b>	<b>123,520,543</b>	<b>4,559,427</b>	<b>14,776,812</b>	<b>21,655,336</b>	<b>164,512,118</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>

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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **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 rates for instruments and currencies comprising the foreign reserves at the end of the month.

In December 2014, 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 1,277,556 thousands (Euro 20,779,554), or 0.85% 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 1,245,799 thousands (Euro 20,263,024), while VAR from the change in the prices of the instruments in which the foreign reserves are invested totals MKD 31,757 thousands (Euro 516,530).

	<b>31 December 2014</b>	<b>31 December 2013</b>
Currency risk	1,245,799	1,267,052
Interest rate risk	31,757	12,589
Total VAR	1,277,556	1,279,641

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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 2014 and 31 December 2013, analyzed by currency.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2014:

<b>ASSETS</b>	<b>EUR</b>	<b>USD</b>	<b>SDR</b>	<b>Other</b>	<b>MKD</b>	<b>Total</b>
Foreign assets	93,985,920	43,891,053	300,830	11,679,471	-	<b>149,857,274</b>
Receivables from Government	-	-	13,844,700	-	883,994	<b>14,728,694</b>
IMF Membership	-	-	4,763,329	-	-	<b>4,763,329</b>
Receivables from banks	-	-	-	-	15,912	<b>15,912</b>
Operating receivables and other assets	9,074	13	402	10,326	21,791	<b>41,606</b>
<b>Total assets</b>	<b>93,994,994</b>	<b>43,891,066</b>	<b>18,909,261</b>	<b>11,689,797</b>	<b>921,697</b>	<b>169,406,815</b>
<b>LIABILITIES</b>						
Currency in circulation	-	-	-	-	28,081,269	<b>28,081,269</b>
Bank deposits	-	-	-	-	30,867,892	<b>30,867,892</b>
Reserve requirements	12,580,753	-	-	-	22,733	<b>12,603,486</b>
National Bank Bills issued	-	-	-	-	25,467,840	<b>25,467,840</b>
Government deposits	28,814,694	15,053	-	53,461	10,165,071	<b>39,048,279</b>
Restricted deposits	849,662	82,877	-	5	-	<b>932,544</b>
Payables to IMF	-	-	18,608,029	-	-	<b>18,608,029</b>
Other deposits	-	-	-	-	641,093	<b>641,093</b>
Other liabilities	391,616	26,592	402	37,592	314,193	<b>770,395</b>
<b>Total liabilities</b>	<b>42,636,725</b>	<b>124,522</b>	<b>18,608,431</b>	<b>91,058</b>	<b>95,560,091</b>	<b>157,020,827</b>
<b>Net financial position</b>	<b>51.358.269</b>	<b>43.766.544</b>	<b>300.830</b>	<b>11.598.739</b>	<b>(94.638.394)</b>	<b>12.385.988</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****C Foreign exchange risk (Continued)**

As at 31 December 2013:

**ASSETS**

	<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>
Operating receivables and 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>

**LIABILITIES**

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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***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 2014 and 31 December 2013 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.

	<b>Interest-bearing items</b>					<b>Non-interest bearing items</b>	<b>Total</b>
	<b>Up to 1 month or at variable rate</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>over 5 years</b>		
As at 31 December 2014:							
<b>ASSETS</b>							
Foreign assets	6,861,468	2,456,131	138,022,212	-	-	2,517,463	<b>149,857,274</b>
Receivables from Government	-	-	-	-	883,994	13,844,700	<b>14,728,694</b>
IMF Membership	-	-	-	-	-	4,763,329	<b>4,763,329</b>
Receivables from banks	-	-	-	-	15,912	-	<b>15,912</b>
Operating receivables and other assets	-	-	-	-	-	41,606	<b>41,606</b>
<b>Total assets</b>	<b>6,861,468</b>	<b>2,456,131</b>	<b>138,022,212</b>	<b>-</b>	<b>899,906</b>	<b>21,167,098</b>	<b>169,406,815</b>
<b>LIABILITIES</b>							
Currency in circulation	-	-	-	-	-	28,081,269	<b>28,081,269</b>
Bank deposits	10,156,000	-	-	-	-	20,711,892	<b>30,867,892</b>
Reserve requirements	-	-	-	-	-	12,603,486	<b>12,603,486</b>
National Bank Bills issued	25,419,675	-	-	-	-	48,165	<b>25,467,840</b>
Government deposits	37,372,212	-	-	-	-	1,676,067	<b>39,048,279</b>
Restricted deposits	-	-	-	-	-	932,544	<b>932,544</b>
Payables to IMF	-	-	-	-	-	18,608,029	<b>18,608,029</b>
Other deposits	602,573	-	-	-	-	38,520	<b>641,093</b>
Other liabilities	-	-	-	-	-	770,395	<b>770,395</b>
<b>Total liabilities</b>	<b>73,550,460</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,470,367</b>	<b>157,020,827</b>
<b>Total interest re-pricing gap</b>	<b>(66,688,992)</b>	<b>2,456,131</b>	<b>138,022,212</b>	<b>-</b>	<b>899,906</b>	<b>(62,303,269)</b>	<b>12,385,988</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(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>
Operating receivables and 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-ricing 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>

**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 on current accounts in foreign currencies, short-term deposits and in short-term debt securities for which a deep and liquid secondary market exists. 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 deposits in the liquidity portfolio is two weeks, whereas for the short-term debt securities the maximum remaining maturity date is up to one year. Availability of foreign exchange liquidity is not confined to the liquidity portfolio, when the investments in debt securities are of sufficient liquidity for their prompt conversion in foreign assets.

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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***3 Financial risk management (Continued)****E Liquidity risk (Continued)**

<b>31 December 2014</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	28,081,269	-	-	-	-	<b>28,081,269</b>
Bank deposits	13,345,589	-	17,522,303	-	-	<b>30,867,892</b>
Reserve requirements	-	-	12,603,486	-	-	<b>12,603,486</b>
National Bank Bills issued	25,467,840	-	-	-	-	<b>25,467,840</b>
Government deposits	39,048,279	-	-	-	-	<b>39,048,279</b>
Restricted deposits	672,376	-	260,168	-	-	<b>932,544</b>
Payables to IMF	9,588,852	1,803,835	5,411,507	1,803,835	-	<b>18,608,029</b>
Other deposits	641,093	-	-	-	-	<b>641,093</b>
Other liabilities	691,420	53,220	25,755	-	-	<b>770,395</b>
<b>Total liabilities</b> (contractual maturity dates)	<b>117,536,718</b>	<b>1,857,055</b>	<b>35,823,219</b>	<b>1,803,835</b>	<b>-</b>	<b>157,020,827</b>
<b>Assets held for managing liquidity risk</b> (expected maturity dates)	<b>109,575,693</b>	<b>11,327,971</b>	<b>25,255,412</b>	<b>22,308,460</b>	<b>939,279</b>	<b>169,406,815</b>
<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 2014***(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	
	2014	2013	2014	2013
<b>Financial assets</b>				
<i>Loans and receivables</i>				
Foreign currencies	97,502	85,949	97,502	85,949
Foreign currencies deposits	16,679,824	10,472,874	16,679,824	10,472,874
Special Drawing Rights	261,457	204,253	261,457	204,253
Receivables from banks	15,912	15,912	15,912	15,912
Receivable from Government related to IMF	13,844,700	18,042,791	13,844,700	18,042,791
Operating receivables and other assets	41,606	55,577	41,606	55,577
	<i>30,941,001</i>	<i>28,877,356</i>	<i>30,941,001</i>	<i>28,877,356</i>
<i>Securities held to maturity</i>				
Foreign debt securities	30,360,416	33,367,289	30,478,893	33,391,305
Government securities	883,994	857,155	883,994	857,155
	<i>31,244,410</i>	<i>34,224,444</i>	<i>31,362,887</i>	<i>34,248,460</i>
<i>Securities available for sale</i>				
Foreign equity securities	39,373	36,877	39,373	36,877
	<i>39,373</i>	<i>36,877</i>	<i>39,373</i>	<i>36,877</i>
<b>Financial liabilities</b>				
<i>Carried at amortized cost</i>				
Currency in circulation	28,081,269	25,045,404	28,081,269	25,045,404
Bank deposits	30,867,892	19,455,577	30,867,892	19,455,577
Reserve requirement of banks and saving houses	12,603,486	12,254,203	12,603,486	12,254,203
National Bank bills issued	25,467,840	25,465,544	25,467,840	25,465,544
Government MKD deposits	10,165,072	17,859,215	10,165,072	17,859,215
Government foreign currency deposits	28,883,207	13,212,283	28,883,207	13,212,283
Payables to IMF	18,608,029	22,930,812	18,608,029	22,930,812
Other and restricted deposits	1,573,637	741,974	1,573,637	741,974
Other liabilities	770,395	715,377	770,395	715,377
	<i>157,020,827</i>	<i>137,680,389</i>	<i>157,020,827</i>	<i>137,680,389</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 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 39,373 thousand (2013: MKD 36,877 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 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 2014**

(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 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Foreign debt securities	89,143,986	-	-	89,143,986
Gold	13,274,716	-	-	13,274,716
<b>Total financial assets</b>	<b>102,418,702</b>	<b>-</b>	<b>-</b>	<b>102,418,702</b>

<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>

**4 Critical accounting estimates, and judgments in applying accounting policies**

The National Bank makes estimates and assumptions that affect the amounts presented in the financial statements. 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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***5 Interest income**

	<b>Loans granted</b>	<b>Deposits</b>	<b>Gold deposits</b>	<b>Held to maturity securities</b>	<b>Other income</b>	<b>Total 2014</b>	<b>Total 2013</b>
Government	-	-	-	26,840	1,525	<b>28,365</b>	<b>27,828</b>
Domestic banks	1,535	-	-	-	23	<b>1,558</b>	<b>3,315</b>
Foreign entities	14,361	10,814	32,355	115,440	-	<b>172,970</b>	<b>189,218</b>
Other	-	-	-	-	21	<b>21</b>	<b>10</b>
<b>Total for 2014</b>	<b>15,896</b>	<b>10,814</b>	<b>32,355</b>	<b>142,280</b>	<b>1,569</b>	<b>202,914</b>	<b>220,371</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>	

**6 Interest expense**

	<b>Loans received</b>	<b>Deposits received</b>	<b>National Bank bills issued</b>	<b>Total 2014</b>	<b>Total 2013</b>
Government	-	242,288	-	<b>242,288</b>	<b>242,765</b>
Domestic banks	-	94,459	837,885	<b>932,344</b>	<b>1,098,895</b>
Foreign entities	4,077	2,797	-	<b>6,874</b>	<b>3,564</b>
<b>Total for 2014</b>	<b>4,077</b>	<b>339,544</b>	<b>837,885</b>	<b>1,181,506</b>	<b>1,345,224</b>
<b>Total for 2013</b>	<b>3,564</b>	<b>507,019</b>	<b>834,641</b>	<b>1,345,224</b>	

**7 Fee income**

	<b>2014</b>	<b>2013</b>
Fees from providing cash to banks	55,898	65,337
Fees from domestic banks for maintaining account based on debt turnover on an account	106,034	98,001
Fees based on settlement of payments (RTGS) <sup>4</sup>	41,327	38,664
Fees from foreign exchange operations	19,331	17,487
Fees from sale of bills of exchange	1,197	1,096
Other fees	15,983	17,192
<b>Total</b>	<b>239,770</b>	<b>237,777</b>

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.

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 2014***(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.

**8 Fee expense**

	<b>2014</b>	<b>2013</b>
Fees to foreign banks	20,789	10,663
<b>Total</b>	<b>20,789</b>	<b>10,663</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 custodians for securities maintenance.

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

	<b>2014</b>	<b>2013</b>
Unrealized positive exchange rate differences	6,634,968	5,235,325
Unrealized negative exchange rate differences	(4,199,401)	(7,687,700)
Unrealized positive price and exchange rate differences from gold	11,879,099	15,108,412
Unrealized negative price and exchange rate differences from gold	(10,424,599)	(20,007,014)
<b>Total</b>	<b>3,890,067</b>	<b>(7,350,977)</b>

**10 Net trading income**

	<b>2014</b>	<b>2013</b>
Realized gains from trading securities	34,901	21,158
Realized losses from trading securities	(457,463)	(351,924)
Interest income on trading securities	1,855,706	1,940,994
Unrealized positive price differences from trading securities	65,322	7,925
Unrealized negative price differences from trading securities	(884,066)	(1,268,910)
<b>Total</b>	<b>614,400</b>	<b>349,243</b>

The net income realized as part of the RAMP<sup>5</sup> program with the World bank in amount of MKD 7,638 thousands, is included in the net trading income.

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<sup>5</sup> Reserve Advisory Management Program

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***11 Dividend income**

	<b>2014</b>	<b>2013</b>
Dividend income on investments in BIS	6,451	9,656
<b>Total</b>	<b>6,451</b>	<b>9,656</b>

**12 Other operating income**

	<b>2014</b>	<b>2013</b>
Realized positive exchange rate and price differences, net	468,175	173,065
Royalty income from collector coins	4,730	-
Revenue from sale of collector coins	1,793	-
Income from sale of jubilee coins	780	2,576
Other income	30,671	20,430
<b>Total</b>	<b>506,149</b>	<b>196,071</b>

The net realized positive exchange rate and price differences, 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>2014</b>	<b>2013</b>
Wages and personal income tax	279,230	272,570
Pension cost – defined contribution plans	68,593	66,981
Mandatory contributions	34,297	33,491
Other personnel expenses	11,720	10,028
<b>Total</b>	<b>393,840</b>	<b>383,070</b>

In 2014, the remuneration of the key management of the National Bank was MKD 12,962 thousands (2013: MKD 12,744 thousands), included in "Personnel expenses" above.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***14 Other expenses**

	<b>2014</b>	<b>2013</b>
Costs of production of banknotes and coins	49,844	48,834
Services	70,432	66,801
Material expenses	30,531	34,368
Other administrative expenses	20,271	18,450
Collector coins expenses	2,379	-
Other expenses	2,276	4,080
<b>Total</b>	<b>175,733</b>	<b>172,533</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 on the period of their use.

**15 Provisions and write offs**

	<b>Note</b>	<b>2014</b>	<b>2013</b>
Release of impairment on loans and placements	25	-	(9,459)
(Released)/ Charged Impairment loss for other receivables	30	(201)	8,483
Charge /(Release) of provisions related to lawsuits with legal entities and individuals	42	1,730	(793)
Charged impairment for interest income	30	912	1,490
Charged impairment on noncurrent assets held for sale	26	5,170	-
Other impairment	30	4	-
<b>Total</b>		<b>7,615</b>	<b>(279)</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 45).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***17 Foreign currency deposits**

	<b>2014</b>	<b>2013</b>
Foreign currency sight deposits	4,249,725	10,472,874
Foreign assets placed at World Bank - RAMP	241	-
Foreign currency term deposits	2,350,053	-
<b>Included in the cash and cash equivalents (Note 45)</b>	<b>6,600,019</b>	<b>10,472,874</b>
Term deposits over 90 days	10,079,805	-
<b>Total</b>	<b>16,679,824</b>	<b>10,472,874</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 2014	31 December 2013
- Overnight deposits in USD	0.04%	0.06%
- Euro overnight deposits	-0.004%	0.01%
- Term deposits in USD	0.12%	-
- Time deposits in EUR	0.08%	-

**Foreign currency deposits by type of entity**

	<b>2014</b>	<b>2013</b>
Central banks	4,099,303	10,299,731
Foreign commercial banks	12,579,834	172,447
International financial institutions	687	696
<b>Total</b>	<b>16,679,824</b>	<b>10,472,874</b>

**Foreign currency deposits by geographic location**

	<b>2014</b>	<b>2013</b>
Europe	14,593,521	9,150,259
the Americas	2,076,008	1,314,919
Other	10,295	7,696
<b>Total</b>	<b>16,679,824</b>	<b>10,472,874</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(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>2014</b>	<b>2013</b>
<b>Trading securities</b>	<b>89,143,986</b>	<b>66,753,491</b>
Foreign debt securities	79,914,928	66,753,491
Foreign debt securities - RAMP	9,229,058	-
<b>Securities held to maturity</b>	<b>30,360,416</b>	<b>33,367,289</b>
Foreign debt securities held to maturity	30,360,416	33,367,289
<b>Securities available for sale</b>	<b>39,373</b>	<b>36,877</b>
Foreign unquoted equity securities	39,373	36,877
<b>Total</b>	<b><u>119,543,775</u></b>	<b><u>100,157,657</u></b>
Current	98,999,777	82,969,313
Non-current	20,543,998	17,188,344

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 8% p.a. (2013: from 0.25% to 6.25%). Foreign trading securities include accrued interest of MKD 904,849 thousand (2013: MKD 960,006 thousand).

In June 2014, the National Bank became part of the RAMP program, with main objective- management of the part of the foreign reserves portfolio by the World Bank. The investments in debt securities held for trading which are part of the RAMP program bear fixed annual and semiannual coupon interest with rate between 0.05% and 4%. These debt securities held for trading as part of the RAMP program include accrued interest in amount of MKD 93,172 thousands.

Securities intended to be held to maturity bear fixed income with interest at a rate ranging between 0.25% and 5.5% p.a. (2013: from 0.25% to 4% p.a.). Foreign securities held to maturity include accrued interest of MKD 263,393 thousand (2013: MKD 383,306 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.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***19 Gold**

	<b>2014</b>	<b>2013</b>
Sight gold deposits	1,075,170	957,208
Term gold deposits	12,175,080	10,743,842
Gold in the NBRM vault	24,466	21,636
<b>Total</b>	<b>13,274,716</b>	<b>11,722,686</b>
Current	13,274,716	11,722,686

As of 31 December 2014, the National Bank total gold reserves were 218,655.923 ounces (2013: 218,342.795 ounces) at a fair value of US Dollar 1,199.25 (MKD 60,635) per ounce (2013: US Dollar 1,201.50 or MKD 53,621 per ounce). Interest rates on term gold deposits in 2014 ranged between 0.10% and 0.47% p.a. for gold deposits based on the price of gold in US Dollar (2013: interest rate between 0.10% and 0.31% p.a.). As of 31 December 2014, term gold deposits include accrued interest of MKD 16,611 thousand (2013: MKD 14,922 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 2014, the basic rate ranged from 0.03% to 0.13% p.a. (2013: from 0.03% to 0.13% p.a.). Special Drawing Rights are included in cash equivalents for the purposes of the cash flow statement (Note 45).

**21 Receivables from Government related to IMF**

	<b>2014</b>	<b>2013</b>
Receivable related to general and special net cumulative allocation	4,192,823	3,927,049
Receivable related to SDR allocation	613,758	574,853
Receivables from the Government – Precautionary Credit Line	9,038,119	13,540,889
<b>Total</b>	<b>13,844,700</b>	<b>18,042,791</b>
Current	12,040,865	9,595,320
Non-current	1,803,835	8,447,471

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 39a), 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 39a).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***21 Receivables from Government related to IMF (continued)**

The receivable from the Government based on drawdowns 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 39b).

**22 Government securities**

	<b>2014</b>	<b>2013</b>
<b>Securities held to maturity</b>		
Bond for selective credits	883,994	857,155
<b>Total</b>	<b>883,994</b>	<b>857,155</b>
Non-current	883,994	857,155

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.

**23 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 4,751,281 thousand at the end of 2014, the account no. 1 amounts to MKD 11,908 thousand and account no. 2 is valued at MKD 140 thousand. (2013: MKD 4,875,657 thousand, MKD 12,220 thousand and MKD 144 thousand respectively for the three positions, see Note 39c). 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.

**24 Loans to banks**

	<b>2014</b>	<b>2013</b>
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>
Non-current	15,912	15,912



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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **24 Loans to banks (Continued)**

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 and bear annual interest of 1.5%, payable semiannually.

#### **25 Other receivables**

	<b>2014</b>	<b>2013</b>
Receivables from bank under bankruptcy	1,009,960	1,009,960
Due auction deposits	8,268	8,268
<b>Total</b>	<b>1,018,228</b>	<b>1,018,228</b>
Impairment	(1,018,228)	(1,018,228)
<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 pending. The National Bank fully impaired 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.

#### **26 Non-current assets held for sale and disposal group**

Non-current assets held for sale relate to real estate - a building owned by the National Bank, which according to the decision for its sale adopted by the National Bank Council has been reclassified from the category of property and equipment to the category of non-current assets held for sale and disposal group in January 2014. As of 31 December 2014, the balance of this asset amounts is MKD 113,431 thousand.

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***26 Non-current assets held for sale and disposal group (Continued)**

The fair value of noncurrent asset held for sale is determined on the basis of three estimates of the market value made by external certified appraisers at the time of reclassification of the asset. Fair value is estimated applying the Methodology for estimating market value of properties in the Republic of Macedonia. Such established market value can be classified in the Fair Value Hierarchy Level 2 – Valuation Techniques Using Observable Inputs.

The difference between the estimated fair value and the carrying value at the time of reclassification of the asset as noncurrent assets held for sale, in the amount of MKD 5,170 thousand, is recorded as impairment loss (see note 15).

**27 Property and equipment**

	<b>Land and buildings</b>	<b>Furniture, equipment and vehicles</b>	<b>Works of art</b>	<b>Assets under construction</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>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***27 Property and equipment (Continued)**

	Land and buildings	Furniture, equipment and vehicles	Works of art	Professional literature	Assets under construction	Total assets for business purposes	Property and equipment for entertainment purposes	Total
<b>On 1 January 2014</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>On 1 January 2014, net carrying amount</b>	<b>637,436</b>	<b>115,554</b>	<b>64,219</b>	<b>-</b>	<b>14,197</b>	<b>831,406</b>	<b>16,643</b>	<b>848,049</b>
Additions	509	19,168	-	327	577	20,581	-	20,581
Disposals and write-offs:								
- Cost	(147,057)	(7,181)	-	-	-	(154,238)	(65)	(154,303)
- Accumulated depreciation	28,456	7,164	-	-	-	35,620	65	35,685
Transfers	-	-	-	-	(47)	(47)	-	(47)
Transfers								
- Cost	-	(15,798)	-	-	-	(15,798)	-	(15,798)
- Accumulated depreciation	-	15,798	-	-	-	15,798	-	15,798
Depreciation for the year	(28,329)	(30,521)	-	-	-	(58,850)	(647)	(59,497)
<b>On 31 December 2014</b>	<b>491,015</b>	<b>104,184</b>	<b>64,219</b>	<b>327</b>	<b>14,727</b>	<b>674,472</b>	<b>15,996</b>	<b>690,468</b>
<b>On 31 December 2014</b>								
Cost	804,993	527,582	64,219	327	14,727	1,411,848	34,151	1,445,999
Accumulated depreciation	(313,978)	(423,398)	-	-	-	(737,376)	(18,155)	(755,531)
<b>Net carrying amount</b>	<b>491,015</b>	<b>104,184</b>	<b>64,219</b>	<b>327</b>	<b>14,727</b>	<b>674,472</b>	<b>15,996</b>	<b>690,468</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***27 Property and equipment (Continued)**

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 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 assets under construction 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.

In January 2014, the National Bank Council made a decision to sell commercial property whose net present value equaled MKD 118,601 thousand (2013: MKD 118,851 thousand) on the date of the decision-making. This asset has been reclassified as noncurrent asset held for sale (note 26).

**28 Intangible assets**

	<b>2014</b>	<b>2013</b>
<b>At 1 January</b>		
Cost	181,083	172,807
Investment 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>
Additions	32,636	8,257
Amortization charge	(15,993)	(13,879)
Transfers to property and equipment	-	19
Investments in progress	-	(19)
Transfers from property and equipment		
- cost	15,798	-
- accumulated amortization	(15,798)	-
Disposals (write- offs)		
- cost	(19,961)	-
- accumulated amortization	19,961	-
<b>At 31 December</b>	<b>39,340</b>	<b>22,697</b>
<b>At 31 December</b>		
Cost	209,556	181,083
Investments in progress	6,578	6,578
Accumulated amortization	(176,794)	(164,964)
<b>Net carrying amount</b>	<b>39,340</b>	<b>22,697</b>

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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **29 Coins from precious metals**

Coins from precious metals include jubilee coins and collector 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 2014, the National Bank held a total of 6,841 gold coins and 29 silver coins (2013: 6,887 gold coins and 30 silver coins). The jubilee coins in the National Bank vault are intended for sale.

According to the Law on the National Bank, as of June 2014, the National Bank started selling collector coins, which at the same time represent legal tender. The National Bank purchases collector coins from suppliers who also arrange their designing, minting, promotion, sale and distribution.

The National Bank purchases a certain quantity of the issue of collector coins for sale and distribution in the territory of the Republic of Macedonia. As at 31 December 2014, the National Bank held a stock of 36 pieces of collector coins.

#### **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>2014</b>	<b>2014</b>
Fees	27,078	23,125
Receivables for maintenance of premises	5,022	4,629
Tax receivables and contributions	106	-
Other receivables	418,310	418,006
Impairment of other receivables	(418,310)	(418,006)
<b>Total</b>	<b>32,206</b>	<b>27,754</b>

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***30 Operating receivables (Continued)**

The movements in impairment of other receivables are as follows:

	<b>2014</b>	<b>2013</b>
<b>Balance as at 1 January</b>	<b>418,006</b>	<b>412,362</b>
Release/Increase of impairment of operating receivables (Note 15)	(201)	8,483
Increase of impairment of interest income (Note 15)	912	1,490
Other impairment (Note 15)	4	-
Release of other impairment	-	(2,202)
Write offs of doubtful receivables	(411)	(2,127)
<b>Balance as at 31 December</b>	<b>418,310</b>	<b>418,006</b>

**31 Other assets**

	<b>2014</b>	<b>2013</b>
Office and other materials	43,285	75,865
Prepaid expenses for printing banknotes	72,345	23,556
Other accrued expenses	4,539	6,124
Other assets	9,400	27,823
<b>Total</b>	<b>129,569</b>	<b>133,368</b>
Current	86,284	57,503
Non-current	43,285	75,865

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***32 Currency in circulation**

The currency in circulation are following:

MKD	Nominal value	2014		2013	
		Pieces	Value in MKD thousands	Pieces	Value in MKD thousands
Currency in circulation					
Banknotes	10	29,211,407	292,114	26,194,463	261,945
Banknotes	50	4,883,594	244,180	5,725,511	286,276
Banknotes	100	13,395,647	1,339,565	12,576,261	1,257,626
Banknotes	500	7,919,080	3,959,540	7,498,493	3,749,246
Banknotes	1000	21,252,368	21,252,368	18,561,342	18,561,342
Banknotes	5000	54,118	270,590	60,650	303,250
Coins	0.5	3,938,032	1,969	3,930,788	1,965
Coins	1	84,387,153	84,387	79,644,383	79,644
Coins	2	53,870,750	107,741	50,034,577	100,069
Coins	5	31,936,528	159,683	29,665,947	148,330
Coins	10	19,817,750	198,177	19,352,543	193,525
Coins	50	3,395,490	169,774	2,043,713	102,186
<i>Currency in circulation - Collector coins</i>					
Coins	10	30,665	307	-	-
Coins	100	6,449	645	-	-
Coins	1000	229	229	-	-
<b>Total currency in circulation</b>			<b>28,081,269</b>		<b>25,045,404</b>

**33 Bank deposits**

	2014	2013
Bank deposits in MKD	20,711,620	16,660,512
Bank deposit facilities in MKD with the National Bank	10,156,272	2,795,065
<b>Total</b>	<b>30,867,892</b>	<b>19,455,577</b>
Current	30,867,892	19,455,577

The liabilities based on deposits to banks in MKD 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 (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.

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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **33 Bank deposits (Continued)**

The interest rate of the overnight deposits was 0.75% p.a. in the period between January and September 2014, while in the period between October and December 2014 the interest rate was 0.50% p.a. (2013: 1% p.a. for January and 0.75% p.a. for the period between February and December). The interest rate on the deposits with maturity of 7 days was 1.50% p.a. for January and 1.25% p.a. for the period between February and September, while for the period between October and December 2014 it was 1% p.a. (2013: 1.75% p.a. for the period between January and June, and 1.50% p.a. for the period between July and December).

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

	<b>2014</b>	<b>2013</b>
Banks' foreign exchange reserve requirement	12,580,753	12,231,548
Savings houses' MKD reserve requirement	22,733	22,655
<b>Total</b>	<b>12,603,486</b>	<b>12,254,203</b>
Current	12,603,486	12,254,203

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

Until January 2014, National Bank paid MKD reserve requirement remuneration of 1% p.a. to the average allocated funds on each bank's account in the period of fulfillment (2013: 1% p.a.) and remuneration on foreign exchange reserve requirement at an interest rate of 0.1 % p.a (2013: 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 was paying reserve requirement remuneration to the savings houses at reserve requirement remuneration rate in MKD of the banks during 2013 and until January 2014.

#### **35 National Bank bills issued**

In 2014, the National Bank used a tender with limited volume and fixed interest rate of 3.25% p.a. (2013: 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%).

As of 31 December 2014, accrued interest on National Bank bills amounted to MKD 48,165 thousand (2013: MKD 45,869 thousand).



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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **36 Government MKD deposits**

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

	<b>2014</b>	<b>2013</b>
Single Treasury account	9,464,634	17,140,217
Other MKD deposits	700,438	718,998
<b>Total</b>	<b><u>10,165,072</u></b>	<b><u>17,859,215</u></b>
Current	<u>10,165,072</u>	<u>17,859,215</u>

In 2014, the interest paid by the National Bank on these deposits was calculated at an interest rate of 1 % p.a. (2013: 1% p.a.). Government deposits include the accrued interest in amount of MKD 5,942 thousand (2013: MKD 13,428 thousand).

#### **37 Government foreign currency deposits**

As specified by the Law on the National Bank of the Republic of Macedonia and the Foreign Exchange Operations Law, the National Bank is an agent of the government for performing international payment operations. The Central Government bodies and part of the public funds deposit their foreign currency inflows on foreign exchange accounts with the National Bank, only if the opening of such account is formally approved by the Ministry of Finance. As of 31 December 2014, these deposits amounted to MKD 28,883,207 thousand (2013: MKD 13,212,283 thousand). In 2014, the National Bank paid interest on the government foreign currency deposits at an interest rate of 0.7 % p.a. (2013: 0.7% p.a.).

#### **38 Restricted deposits**

The restricted deposits primarily include foreign assets of depositors (Government) pending the completion of wire transfers abroad and funds of depositors (government) which represent 100% cover of a letter of credit issued by the National Bank for their account. The National Bank does not pay interest on these deposits. As of 31 December 2014 the balance of the restricted deposits was MKD 932,544 thousands (2013: MKD 181,893 thousands).

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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **39 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 2014 amounted to SDR 65,616,876 (2013: 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 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. The 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 21), 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. The Ministry of Finance made repayments of the principal amount of the Precautionary Credit Line which matured during 2014 in total amount of SDR 73,875,000 (see note 21).

**NATIONAL BANK OF THE REPUBLIC OF MACEDONIA****Notes to the Financial Statements for the year ended 31 December 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***39 Payables to IMF (Continued)**

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

	<b>2014</b>	<b>2013</b>
Liabilities based on issued promissory note for membership in the IMF	4,751,281	4,875,657
Liabilities based on account 1	11,908	12,220
Liabilities based on account 2	140	144
<b>Total</b>	<b><u>4,763,329</u></b>	<b><u>4,888,021</u></b>
Current	<u>4,763,329</u>	<u>4,888,021</u>

**40 Other deposits**

	<b>2014</b>	<b>2013</b>
Liabilities on the basis from MKD deposits to other domestic entities	628,847	556,049
Liabilities on the basis from MKD deposits to international financial institutions	12,246	4,032
<b>Total</b>	<b><u>641,093</u></b>	<b><u>560,081</u></b>
Current	<u>641,093</u>	<u>560,081</u>

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. The 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. The National Bank pays interest to the Deposit Insurance Fund account of 0.5% p. a. (2013: 0.5% p. a.).

The accounts of the international financial institutions are deposited with the National Bank. The 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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***41 Other payables**

Payables are analyzed as follows:

	<b>2014</b>	<b>2013</b>
Liabilities from BNT bankruptcy	145,193	145,261
Payables from allocation of net income	53,220	22,375
Payables arising from annuities received from sale of socially-owned flats	5,990	3,480
Tax liabilities	1,209	1,191
Other payables	25,756	22,577
<b>Total</b>	<b>231,368</b>	<b>194,884</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, the 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.

**42 Provisions**

	<b>2014</b>	<b>2013</b>
Provisions for potential liabilities based on litigations with private entities and individuals	1,730	-
<b>Total</b>	<b>1,730</b>	<b>-</b>

Provisions for potential liabilities on the basis of litigations as of 31 December 2014 pertain to the amount of principal and interest the National Bank expects to be obliged to pay out to private entities and individuals who 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 2014***(Amounts expressed in thousands of MKD unless otherwise stated)***42 Provisions (Continued)**

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

	<b>2014</b>	<b>2013</b>
<b>Balance as at 1 January</b>	-	<b>3,543</b>
Charge of provisions related to lawsuits with private entities and individuals (Note 15)	1,730	-
Release of provisions related to lawsuits with individuals (Note 15)	-	(793)
Release of the provisions for potential liabilities based on litigation with individuals	-	(2,750)
<b>Balance as at 31 December</b>	<b>1,730</b>	<b>-</b>

**43 Other liabilities**

	<b>2014</b>	<b>2013</b>
Deposited funds on the basis of confiscated foreign currencies and deposited guarantees	518,115	504,651
Jubilee coins counterpart	103,948	97,499
Liabilities to suppliers and other liabilities	18,781	15,061
Deferred income	4,979	6,241
<b>Total</b>	<b>645,823</b>	<b>623,452</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 P and 29).

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

### **Notes to the Financial Statements for the year ended 31 December 2014**

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

#### **44 Capital and reserves**

##### *Capital*

The National Bank's capital is defined by the Law on the National Bank and as of 31 December 2014, it amounted to MKD 1,289,789 thousand (2013: 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 2014 these reserves were increased for the positive distributable earnings for 2014 in amount of MKD 124,181 thousand.

##### *Special reserves*

	<b>2014</b>	<b>2013</b>
Special reserves from unrealized price and exchange rate differences		
o Special reserves from foreign exchange gains	3,953,000	1,517,433
o Special reserves from price and exchange rate differences of gold	6,795,260	5,861,530
o Special reserves from price differences of securities held for trading	66,917	8,837
<b>Total</b>	<b><u>10,815,177</u></b>	<b><u>7,387,800</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 2014 are increased by MKD 2,435,567 thousand (2013: MKD 2,452,375 thousand decreased on the basis of net unrealized negative foreign exchange differences).

Special reserves from price and exchange rate differences of gold for 2014 are increased by MKD 1,454,500 thousand on the basis of allocation of the net unrealized positive price and exchange rate differences of gold (2013: MKD 4,898,602 thousand decreased on the basis of net unrealized negative 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 520,770 thousand were added to the distributable earnings for the current year (2013: MKD 1,041,002 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 2014**

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

#### **44 Capital and reserves (Continued)**

Special reserves from price differences of securities held for trading for 2014 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 65,012 thousand (2013: MKD 4,705 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 6,932 thousand were added to the distributable earnings for the current year (2013: MKD 12,464 thousand).

Revaluation reserve from art works as of 31 of December 2014 amounted to MKD 1,777 thousand (2013: MKD 1,777 thousand).

<b>45 Cash and cash equivalents</b>	<b>2014</b>	<b>2013</b>
Foreign currencies (Note 16)	97,502	85,949
Foreign currency deposits (Note 17)	6,600,019	10,472,874
Special Drawing Rights (Note 20)	261,457	204,253
<b>Total</b>	<b>6,958,978</b>	<b>10,763,076</b>

#### **46 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.

#### **47 Related parties transactions**

The National Bank has related party transactions with the Government of the Republic of Macedonia and with the members of the Council. The transactions and outstanding balances with the related parties are presented in Notes 5, 6, 13, 21, 22, 36, 37 and 41.

#### **48 Events after the date of the statement of financial position**

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